As filed with the Securities and Exchange Commission on May 15, 2007

Securities Act File No. 333-141828

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)

Pre-Effective Amendment No. 1
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:
Steven B. Boehm
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. ☒

It is proposed that this filing will become effective (check appropriate box):

☐ 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(1)(3)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(4)
Common Stock, $0.001 par value per share	12,479,568	$171,781,254	$5,088

(1) Pursuant to Rule 416, this registration statement also covers such additional shares of our common stock as may be issued by reason of stock splits, stock dividends or similar transactions.

(2) Estimated solely for purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices of our common stock as reported on the Nasdaq Global Market on March 29, 2007.

(3) In reliance upon Rule 429 under the Securities Act of 1933, this amount is in addition to the securities previously registered by the Registrant under a registration statement on Form N-2 (File No. 333-136918). All securities unsold by the selling shareholders under the prospectus contained in such prior Registration Statement (a total of 441,150 shares of common stock) are carried forward into this Registration Statement, and the prospectus contained as a part of this Registration Statement shall be deemed to be combined with the prospectus contained in the above-referenced registration statement, which has previously been filed.

(4) Previously paid $5,083.

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 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.

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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)
May 15, 2007

12,000,000 Shares Common Stock

This prospectus relates to the offer, from time to time, of 12,000,000 shares of our common stock, par value $0.001 per share by us and the resale of up to 479,568 shares of our common stock by certain current stockholders.

We may offer, from time to time, up to 12,000,000 shares of our common stock in one or more offerings. The shares of common stock may be offered at prices and terms to be described in one or more supplements to this prospectus. The offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering.

The shares of our common stock which are offered for resale by this prospectus are offered for the accounts of the current holders of such common stock, whom we refer to as the selling holders. We will not receive any of the proceeds from the shares of common stock sold by the selling holders. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling holders.

We are a specialty finance company that provides debt and equity growth capital to technology-related and life sciences companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as additional offices in the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity.

Our investment objective is to maximize our portfolio's 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 Market under the symbol "HTGC." On May 8, 2007 the last reported sale price of a share of our common stock on the Nasdaq Global Market was $14.44.

An investment in our common stock involves risks and involves 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 12 **to read about risks that you should consider before investing in our common stock, including the risk of leverage.**

This prospectus contains important information you should know before investing in our common stock. Please read it before making an investment decision and keep it for future reference. Shares of closed-end investment companies have in the past frequently traded at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this offering.

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.

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.

The date of this prospectus is , 2007

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

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SUMMARY

This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. The following summary is qualified in its entirety by reference to the more detailed information and financial statements appearing elsewhere in this prospectus. 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 Hercules Technology II, L.P., Hercules Technology SBIC Management, LLC., Hydra Management LLC and Hydra Management Co., Inc.

Our Company

We are a specialty finance company that provides debt and equity growth capital to technology-related and life sciences companies at all stages of development. Our investment objective is to maximize our portfolio's 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.

During the first quarter of 2007, we entered into approximately $108.5 million of investment commitments and invested approximately $80.2 million in 9 new portfolio companies and 11 existing portfolio companies.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may invest in select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. Our principal executive office is located in Silicon Valley, and we have additional offices in the Boston, Boulder, Chicago, Costa Mesa and Columbus areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology and life science industries and to offer a full suite of capital products at all levels of the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity. We use the term "structured mezzanine debt investment" 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 mezzanine debt investments will typically be secured by some 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 computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. 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 mezzanine debt 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 investment. 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 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 their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. To date, our emphasis has been primarily on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. In 2007, we expect to increase, our investment activity in established companies, comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

Our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, is currently comprised of 17 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 structured mezzanine investments in technology-related and life sciences 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;
- Structured mezzanine debt products are less dilutive and complement equity financing from venture capital and private equity funds; and
- Valuations currently assigned to technology-related companies in private financing rounds, while increasing in recent years, still provide a good opportunity for attractive capital returns.

Technology-Related Companies 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, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. 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 debt marketplace for emerging-growth and expansion-stage companies, instead preferring the risk-reward profile of senior debt. 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 to emerging-growth and expansion-stage companies is a function of the level of annual venture equity investment activity. In 2006, venture capital-backed companies received, in approximately 2,454 transactions, equity financing in an aggregate amount of approximately $25.8 billion, representing an 8% increase over the preceding year, as reported by Dow Jones VentureOne. In addition, according to VentureOne, overall, the median round size in 2006 was $7 million, up from $6.5 million in 2005, and the highest annual median since 2000. For the second year in a row, equity investors are focusing more than a third of their investment activity on early-stage financings. Overall, seed- and first-round deals made up 36% of the deal flow in 2006, and about the same concentration of deal flow went to later-stage deals. As a result, we believe a range of $20 billion to $25 billion in annual equity investments to venture-backed companies will be sustainable for future years.

We believe that demand for structured debt financing is currently unfulfilled, in part because historically the largest debt capital providers to technology-related companies exited the market during 2001 while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Mezzanine Debt 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 mezzanine debt products provide access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe 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 recently been more mature 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.

Lower Valuations for Private Technology-Related Companies. During the downturn in technology industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. According to Dow Jones VentureOne, median pre-money valuations for venture capital-backed companies in 2000 was $25.1 million declining to a low of $10.0 million in 2003. In addition, as of December 31, 2006 median pre-money valuations for venture capital-backed companies in 2006 was $18.5 million compared to $15.0 million in 2005. While pre-money valuations have been steadily increasing since 2003, we believe the valuations currently assigned to venture capital and private equity-backed technology-related companies in private financing rounds are still relatively low and should allow us to continue to build a portfolio of equity-related securities at attractive valuation levels.

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured mezzanine investments in over 200 technology-related companies, representing over $1.0 billion in investments, 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 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, 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.

In addition, historically 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 investment. We expect, in some cases, to 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 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 mezzanine debt.

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 source of capital, both by the portfolio company and by the portfolio company's financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies and established companies. Established companies are comprised generally of private companies in one of their final rounds of financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company's development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies' development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not subject to requirements to return invested capital to investors nor do we have a finite investment horizon. Capital providers that are subject to such limitations are often required to seek a liquidity event more quickly than they otherwise might, which can result in a lower overall return on an investment.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2006, our proprietary SQL-based database system included over 10,900 technology-related companies and over 3,000 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.

Asset Management

We may engage in the asset management business by providing investment advisory services to externally managed funds that may be formed in the future. Such funds may focus on our lower yielding assets, such as senior debt, equipment based only financing or equity only funding. We may contribute assets currently in our portfolio to such funds to the extent that our management and Board of Directors deems it appropriate. We may, from time to time, serve as the investment manager of such funds and may receive management and other fees for such services. Such funds may have overlapping investment objectives with us and may invest in asset classes similar to those targeted by us.

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

From incorporation through December 31, 2005, 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 will elect 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 will be 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. We may be required, however, to pay corporate-level federal income taxes on gains built into our assets under certain circumstances. See "Certain United States Federal Income Tax Considerations—Conversion to Regulated Investment Company

Status.” To obtain and maintain the federal income tax benefits of 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. See “Distributions.” There is no assurance that we will meet these tests and be eligible to make a RIC election. If we do not qualify or do not make a RIC election, we would be taxed as a C corporation.

Use of Proceeds

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We will not receive any proceeds from the sale of the common stock by the selling holders.

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 as of March 31, 2007 was approximately 339%. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. As of March 31, 2007, we had outstanding $113.0 million drawn under our securitization credit facility. See “Management’s Discussion & Analysis of Financial Condition—Borrowings.” One of our subsidiaries is licensed as a Small Business Investment Company under the Small Business Investment Act of 1958; and on January 30, 2007, it received notification that its initial application for leverage had been approved allowing it to borrow up to $50.0 million. On April 26, 2007, our subsidiary borrowed $12.0 million under the SBA program. In May 2007, we submitted an application for approval to borrow an additional $77.2 million under the SBA program.

Distributions

We intend to continue to distribute quarterly dividends to our stockholders. The amount of our quarterly distributions will be determined by our Board of Directors out of assets legally available for distribution. We will elect to be treated as a RIC when we file our 2006 federal income tax return, and as such, to distribute with respect to 2006 (and annually thereafter) 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. In addition, prior to the end of our first tax year as a RIC, we will be required to make a distribution to our stockholders equal to the amount of any undistributed earnings and profits from the period prior to our RIC election. Currently, we intend to retain some or all of our realized net long-term capital gains in order to build our per share net asset value. As a result, we will elect as a RIC to make deemed distributions of such amounts to our stockholders. We may, in the future, make actual distributions to our stockholders of some or all of our realized net long-term capital gains. See “Distributions.”

Principal Risk Factors

Investing in us 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” beginning on page 12 for a discussion of factors you should carefully consider before deciding whether to invest in our common stock.

Certain Anti-Takeover Provisions

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

General Information

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC’s public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

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FEES AND EXPENSES

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

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)[1)]	%
Offering expenses	%[(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):[(4)]	
Operating expenses	5.1%[(5)(6)]
Interest payments on borrowed funds	2.8%[(7)]
Fees paid in connection with borrowed funds	0.3%[(8)]
Acquired fund fees and expenses[(9)]	—%
Total annual expenses	8.2%[(10)]

(1) In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load. We will not pay any underwriting discount or commission, and we will not receive any of the proceeds from shares sold by the selling stockholders.

(2) The percentage reflects estimated offering expenses of approximately $575,000.

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

(4) "Average net assets attributable to common stock" equals estimated weighted average net assets for 2007 which is approximately $265.6 million.

(5) "Operating expenses" represent our estimated expenses for the year ending December 31, 2007. This percentage for the year ended December 31, 2006, was approximately 8.4%.

(6) 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.

(7) "Interest payments on borrowed funds" represents estimated annualized interest payments on borrowed funds for 2007. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. Since inception of the agreement in 2005, we have paid Citigroup approximately $292,000 under the warrant participation agreement thereby reducing our realized gains. During 2006, we reduced our realized gain by $221,000 and recorded a liability and reduced our unrealized gain by approximately $35,000 for unrealized gains in our warrant and equity investments due Citigroup under our warrant participation agreement. During the three months ended March 31, 2007, we reduced our realized gain by approximately $16,000 for Citigroup's participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized appreciation by approximately $55,000 for Citigroup's participation in unrealized appreciation in the warrant portfolio. Based on our average borrowings for the year ending December 31, 2006 and the amount of the reduction we recorded for our realized and unrealized gains for 2006, the additional cost of our borrowings as a result of the warrant participation agreement could be approximately 0.31%. There can be no assurances that the unrealized gains on 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. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $432,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the us at March 31, 2007.

(8) "Fees paid in connection with borrowed funds" represents estimated fees paid in connection with borrowed funds for 2007.

(9) For the year ended December 31, 2006, 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.

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

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Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 126.44	$ 272.22	$ 409.04	$ 715.39

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

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" "Senior Securities" on page 71 and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2006, 2005 and the period from February 2, 2004 (commencement of operations) to December 31, 2004 presented below, and the selected income statement data for fiscal 2006, 2005 and the period from February 2, 2004 (commencement of operations) to December 31, 2004 have been derived from our audited financial statements included elsewhere herein, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The selected balance sheet data as of March 31, 2007 presented below and the selected income statement data for the fiscal quarter then ended have been derived from our unaudited financial statements included elsewhere herein. In the opinion of management, the quarterly financial information derived from unaudited financial information, reflects all adjustments (consisting only of normal recurring adjustments) which are necessary to present fairly the results for the interim period. The historical data are not necessarily indicative of results to be expected for any future period.

	Quarter Ended March 31, 2007 (unaudited)	Quarter Ended March 31, 2006 (unaudited)	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Investment income:					
Interest	$ 9,035,989	$ 5,634,539	$ 26,278,090	$ 9,791,214	$ 214,100
Fees	642,957	852,594	3,230,366	875,429	—
Total investment income	9,678,946	6,487,133	29,508,456	10,666,643	214,100
Operating expenses:					
Interest	685,965	1,676,982	5,770,485	1,800,536	—
Loan fees	266,108	250,793	809,907	1,098,507	—
Compensation and benefits	1,939,561	1,205,081	5,778,862	3,705,784	1,164,504
General and administrative	1,308,235	1,185,392	5,408,785	2,285,038	411,418
Stock-based compensation	253,750	123,000	617,600	252,000	680,000
Total operating expenses	4,453,619	4,441,248	18,385,639	9,141,865	2,255,922
Net investment income (loss) before provision for income tax and investment gains and losses	5,225,327	2,045,885	11,122,817	1,524,778	(2,041,822)
Income tax expense.	—	1,760,000	643,088	255,000	—
Net investment income (loss)	5,225,327	285,885	10,479,729	1,269,778	(2,041,822)
Net realized gain (loss) on investments.	289,702	(1,740,370)	(1,603,692)	481,694	—
Net increase in unrealized appreciation on investments	816,053	3,959,481	2,507,561	353,093	—
Net realized and unrealized gain	1,105,755	2,219,111	903,869	834,787	—
Net increase (decrease) in net assets resulting from operations	$ 6,331,082	$ 2,504,996	$ 11,383,598	$ 2,104,565	$ (2,041,822)
Cash dividends declared per common share	$ 0.30	$ 0.30	$ 0.90	$ 0.33	$ —

	As of March 31,		As of December 31,		
	2007 (unaudited)	2006 (unaudited)	2006	2005	2004
Balance sheet data:					
Investments, at value	$ 342,483,418	$ 176,800,736	$ 283,233,751	$ 176,673,226	$ 16,700,000
Cash and cash equivalents	41,488,328	31,554,481	16,404,214	15,362,447	8,678,329
Total assets	386,272,034	208,576,310	301,142,209	193,647,879	25,232,672
Total net assets	269,610,740	119,039,735	255,412,822	114,352,330	25,078,133
Other data:					
Total debt investments, at value	322,664,359	164,078,665	266,723,504	166,646,172	16,700,000
Total warrant investments, at value	10,499,774	8,013,898	8,440,963	5,159,791	—
Total equity investments, at value	9,319,284	4,708,173	8,069,284	4,867,263	—
Unfunded commitments	74,677,793	81,656,637	55,500,000	30,200,000	5,000,000
Net asset value per share (1)	$ 11.68	$ 11.63	$ 11.65	$ 11.67	$ 12.18

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

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The following tables set forth certain quarterly financial information for each of the twelve quarters ended December 31, 2006. 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.

	Quarter Ended			
	3/31/06	6/30/06	9/30/06	12/31/06
Total investment income	$ 6,487,133	$ 6,787,911	$ 7,544,032	$ 8,689,380
Net investment income (loss) before provision for income tax expense	2,045,885	2,467,508	3,117,155	3,492,269
Net investment income (loss)	2,504,996	3,366,372	1,572,639	3,939,591
Net investment income per common share (basic)	$ 0.25	$ 0.26	$ 0.12	$ 0.23

	Quarter Ended			
	3/31/05	6/30/05	9/30/05	12/31/05
Total investment income	$ 753,973	$ 1,912,824	$ 3,659,998	$ 4,339,848
Net investment income (loss) before provision for income tax expense	32,370	(333,597)	884,834	941,171
Net investment income (loss)	32,370	709,795	1,561,924	(199,524)
Net investment income per common share (basic)	$ 0.01	$ 0.14	$ 0.16	$ (0.02)

	Quarter Ended			
	3/31/2004(1)(2)	6/30/04	9/30/04	12/31/04
Total investment income	$ 2,435	$ 2,822	$ 49,419	$ 159,424
Net investment income (loss) before provision for income tax expense	(166,915)	(993,029)	(335,823)	(546,055)
Net investment income (loss)	(166,915)	(993,029)	(335,823)	(546,055)
Net investment income per common share (basic)	$ —	$ (5.43)	$ (0.16)	$ (0.02)

(1) Operations commenced February 2, 2004.
(2) There we no common shares outstanding in the first quarter of 2004.

RISK FACTORS

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

Risks Related to our Business and Structure

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

We were incorporated in December 2003 and commenced investment operations in September 2004. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we will not achieve our investment objective and that the value of our common stock could decline substantially. We have limited operating history as a business development company and as a RIC. As a result, we have limited operating results under these regulatory frameworks that can demonstrate to you either their effect on the business or our ability to manage the business within these frameworks. See "Regulation" and "Certain United States Federal Income Tax Considerations." If we fail to maintain our status as a business development company or fail to qualify as a RIC, our operating flexibility and results of operations would be significantly affected.

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

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. 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 or 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 large 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 if we are treated 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 as a RIC 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, some or all of which we currently intend to 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. Because we will continue to need capital to grow our loan and investment portfolio, 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. While we expect to be able to borrow and to issue additional debt and equity securities, 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. In addition, as a business development company, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval and approval of 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.

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 securitized credit facility with Citigroup Global Markets Realty Corp. and which we refer to as the Citigroup facility contains financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As of March 31, 2007, we had outstanding indebtedness of $113.0 million pursuant to our securitized credit facility with Citigroup Global Market Realty Corp., and which we refer to as the Citigroup Facility. The Citigroup facility bears a weighted average annual interest rate of LIBOR plus 1.20%. If our portfolio of investments fails to provide adequate returns and we are unable to otherwise raise funds, we may be unable to make interest or principal payments on our indebtedness as they come due. In order for us to cover annual interest payments on indebtedness, we must achieve annual returns on our assets of at least 2% as of March 31, 2007. We expect, in the future, to borrow from, and issue senior debt securities to, banks, insurance companies and other lenders, including additional borrowings pursuant to the Citigroup Facility. See “Management’s Discussion and Analysis of Financial Condition—Borrowings.” In addition, we expect to continue to pursue financing from the Small Business Administration under its Small Business Investment Company program. As of May 2007, we have borrowed $12.0 million under the SBA program. We are approved to borrow up to $50.0 million and have applied for approval to borrow an additional $77.2 million. See “Regulation—Small Business Administration Regulations.”

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 include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. 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.

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholder[1]	(15.63)%	(9.73)%	(3.82)%	2.08%	7.98%

(1) Assumes $301 million in total assets, $150 million in debt outstanding, $255 million in stockholders’ equity, and an average cost of funds of 6.50%, which is the approximate cost of funds of the warehouse facility for the period ended March 31, 2007. Actual interest payments may be different.

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

At March 31, 2007, approximately 89% of our total assets represented investments in portfolio companies of which, 99% are valued at fair value by the Board of Directors. 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 Board of Directors’ Valuation Committee. The Valuation Committee utilizes 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 employing a consistently applied valuation process for the types of investments we make. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of investments held at March 31, 2007 that are greater than 5% of net assets:

	March 31, 2007	
	Fair Value	Percentage of Net Assets
IKANO Communications, Inc.	$22,581,160	8.4%
QuatRx Pharmaceuticals Company	17,651,987	6.6%
Aveo Pharmaceuticals, Inc.	15,012,526	5.6%
Portola Pharmaceuticals, Inc.	15,005,423	5.6%
Luminus Devices, Inc.	14,567,237	5.4%
Wageworks, Inc.	14,071,113	5.2%

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

Regulations governing our operations as a business development company 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. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. 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. 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. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy.

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

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

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

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

We 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.

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 that we will not receive in cash.

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in “original issue discount” for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because these warrants would 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 to satisfy such distribution requirements. If we are unable to obtain cash from other sources 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.

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. If we are unable to meet these distribution requirements, we will not qualify for the federal income tax benefits allowable to a RIC. Accordingly, 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. See "Certain United States Federal Income Tax Considerations—Taxation as a Regulated Investment Company."

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 that will allow us to make a specified level of cash 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 facility limits 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 investment origination volume, variations in fee income earned, variations in and the timing of the recognition of realized and unrealized gains or losses, 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 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 initial investments in debt securities will be at fixed rates. 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.

If we are unable to continue to borrow money in order to leverage our equity capital, then our ability to make new investments and to execute our business plan will be impaired.

As of March 31, 2007, we had outstanding borrowings of $113.0 million pursuant to the Citigroup Facility. We expect to incur additional indebtedness under our subsidiary's small business investment company license from the Small Business Administration. 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.

In addition, the terms of 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 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.

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.

As of March 31, 2007, the Company, through Hercules Funding Trust I, an affiliated statutory trust, has a $150 million securitized credit facility with Citigroup. We expect to enter into additional revolving credit or warehouse facilities in the future. While there can be no assurance that we will be able to borrow from banks or other financial institutions, we expect that we will, at some time in the future, obtain a long-term or revolving credit facility or a warehouse facility. The current lenders 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 addition, we may grant a security interest in our assets in connection with any such borrowing. We expect such a facility to 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. An event of default under any credit facility 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 that we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

Our cost of borrowing is increased by the warrant participation agreement we have with one of our lenders. In addition, our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached.

During the quarter ended March 31, 2007, we reduced our realized gain by approximately $16,000 for Citigroup's participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized gain by approximately $55,000 for Citigroup's participation in unrealized gains in the warrant portfolio. Since inception of the agreement, we have paid Citigroup approximately $292,000 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 $432,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by us at March 31, 2007. Citigroup's rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

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 will elect to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006, which election will be effective as of January 1, 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, 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 remain or 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.

One of our wholly-owned subsidiaries is licensed by the U.S. Small Business Administration, and as a result, we will be subject to SBA regulations.

Our wholly-owned subsidiary HTII, is licensed to operate as a SBIC and is regulated by the U.S. Small Business Administration ("SBA"). 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. If HTII fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit the HTII's use of debentures, declare outstanding debentures immediately due and payable, and/or limit the HTII from making new investments. The SBA also imposes a limit on the maximum amount that may be borrowed by any single SBIC. The SBA prohibits, without prior SBA approval, a "change of control" of a SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC. See "Regulation—Small Business Administration Regulations."

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 the SBIC to forego attractive investment opportunities that are not permitted under SBA regulations.

The SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder.

Interpretations of the staff of the Securities and Exchange Commission regarding the appropriateness of the consolidation of certain of our subsidiaries may have an impact on our financial statements.

The staff of the Securities and Exchange Commission (the "Staff") is reviewing the appropriateness of the consolidation of certain types of subsidiaries on an industry-wide basis under generally accepted accounting principles ("GAAP") and Rule 6-03 of Regulation S-X. In connection with such review, the Staff is in the process of reviewing the appropriateness of our consolidation of certain of our subsidiaries (the "Subsidiaries"). In the event that the Staff disagrees with our position with respect to the appropriateness of consolidation of any of the Subsidiaries, then we will make such additional disclosures and prospective changes in accounting methods as the Staff requires on a prospective basis which will be discussed and reviewed with us.

Although we believe that our consolidation of the Subsidiaries conforms with GAAP, there can be no assurance that the Staff will ultimately concur with our position. Such events could have a material impact on our future reported results.

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, small business investment companies, 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.

Risks Related to Our Investments

Our investments are concentrated in a limited 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 and life-science companies. As a result, a downturn in technology-related and life-science industry sectors could materially adversely affect us.

Our investments may be concentrated in emerging-growth or expansion-stage portfolio companies, which may have limited operating histories and financial resources.

We expect that our portfolio will continue to consist primarily of investments in emerging-growth and expansion-stage privately-owned businesses, which may have relatively limited operating histories. Compared to larger established or publicly-owned firms, these companies may be particularly vulnerable to economic downturns, 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, 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 and life-science 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 and life-science 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 and life-science 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 and life-science companies. While such valuations have recovered to some extent, such decreases in market capitalization may occur again, and any future decreases in technology-related and life-science 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 and life-science companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by technology-related and life-science 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.

We have invested in and may continue investing in technology-related and life-science 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.

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. 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 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.

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

The 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 and life-science 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.

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.

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

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

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Some of our portfolio companies may need additional capital, which may not be readily available.

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other requirements, and in most instances to service the interest and principal payments on our investment. Each round of venture financing is typically intended to provide a company with only enough capital to reach the next stage of development. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms unfavorable to us, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or traditional lenders. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are able to utilize traditional credit sources.

We may be unable or decide not to make additional cash investments in our portfolio companies which could result in our losing our initial investment if the portfolio company fails.

We may have to make additional cash investments in our portfolio companies to protect our overall investment value in the particular company. We retain the discretion to make any additional investments as our management determines. The failure to make such additional investments may jeopardize the continued viability of a portfolio company, and our initial (and subsequent) investments. Moreover, additional investments may limit the number of companies in which we can make initial investments. In determining whether to make an additional investment our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. We cannot assure you that we will have sufficient funds to make any necessary additional investments, which could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

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.

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.

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.

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.

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, a deterioration in a portfolio company’s financial condition and prospects, including its inability to raise additional capital, may be accompanied by a deterioration in the value of the collateral for the loan. Moreover, in the case of some of our structured mezzanine debt, 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.

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 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. We cannot predict or control the timing of liquidity events of our portfolio companies. 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 do not control any of our portfolio companies and therefore our portfolio companies may make decisions with which we disagree.

We do not control any of our portfolio companies, even though we may have board observation rights and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

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 elects 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.

Risks Related to an Offering of Our Shares

Our common stock price may be volatile and may decrease substantially.

The trading price of our common stock following an offering may fluctuate substantially. The price of the common stock that will prevail in the market after an offering may be higher or lower than the price you paid and the liquidity of our common stock may be limited, in each case depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors 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;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs 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;
- loss of a major funding 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.

We may be unable to invest the net proceeds raised from an offering on acceptable terms, which would harm our financial condition and operating results.

Until we identify investments for our portfolio, we intend to invest the net proceeds from an offering in cash, cash equivalents, U.S. government securities or high-quality debt securities. We cannot assure you that we will be able to complete investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return. Moreover, because we may not have identified all investments at the time of an offering, we will have broad authority to invest the net proceeds of an offering. We will not receive any proceeds from an offering by the selling holders.

Investing in shares of our common stock may involve an above average degree of risk.

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

We cannot assure you that the market price of our common stock will not decline.

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies have in the past frequently traded at discounts to their net asset values and our stock may also be discounted in the market. 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. The risk of loss associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of common stock purchased in this offering soon after the offering. In addition, if our common stock trades below its net asset value, 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.

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

The Maryland General Corporation Law and 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. We will be covered by the Business Combination Act of the Maryland General Corporation Law to the extent that such statute is not superseded by applicable requirements of the 1940 Act. However, our Board of Directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any person to the extent that such business combination receives the prior approval of our board, including a majority of our directors who are not interested persons as defined in the 1940 Act. Our Board of Directors has already adopted a resolution exempting from the Business Combination Act any business combination between us and certain investment funds managed by JMP Asset Management, LLC and certain investment funds managed by Farallon Capital Management, L.L.C., and we have agreed with such investment funds that we will not alter or repeal such board resolution prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds. In addition, our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. We have agreed with certain investment funds managed by JMP Asset Management, LLC and certain investment funds managed by Farallon Capital Management, L.L.C. that we will not repeal or amend such provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock. If the applicable board resolution is repealed following such period of time or if our board does not otherwise approve a business combination, the Business Combination Act and the Control Share Acquisition Act (if we amend our bylaws to be subject to that Act) may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

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. See “Description of Capital 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.

FORWARD-LOOKING STATEMENTS; MARKET DATA

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," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus 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;
- our informal relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- 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 and a regulated investment company;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

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. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

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

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

USE OF PROCEEDS

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which include 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. We will not receive any proceeds from the sale of the common stock by the selling holders.

We anticipate that substantially all of the net proceeds from any offering of our shares of common stock will be used as described above within twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the Nasdaq Global Market under the symbol "HTGC." We completed the initial public offer of our common stock in June 2005 at a price of $13.00 per share. Prior to such date, there was no public market for our common stock.

The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Market and the dividends declared by us for each fiscal quarter since our initial public offer. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

	NAV(1)	Price Range High	Price Range Low	Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend per Share(2)
2005						
Second quarter (June 9, 2005 through June 30, 2005)	$11.55	$13.19	$12.45	114.2%	107.8%	—
Third quarter	$11.71	$14.41	$11.90	123.1%	101.6%	$ 0.025
Fourth quarter	$11.67	$12.68	$ 9.71	108.7%	83.2%	$ 0.300
2006						
First quarter	$11.63	$11.99	$10.50	103.1%	90.3%	$ 0.300
Second quarter	$11.24	$12.53	$10.88	111.5%	96.8%	$ 0.300
Third quarter	11.06	$12.90	$11.11	116.6%	100.5%	$ 0.300
Fourth quarter	11.65	$14.25	$12.50	122.3%	107.3%	$ 0.300
2007						
First quarter	11.68	14.50	12.77	124.1%	109.3%	$ 0.300
Second quarter (through May 8, 2007)	*	$14.65	$13.44	*	*	—

(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. As of the date of this prospectus, no dividend has been declared for the second quarter of 2007.

* Net asset value has not yet been calculated for this period.

The last reported price for our common stock on May 8, 2007 was $14.44 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.

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
			$ 1.525

On May 1, 2007, the Board of Directors declared a dividend of $0.30 per share, payable on June 18, 2007 to shareholders of record as of May 16, 2007. 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 its 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 determined the tax attributes of our distributions year-to-date as of March 31, 2007, 80.1% would be from ordinary income and 19.9% would be a return of capital for stockholders, however there can be no certainty to stockholders that this determination is representative of what the tax attributes of its 2007 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% 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 currently intend to retain for investment some or all of our net capital gains (that is, the excess of our realized net long-term capital gains over our realized net short-term capital losses) and to make deemed distributions to our stockholders of any retained net capital gains. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and then reinvested the net after-tax proceeds in our common stock. You also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. Please refer to "Certain United States Federal Income Tax Considerations" for further information regarding the consequences of our retention of net capital gains. To the extent that we do not retain all of our net capital gains, we will make actual distributions to our stockholders of such gains.

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."

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," "Forward-Looking Statements; Market Data" appearing elsewhere herein.

Overview

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies. Our principal office is located in the Silicon Valley and we have additional offices in the Boston, Boulder, Chicago and Columbus areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity investments. We use the term "structured mezzanine debt investment" 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 mezzanine debt investments will typically be secured by some or all of the assets of the portfolio company.

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 Code. We will elect to be treated for federal income tax purposes as a RIC under Subchapter M of the Code as of January 1, 2006. To qualify for the benefits allowable to a RIC, we must, among other things, meet certain source-of-income and asset diversification and income distribution requirements. If we qualify for RIC tax benefits, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, 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, in order to obtain RIC tax treatment. 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 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. To date, our emphasis has been primarily on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. In 2007, we expect to increase our investment activity in established companies, comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

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Asset Management

We may engage in the asset management business by providing investment advisory services to externally managed funds that may be formed in the future. We may, from time to time, serve as the investment manager of such funds and may receive management and other fees for such services. Such funds may have overlapping investment objectives and may invest in asset classes similar to those targeted by us.

Portfolio and Investment Activity

The total value of our investment portfolio was $342.4 million at March 31, 2007 as compared to $283.2 million at December 31, 2006. The weighted average value of our investment portfolio during the quarter ended March 31, 2007 was approximately $290.0 million. The weighted average value of the portfolio during the quarter reflects the effect of the timing of fundings occurring late in the quarter when compared to the ending portfolio value. During the three months ended March 31, 2007, we made debt commitments to 14 portfolio companies totaling $106.5 million and funded $78.4 million to 16 companies. During the quarter, we also received normal principal repayments of approximately $11.1 million, two companies made early repayments of $1.8 million, and we received pay downs of $9.1 million on working capital lines of credit. We also made equity investments in four existing portfolio companies totaling $1.8 million and sold one equity investment with a fair value of $500,000. At March 31, 2007, our equity investments have a fair value of approximately $9.3 million. At March 31, 2007, we had unfunded contractual commitments of $74.7 million to 22 portfolio companies. In addition, as of March 31, 2007, we executed non-binding term sheets with 15 prospective portfolio companies, representing approximately $142.3 million. These proposed investments 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.

Total portfolio investment activity (exclusive of unearned income) as of and for the period ended March 31, 2007 was as follows:

($ in millions)	March 31, 2007
Beginning Portfolio	$ 283.2
Purchase of investments	78.4
Equity Investments	1.8
Sale of Equity Investments	(0.5)
Principal payments received on investments	(11.1)
Early pay-offs and recoveries	(10.9)
Accretion of loan discounts	0.6
Net realized and unrealized change in investments	1.0
Ending Portfolio	$ 342.5

The following table shows the fair value of our portfolio of investments by asset class as of March 31, 2007 and December 31, 2006 (excluding unearned income):

	March 31, 2007		December 31, 2006	
($ in millions)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior debt with warrants	$ 321.8	94.0%	$ 273.2	96.5%
Subordinated debt	11.4	3.3%	1.9	0.7%
Preferred stock	9.3	2.7%	8.1	2.8%
	$ 342.5	100.0%	$ 283.2	100.0%

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A summary of the company's investment portfolio at value by geographic location is as follows.

($ in millions)	March 31, 2007 Investments at Fair Value	March 31, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
United States	$ 329.0	96.1%	$ 269.0	95.0%
Canada	9.4	2.7%	10.5	3.7%
Israel	4.1	1.2%	3.7	1.3%
	$ 342.5	100.0%	$ 283.2	100.0%

The largest companies vary from year to year as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

The following table shows the fair value of our portfolio by industry sector at March 31, 2007 and December 31, 2006 (excluding unearned income):

($ in millions)	March 31, 2007 Investments at Fair Value	March 31, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
Drug discovery	$ 83.9	24.5%	$ 75.0	26.5%
Communications & networking	53.8	15.7%	19.5	6.9%
Software	41.1	12.0%	40.4	14.3%
Electronics & computer hardware	29.0	8.5%	30.6	10.8%
Specialty pharmaceuticals	27.6	8.1%	18.0	6.4%
Consumer & business products	21.4	6.3%	21.9	7.7%
Semiconductors	18.2	5.3%	15.9	5.6%
Drug delivery	15.9	4.6%	16.6	5.9%
Therapeutic	11.8	3.4%	13.4	4.7%
Internet consumer & business services	10.7	3.1%	11.7	4.1%
Energy	8.5	2.5%	8.5	3.0%
Information services	7.1	2.1%	—	0.0%
Diagnostic	5.6	1.6%	5.9	2.1%
Biotechnology tools	4.9	1.4%	5.8	2.0%
Media/content/info	3.0	0.9%	—	0.0%
	$ 342.5	100.0%	$ 283.2	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 March 31, 2007 and December 31, 2006:

($ in millions)	March 31, 2007 Investments at Fair Value	March 31, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
Investment Grading				
1	$ 16.9	5.2%	$ 9.2	3.5%
2	246.8	76.7	220.4	82.6
3	47.5	14.7	29.3	11.0
4	11.1	3.4	7.8	2.9
5	—	—	—	—
	$ 322.3	100.0%	$ 266.7	100.00%

As of March 31, 2007, our investments had a weighted average investment grading of 2.16 as compared to 2.14 at December 31, 2006. Our policy is to reduce 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 the funding is complete or their operations improve.

The weighted average yield to maturity of our loan obligations was approximately 12.72%. Yields to maturity are computed using interest rates as of March 31, 2007 and include amortization of 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 are based on the assumption that all contractual loan commitments have been fully funded.

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, with an average initial principal balance of between $3.0 million and $7.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from 8.0% to 14.0% (based on current interest rate conditions). 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, or prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In some 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 obtain a negative pledge covering a company's intellectual property. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth and expansion-stage companies. In addition, certain loans may include an interest-only period ranging from three to twelve months. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date. Our mezzanine debt investments also generally 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.

As of March 31, 2007, we have received warrants in connection with our debt investments in each portfolio company, and have realized gains on four warrant positions. We currently hold warrants in 62 portfolio companies, with a fair value of approximately $10.5 million included in the investment portfolio of $342.5 million. The warrant portfolio has risen by 31% as compared to the quarter ended March 31, 2006. These warrant holdings would allow us to invest approximately $36 million if such warrants are exercised.

Results of Operations

Comparison of the Three Months Ended March 31, 2007 and 2006

Operating Income

Interest income totaled approximately $9.0 million for the three-month period ended March 31, 2007, an increase of $3.4 million or 60% as compared to $5.6 million in the first quarter of 2006 as a result of the increase in loans outstanding. Income from commitment and facility fees totaled approximately $643,000 and $853,000 for the three-month periods ended March 31, 2007 and 2006, respectively. The decrease is the result of one time fees of approximately $500,000 associated with the early payoff of a loan in the first quarter of 2006 offset by approximately $290,000 of higher loan fee amortization due to higher average loan balances outstanding as a result of origination activity. At March 31, 2007, we had approximately $4.3 million of deferred revenue related to commitment and facility fees, as compared to approximately $3.0 million as of March 31, 2006. We expect to generate additional interest income and loan fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately $4.5 million and $4.4 million during the three-month periods ended March 31, 2007 and 2006, respectively. Operating expenses for the first quarter of 2007 included interest expense, loan fees and unused commitment fees under the Citigroup Facility of approximately $952,000. Interest expense, loan fees and unused commitment fees for the first quarter of 2006 totaled approximately $1.9 million. The decrease in these expenses relates to lower average outstanding debt balances as well as lower average interest rate on the borrowings outstanding. Employee compensation and benefits were approximately $1.9 million and $1.2 million during the three-month periods ended March 31, 2007 and 2006, respectively. The increase in compensation expense was directly related to increasing our headcount from 19 employees at March 31, 2006 to 29 employees at March 31, 2007. General and administrative expenses increased to $1.3 million from $1.2 million during the first quarter of 2006 primarily due to increased legal expenses and professional service costs related to our status as a public company and the creation of our SBIC subsidiaries as well as increased business development expenses. In addition, we incurred approximately $254,000 of stock-based compensation expense in the first quarter of 2007 as compared to $123,000 in the first quarter of 2006.

Net Investment Income Before Income Tax Expense and Investment Gains and Losses

Net investment income before provision for income tax expense for the three-months ended March 31, 2007 totaled $5.2 million as compared with net investment income before provision for income tax expense in the first quarter of 2006 of approximately $2.0 million. This change is made up of the items described above under “Operating Income” and ”Operating Expenses.”

Net Investment Gains/Loss

During the three-months ended March 31, 2007, we generated a net realized gain totaling approximately $290,000 due to the sale of equity and warrants in one portfolio company. The net realized loss for the three months ended March 31, 2006 was due to gains from the sale of equity and warrants in one portfolio company for net proceeds of approximately $1.1 million offset by a loss of $2.8 million in one portfolio company.

We anticipate ten to twelve liquidity events from our portfolio companies in the current fiscal year, though no assurance can be made that such events will occur or gains will be realized. According to VentureOne, during the first quarter of 2007, 13 venture-backed companies successfully completed initial public offerings raising approximately $1.2 billion, double the aggregate amount raised a year ago. Also, according to VentureOne, the M&A market remains robust, with 95 venture-backed companies being acquired or merged with an estimated value of approximately $9.4 billion during 2006. We believe these developments support our confidence in the potential upside in our warrant portfolio although we can not assure you we will realize any gain on our warrants. As of March 31, 2007 two of our portfolio companies entered into letters of intent (LOI’s) to be acquired/merged, two have filed for initial public offerings and two are in late stage discussion to be sold. We can make no assurances that these transactions will be completed.

For the three-months ended March 31, 2007, net unrealized investment appreciation totaled approximately $816,000. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors, based on the recommendations of the Valuation Committee. At March 31, 2007, cumulative gross unrealized appreciation totaled approximately $5.7 million in 24 of our investment portfolio companies and approximately $1.6 million of gross unrealized depreciation on 38 of our investment portfolio companies. The net unrealized appreciation totaling approximately $816,000 for the three month period ended March 31, 2007 was the result of a net increase in the warrant portfolio of $467,000, an increase in value of one portfolio loan by approximately $403,000 and a reduction of approximately $55,000 related to the Citigroup warrant participation agreement. For the three months ended March 31, 2006 net unrealized appreciation of approximately $2.1 million was due to the sale or write-off of investments, appreciation of approximately $708,000 in one equity investment and net appreciation of approximately $2.2 million in the warrant portfolio, was offset by a writedown of approximately $908,000 in one loan and a reduction of approximately $125,000 related to the Citigroup warrant participation agreement, resulting in net appreciation of approximately $3.9 million.

Income Taxes

We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for 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.

We will elect to be treated as a RIC under Subchapter M of the Code for 2006 with the submission of our 2006 tax return. 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.

We reported our financial position and results of operations under Subchapter C of the Code prior to 2006. As a C corporation, we accrued income tax expense on a quarterly basis until we were able to reasonably determine that we qualified as a RIC under requirements contained in Subchapter M of the Code. During 2006, we were able to reasonably determine that we could qualify as a RIC, and we accordingly reversed the income tax expense recorded during 2006 and adjusted through operations the $1.4 million deferred tax asset on our balance sheet at December 31, 2005. If we had been able to make the determination as of December 31, 2005, the impact of charging the deferred tax to operations would have reduced our NAV by approximately $0.15 per share.

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

For the three-months ended March 31, 2007, net income totaled approximately $6.3 million compared to net income of approximately $2.5 million for the three-months ended March 31, 2006. These changes are made up of the items previously described.

Basic net income per share was $0.28 and fully diluted net income per share was $0.27 per share for the three-months ended March 31, 2007 as compared to a basic and fully diluted income per share of $0.25 for the three-months ended March 31, 2006.

Comparison of periods ended December 31, 2006 and 2005

Operating Income

Interest income totaled approximately $26.3 million and $9.8 million for 2006 and 2005, respectively. In 2006 and 2005, interest income included approximately $713,000 and $351,000 of income from accrued exit fees. Income from commitment and facility fees totaled approximately $3.2 million and $875,000 for 2006 and 2005, respectively. The increase in both interest and fee income was directly related to increases in origination activity as net investments at fair value grew by $106.5 million during 2006. At December 31, 2006 and 2005, we had approximately $3.4 million and $2.7 million of deferred income related to commitment and facility fees.

Operating Expenses

Operating expenses totaled approximately $18.4 million and $9.1 million during 2006 and 2005, respectively. Operating expenses for 2006 and 2005 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately $6.6 million and $2.9 million, respectively. The increase in interest expense was due to a higher average debt balance of $70.7 million in 2006 as compared to $20.3 million in 2005. Employee compensation and benefits were approximately $5.8 million and $3.7 million during 2006 and 2005, respectively. The increase in employee compensation and benefits is due to increased number of employees from 19 to 26 and bonuses of approximately $2.2 million accrued in 2006. General and administrative expenses increased to $5.4 million in 2006 from $2.3 million in 2005 primarily due to increased Board of Directors costs, legal expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries as well as increased expenses associated with operating a business development company. In addition, we incurred approximately $618,000 of stock- based compensation expense in 2006 as compared to $252,000 in 2005. The increase in stock-based compensation expense was due to the additional stock option grants made in 2006. We anticipate that operating expenses will increase over the next twelve months as we continue to incur higher interest expense on higher average outstanding debt balances, increase the number of our employees to support our growth and incur additional expenses related to being a public company, including expenses related to continued compliance requirements under the Sarbanes-Oxley Act.

Net Investment Income (Loss) Before Income Tax Expense and Investment Gains and Losses

Net investment income before income tax expense for the year ended December 31, 2006 totaled $11.1 million as compared with a net investment income before income tax expense in 2005 of approximately $1.5 million. This change is made up of the items described above.

Net Investment Gains

In 2006, we generated realized gains totaling approximately $3.3 million from the sale of common stock of one communications and networking company, one internet consumer and business services company and two biopharmaceutical companies. We recognized realized losses in 2006 of approximately $4.9 million on the disposition of loans to two portfolio companies. We recognized a realized gain of approximately $482,000 during the year ended December 31, 2005 from the sale of common stock of one biopharmaceutical portfolio company. During 2006, we reversed approximately $162,000 of net unrealized gains to realized gains.

For the year ended December 31, 2006, net unrealized investment appreciation totaled approximately $2.5 million. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors, based on the recommendations of the Valuation Committee. For the year ended December 31, 2006, we recognized approximately $4.9 million of gross unrealized appreciation on 11 of our portfolio companies and approximately $1.6 million of gross unrealized depreciation on 41 of our portfolio companies. As of December 31, 2006, the net unrealized investment gains recognized by the company were reduced by approximately $377,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see “Borrowings.”

Income Taxes

Through December 31, 2005, we were taxed under Subchapter C of the Code and recorded a tax expense of $255,000 for 2005. We will elect to be treated as a RIC under Subchapter M of the Code with the filing of our 2006 federal income tax return, which election will be effective as of January 1, 2006. Provided we continue to qualify for RIC tax treatment, our income generally will not be subject to federal income or excise tax to the extent we timely make the requisite distributions to stockholders. We have distributed and currently intend to distribute sufficient dividends to eliminate our investment company taxable income for 2006. As such, no provision for Federal or state income taxes related to operations in 2006 was required.

At December 31, 2005, the Company had a deferred tax asset of approximately $1,454,000 which was adjusted through operations during the first quarter of 2006. Upon the determination that we would qualify as a RIC, any remaining deferred tax asset was reversed. We elected to recognize all of our net built-in gains at the time of the conversion to a RIC and paid tax on the built-in gains with the filing of our 2005 tax return. In making this election, our portfolio was marked to market at the time of the RIC election and we paid approximately $294,000 in federal and state tax on the resulting taxable gain. In addition, upon completion of the 2005 tax returns, we recorded an additional tax benefit of approximately $345,000.

To qualify as a RIC we were required by December 31, 2006 to distribute our earnings and profits while we were taxable as a C corporation. During 2006, we distributed $1.20 per share to our shareholders, of which approximately $0.09 was deemed to be a distribution of these accumulated earnings and profits, $0.97 was deemed to be a distribution of 2006 income and $0.14 was a return of capital. The distribution of our income and our accumulated earnings and profits is considered ordinary income to our shareholders in 2006.

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

For the year ended December 31, 2006 net income totaled approximately $11.4 million compared to net income of approximately $2.1 million for the period ended December 31, 2005. These changes are made up of the items previously described.

Basic net income per share was $0.85 and fully diluted net income per share was $0.84 per share for the year ended December 31, 2006 compared to basic and diluted net income per share of $0.30 per share for the period ended December 31, 2005. The net income per share for 2006 was affected by an increase in the weighted average shares outstanding of approximately 6.4 million shares and 6.5 million shares on a basic and diluted basis, respectively, in 2006 as compared to 2005.

Comparison of periods ended December 31, 2005 and 2004

Operating Income

Interest income totaled approximately $9.8 million and $214,000 for 2005 and 2004, respectively. In 2005, interest income included approximately $351,000 of revenue from accrued exit fees. Income from commitment and facility fees totaled approximately $875,000 and $0 for 2005 and 2004, respectively. The increases are the result of origination activity and yield from investments. At December 31, 2005, we had approximately $2.7 million of deferred revenue related to commitment and facility fees. We expect to generate additional interest income and loan commitment fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately $9.1 million and $2.3 million during 2005 and 2004, respectively. Operating expenses for 2005 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately $2.9 million. There were no interest or loan fees in 2004. Employee compensation and benefits were approximately $3.7 million and $1.2 million during 2005 and 2004, respectively. The increase in employee compensation and benefits is due to increased number of employees from 11 to 19 and bonuses of approximately $1.3 million paid in 2005. General and administrative expenses increased to $2.3 million from $411,000 in 2004 primarily due to increased legal expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries as well as increased business development expenses. In addition, we incurred approximately $252,000 of stock-based compensation expense in 2005 as compared to $680,000 in 2004. The decrease in stock-based compensation expense was due to the immediate vesting of certain options granted in 2004. We anticipate that operating expenses will increase over the next twelve months as we continue to incur higher interest expense on higher average outstanding debt balances, increase the number of our employees to support our growth and incur additional expenses related to being a public company, including expenses related to the implementation of the requirements under the Sarbanes-Oxley Act.

Net Investment Income (Loss) Before Income Tax Expense and Investment Gains and Losses

Net investment income before income tax expense for the year ended December 31, 2005 totaled $1.5 million as compared with a net investment loss before income tax expense in 2004 of approximately $2.0 million. This change is made up of the items described above.

Net Investment Gains

For the period ended December 31, 2005, net unrealized investment appreciation totaled approximately $353,000. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors, based on the recommendations of the Valuation Committee of our Board of Directors. For the year ended December 31, 2005, we recognized approximately $4.1 million of gross unrealized appreciation on 14 of our portfolio investment companies and approximately $3.4 million of gross unrealized depreciation on 15 of our portfolio investment companies. Approximately $3.3 million of the unrealized depreciation was due to a reduction in the fair value of a loan to one portfolio company. The net unrealized investment gains recognized by the company were reduced by approximately $342,000 for a warrant participation agreement with Citigroup. We generated a net realized gain totaling approximately $482,000 from the sale of common stock of one biopharmaceutical portfolio company. We did not recognize any realized or unrealized gains or losses during the period ended December 31, 2004.

Income Taxes

We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109*Accounting for 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.

We will elect to be treated as a RIC under Subchapter M of the Code for 2006. 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, in order to obtain RIC tax treatment we 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.

As such, we reported our financial position and results of operations under Subchapter C of the Code prior to 2006. As a C corporation, we accrued income tax expense on a quarterly basis until we were able to reasonably determine that we qualified as a RIC under requirements contained in Subchapter M of the Code. During 2006, we were able to reasonably determine that we could qualify as a RIC, and we accordingly reversed the income tax expense recorded during 2006 and adjusted through operations the $1.4 million deferred tax asset on our balance sheet at December 31, 2005. If we had been able to make the determination as of December 31, 2005, the impact of charging the deferred tax to operations would have reduced our NAV by approximately $0.15 per share.

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

For the year ended December 31, 2005 net income totaled approximately $2.1 million compared to a net loss of approximately $2.0 million for the period ended December 31, 2004. These changes are made up of the items previously described.

Basic and diluted net income per share for the year ended December 31, 2005 was $0.30 as compared to a basic loss per share of $1.72 and diluted loss per share of $1.58 for the period ended December 31, 2004. The net income per share for 2005 was affected by an increase in the number of average shares outstanding in 2005 as compared to 2004 of approximately 5.9 million shares and 5.7 million shares on a basic and diluted basis, respectively.

Financial Condition, Liquidity, and Capital Resources

For the three month period ended March 31, 2007

For the quarter ended March 31, 2007, net cash used in operating activities totaled approximately $54.4 million as compared to net cash provided by operating activities of approximately $4.1 million for the quarter ended March 31, 2006. This increase was due primarily due to $80.2 million used for investment in our portfolio companies offset by $21.8 million of principal payments in the first quarter 2007 as compared $33.0 million used for investment in our portfolio companies offset by $34.0 million in principal repayments in the first quarter of 2006. Cash provided by investing activities for the quarter ended March 31, 2007 totaled approximately $86,000 and was primarily used for the purchase of capital equipment offset by a decrease in other long-term assets. Net cash provided by financing activities totaled $79.4 million for the quarter ended March 31, 2007 and was primarily comprised of net borrowings of $72.0 million and net proceeds from the sale of common stock for $13.6 million offset by a cash dividend payment of $6.1 million. In the quarter ended March 31, 2006, we received approximately $5.0 million in net proceeds from the sale of common stock, $10.0 million of credit facility borrowings and made cash dividend payments of $2.9 million.

As of March 31, 2007, net assets totaled $269.6 million, with a net asset value per share of $11.68. We intend to generate additional cash primarily from equity capital, future borrowings as well as cash flows from operations, including income earned from investment 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. Our primary use of funds will be for operations, investments in portfolio companies and cash distributions to holders of our common stock. After we have used our current capital resources, 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.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of March 31, 2007 was approximately 339%.

At March 31, 2007, we had approximately $41.5 million in cash and cash equivalents and available borrowing capacity of approximately $37.0 million under our Citigroup Facility, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

During the first quarter of 2007, we received net proceeds of approximately $2.7 million from the exercise of the 5-Year Warrants.

We anticipate that we will continue to fund our investment activities through a combination of debt and additional equity capital over the next year. As of March 31, 2007, we had $113.0 million outstanding under the Citigroup Facility. Through March 30, 2007, advances under the Facility carried interest at one-month LIBOR plus 165 basis points. On March 30, 2007, the interest on all borrowings was reduced to LIBOR plus a spread of 1.20%. As of March 31, 2007, based on $244.3 million of eligible loans in the collateral pool and existing advance rates, we have access to approximately $21.4 million of borrowing capacity available under our $150.0 million securitized credit facility from Citigroup. In addition, Citigroup has an equity participation right of 10% of the realized gains on warrants collateralized under the Citigroup Facility. See Note 4 to the Consolidated Financial Statements for discussion of the participation right. We anticipate that portfolio fundings entered into in succeeding periods will allow us to utilize the full borrowing capacity of the Citigroup Facility. See “Borrowings.”

At March 31, 2007 and December 31, 2006, we had the following debt:

($ in thousands)	March 31, 2007 Facility Amount	March 31, 2007 Amount Outstanding	December 31, 2006 Facility Amount	December 31, 2006 Amount Outstanding
Citigroup Facility	$ 150,000	$ 113,000	$ 150,000	$ 41,000
Total	$ 150,000	$ 113,000	$ 150,000	$ 41,000

On September 27, 2006, HTII received a license to operate as a Small Business Investment Company under the SBIC program and will be able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. On January 30, 2007, HTII received notification that its initial application for leverage under its SBC license was approved allowing HTII to commence drawing up to $50.0 million of leverage under its first tranche of capital from the SBA. At March 31, 2007, we had a net investment of $25.0 million in HTII, and there are eight outstanding investments in the amount of $16.6 million. We made our first draw from the SBA on April 26, 2007 for $12.0 million.

During the first quarter of 2007, the Company raised approximately $10.9 million, net of estimated issuance costs when the underwriters who participated in the public offering in December 2006 exercised their right to purchase 840,000 shares of common stock. The net proceeds from the sale of the shares in the offering were used to reduce credit borrowings, originate investments and for general corporate purposes. We believe these funding sources combined with cash on hand at March 31, 2007, and cash provided from operations and financing activities will allow us to continue investing activities for 5 to 9 months.

For the Year Ended December 31, 2006

On April 21, 2006, we raised approximately $34.0 million, net of issuance costs, from a rights offering of 3,411,922 shares of common stock. Funds raised in the offering were partially used to pay off the remaining $15.0 million outstanding under the Bridge Loan Credit Facility and to pay down $10.0 million under our Citigroup Facility.

On October 20, 2006, we raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of common stock delivered on October 25, 2006.

On December 12, 2006, we raised approximately $74.1 million, net of estimated issuance costs, in a public offering of 5.7 million shares of its common stock. On January 3, 2007, the underwriters exercised their over-allotment option and purchased an additional 840,000 shares of our common stock for additional net proceeds to the company of approximately $10.9 million.

At December 31, 2006, we had approximately $16.4 million in cash and cash equivalents and borrowing capacity of approximately $109.0 million under our Citigroup Facility of which approximately $49.6 million was immediately available, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

For the year ended December 31, 2006, net cash used in operating activities totaled approximately $91.3 million as compared to $156.1 million in 2005. This decrease was due primarily to proceeds of $87.5 million in principal repayments offset by $196.0 million used for investments in our portfolio companies as compared to $18.8 million in principal repayments offset by $177.8 million used for investments in 2005. Cash used in investing activities for the year ended December 31, 2006 totaled $1.5 million and was used for the purchase of capital equipment and other long-term assets. Net cash provided by financing activities totaled $93.7 million for the year ended December 31, 2006. In 2006, we received approximately $143.0 million in net proceeds from the sale of common stock, and made cash dividend payments of $14.2 million. During the year ended December 31, 2006, we fully repaid $25.0 million under our Bridge Loan Credit Facility to an affiliate of Farallon Capital Management, L.L.C. and repaid a net $10.0 million under our Citigroup Facility.

As of December 31, 2006, net assets totaled $255.4 million, with a net asset value per share of $11.65. We intend to generate additional cash primarily from equity capital, future borrowings as well as 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. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. After we have used our current capital resources, 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.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of December 31, 2006 was approximately 723%.

We anticipate that we will continue to fund our investment activities through a combination of debt and additional equity capital over the next year. As of December 31, 2006, we had $41.0 million outstanding under the Citigroup Facility. Advances under the Facility bear interest at one-month LIBOR plus 165 basis points. As of December 31, 2006, based on $164.9 million of eligible loans in the collateral pool and existing advance rates, we have access to approximately $49.6 million of borrowing capacity available under our existing $150.0 million securitized credit facility from Citigroup. As additional new loans are funded and pledged as collateral, we will be able to increase our borrowing capacity under the Citigroup Facility beyond the current $49.6 million. In addition, Citigroup has an equity participation right of 10% of the realized gains on warrants collateralized under the Citigroup Facility. See Note 4 to the Consolidated Financial Statements for discussion of the participation right. We anticipate that portfolio fundings entered into in succeeding periods will allow us to utilize the full borrowing capacity of the Citigroup Facility.

On September 27, 2006, HTII received a license to operate as a Small Business Investment Company under the SBIC program and will be able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. On January 30, 2007, HTII received notification that its initial application for leverage under its SBC license was approved allowing HTII to commence drawing up to $50.0 million of leverage under its first tranche of capital from the SBA. At December 31, 2006, we had a net investment of $10.4 million in HTII, and there are 4 outstanding investments in the amount of $11.1 million and we have not drawn any leverage. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HTII and HTM is the general partner.

During the fourth quarter of 2006, the Company raised approximately $104.1 million, net of estimated issuance costs, in a public offering of 8.2 million shares of common stock. The net proceeds from the sale of the shares in the offering were used to reduce credit borrowings, originate investments and for general corporate purposes. We believe these funding sources combined with cash on hand at December 31, 2006, and cash provided from operations and financing activities will allow us to continue investing activities for 5 to 9 months.

Off Balance Sheet Arrangements

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies will not be reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of March 31, 2007, we had unfunded commitments of approximately $74.7 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.

Contractual Obligations

The following table shows our contractual obligations as of March 31, 2007:

Contractual Obligations[1]	Payments due by period (dollars in thousands) Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Borrowings[2][3]	$ 113,000	$ 113,000	$ —	$ —	$ —
Operating Lease Obligations	3,132	457	1,384	993	298
Total	$ 116,132	$ 113,457	$ 1,384	$ 993	$ 298

(1) Excludes commitments to extend credit to our portfolio companies.
(2) Borrowings under our Citigroup Credit Facility are listed based on the contractual maturity of the credit facility. Actual repayments could differ significantly due to prepayments by our existing portfolio companies, modifications of our current agreements with our existing portfolio companies and modification of the credit facility.
(3) We also have a warrant participation agreement with Citigroup as discussed further below.

Borrowings

On August 1, 2005, we, through Hercules Funding Trust I, our affiliated statutory trust, executed a $100 million securitized credit facility with Citigroup Global Markets Realty Corp., which we refer to as the Citigroup Facility. The Citigroup Facility is collateralized by loans and warrants from our portfolio companies, and includes an advance rate of approximately 55% of eligible loans. Interest on borrowings under the Citigroup Facility is payable monthly and was charged at one-month LIBOR plus a spread of 1.65%. We also paid a loan origination fee equal to 0.25% of the Citigroup Facility and will be subject to an unused commitment fee of 0.25%. On March 6, 2006, the Company amended the Citigroup Facility with an agreement that increased the borrowing capacity under the facility to $125.0 million. On December 6, 2006, the Company amended the Citigroup Facility with an agreement that increased the borrowing capacity under the facility to $150.0 million until March 31, 2007. On March 30, 2007, this increase was extended to July 31, 2007, and the interest on all borrowings was reduced to LIBOR plus a spread of 1.20%. On May 2, 2007, we amended the Citigroup Facility to extend the expiration date to May 1, 2008, increased the borrowing capacity under the facility to $250 million and included Deutsche Bank Securities Inc. as a participant along with Citigroup Markets Realty Corp.

The Citigroup Facility contains covenants that, among other things, require us to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under 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 the warrants until the realized gain paid to Citigroup pursuant to the agreement equals $3,750,000 (the “Maximum Participation Limit”). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. During the quarter ended March 31, 2007, the Company reduced its realized gain by approximately $16,000 for Citigroup’s participation in the gain on sale of an equity security and recorded an additional liability and reduced unrealized gains by approximately $55,000 for Citigroup’s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $432,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by us at March 31, 2007. Since inception of the agreement, we have paid Citigroup approximately $292,000 under the warrant participation agreement thereby reducing our realized gains. There was $113.0 million of outstanding borrowings under the Citigroup Facility at March 31, 2007.

We intend to aggregate pools of funded loans using the Citigroup Facility or other conduits that we may seek until a sufficiently large pool of funded loans is created which can then be securitized. We expect that any loans included in a securitization facility will be securitized on a non-recourse basis with respect to the credit losses on the loans. There can be no assurance that we will be able to complete this securitization strategy, or that it will be successful.

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
			$ 1.525

On May 3, 2007, we announced that our Board of Directors approved a dividend of $0.30 per share to shareholders of record as of May 16, 2007 and payable on June 18, 2007. 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 its 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 determined the tax attributes of its distributions year-to-date as of March 31, 2007, 80.1% would be from ordinary income and 19.9% would be a return of capital for stockholders, however there can be no certainty to stockholders that this determination is representative of what the tax attributes of its 2007 distributions to stockholders will actually be.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. 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.

As a BDC, we invest primarily in illiquid securities, including debt and equity-related securities of private companies. Our investments are generally subject to some restrictions on resale and generally have no established trading market. Because of the type of investments that we make and the nature of our business, our valuation process requires an analysis of various factors. Our valuation methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

At March 31, 2007, approximately 89% of our total assets represented investments in portfolio companies, 99% of which are recorded 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. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our board pursuant to a valuation policy and a consistent valuation process. 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 ready market existed for such investments, and the differences could be material.

There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. Instead, we must determine the fair value of each individual investment on a quarterly basis. We will record unrealized depreciation on investments when we believe that an investment has decreased in value, including where collection of a loan or realization of an equity security is doubtful. Conversely, where appropriate, we will 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.

With respect to private debt and equity securities, each investment is valued using industry valuation benchmarks, and, where appropriate, the value is assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation.

Income. Interest income is recorded on the accrual basis and is recognized 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, the Company will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. However, Hercules may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of March 31, 2007 and 2006, no loans were on non-accrual status.

Fee Income. Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. These fees are reflected as adjustments to the loan yield in accordance with FAS 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring loans and Initial Direct Costs of Leases.*

Stock-Based Compensation. We have issued and may, from time to time, issue additional stock options to employees under our 2004 Equity Incentive Plan. We follow Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* ("FAS 123R"), to account for stock options granted. Under FAS 123R, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized.

Recent Developments

On April 5, 2007, Hercules and its subsidiary, Hercules Technology II, L.P., received an exemptive order from the Securities and Exchange Commission allowing Hercules to exclude debt securities issued by its subsidiary, Hercules Technology II, L.P. from the asset coverage requirements applicable to Hercules. Hercules Technology Growth Capital, Inc. is the sole limited partner of Hercules Technology II, L.P.

Through its subsidiary, Hercules Technology II, L.P., Hercules Technology Growth Capital, Inc. intends to seek up to $127.2 million in leverage in various tranches over the next two years if it satisfies certain regulatory requirements, which is the maximum amount currently available under regulations of the SBA. Hercules Technology II, L.P. is currently approved to draw up to $50.0 million and on April 26, 2007, it borrowed $12.0 million under the SBA program. In May 2007, we applied for approval to borrow an additional $77.2 million.

On May 1, 2007 the Board of Directors declared a dividend of $0.30 per share for the first quarter, payable on June 18, 2007 to shareholders of record as of May 16, 2007.

On May 2, 2007, the Company amended the Citigroup Facility to extend the expiration date to May 1, 2008, increased the borrowing capacity under the facility to $250 million and included Deutsche Bank Securities Inc. as a participant along with Citigroup Markets Realty Corp. The credit facility is a one year facility and is renewable on May 1, 2008 with an interest rate of LIBOR plus a spread of 1.20%.

On May 3, 2007, Novadaq Pharmaceuticals, a publicly traded Canadian corporation, acquired certain assets of Xillix Technologies for cash and common stock. Of the purchase price, Hercules will receive approximately CDN $810,000 and approximately 225,000 shares of Novadaq Pharmaceuticals' common stock.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 became effective as of January 1, 2007.

We conducted a review of all open tax year's income recognition and expense deduction filing positions and income tax returns filed (federal and state) for determination of any uncertain tax positions that may require recognition of a tax liability. This review encompassed an analysis of all book/tax difference adjustments as well as the timing of income and expense recognition for all tax years still open under the statute of limitations. As a result, we determined that it is more likely than not that each tax position taken on a previously filed return or to be taken on current tax returns will be sustained on examination based on the technical merits of the positions and therefore, no recognition of a tax liability on an uncertain tax position for FIN 48 purposes is anticipated.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157,*Fair Value Measurements* ("FAS 157"). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of March 31, 2007, we do not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. As of March 31, 2007, 41 loans in our portfolio were at fixed rates and 22 loans were at variable rates. Over time additional investments may be at variable rates. 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 on LIBOR. At March 31, 2007, the borrowing rate under the Citigroup Facility was LIBOR plus 1.20%.

BUSINESS

General

We are a specialty finance company that provides debt and equity growth capital to technology-related and life-sciences companies at all stages of development. Our investment objective is to maximize our portfolio's 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.

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. Our principal executive office is located in Silicon Valley, and we have additional offices in the Boston, Boulder, Chicago, Costa Mesa and Columbus areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity-backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology and life science industries and to offer a full suite of growth capital products at all levels of the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity. We use the term "structured mezzanine debt investment" 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 mezzanine debt investments will typically be secured by some 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 computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. 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 mezzanine debt 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 investment. 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 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 their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. To date, our emphasis has been primarily on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. In 2007, we expect to increase our investment activity in established companies comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

We commenced investment operations in September 2004 and have built our investment portfolio on disciplined underwriting as well as on-going portfolio management. At March 31, 2007, we had outstanding structured mezzanine debt investments representing approximately $322.7 million, warrant investments of $10.5 million and equity investments of $9.3 million for a total investment portfolio at fair value of $342.5 million. In addition, at March 31, 2007, we had unfunded contractual commitments of $74.7 million.

At March 31, 2007, the weighted average yield to maturity of our loan obligations was approximately 12.72%. Yields to maturity are computed using interest rates at inception of the loan and include amortization of loan facility fees, original issue discounts, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and are based on the assumption that all contractual loan commitments have been fully funded.

During the first quarter of 2007, we entered into approximately $108.5 million of investment commitments and invested approximately $80.2 million in 9 new portfolio companies and 11 existing portfolio companies. In addition, during the first quarter of 2007, two companies made early repayments of $1.8 million, and we received paydowns of $9.1 million on working capital lines of credit.

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 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 private or thinly traded public U.S.-based companies. 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) and any preferred stock we may issue in the future, of at least 200%.

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Code. We will elect to be treated for federal income tax purposes as a RIC under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election, when actually made, will be effective as of January 1, 2006. To obtain and maintain the federal income tax benefits of 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. If we satisfy these requirements, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders.

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 the Boston, Boulder, Chicago and Columbus areas. 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, or furnish them to, the Securities and Exchange Commission.

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 structured mezzanine investments in technology-related and life science 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;
- Structured mezzanine debt products are less dilutive and complement equity financing from venture capital and private equity funds; and
- Valuations currently assigned to technology-related companies in private financing rounds, while increasing in recent years, still provide a good opportunity for attractive capital returns.

Technology-Related Companies 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, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. 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 debt marketplace for emerging-growth and expansion-stage companies, instead preferring the risk-reward profile of senior debt. 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 to emerging-growth and expansion-stage companies is a function of the level of annual venture equity investment activity. In 2006, venture capital-backed companies received, in approximately 2,454 transactions, equity financing in an aggregate amount of approximately $25.8 billion, representing an 8% increase over the preceding year, as reported by Dow Jones VentureOne. In addition, overall, the median round size in 2006 was $7 million, up from $6.5 million in 2005, and the highest annual median since 2000. For the second year in a row, equity investors are focusing more than a third of their investment activity on early-stage financings. Overall, seed- and first-round deals made up 36% of the deal flow in 2006, and about the same concentration of deal flow went to later-stage deals. As a result, we believe a range of $20 billion to $25 billion in annual equity investments to venture-backed companies will be sustainable for future years.

We believe that demand for structured debt financing is currently unfulfilled, in part because historically the largest debt capital providers to technology-related companies exited the market during 2001 while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Mezzanine Debt 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 mezzanine debt products provide access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe 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 recently been more mature 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.

Lower Valuations for Private Technology-Related Companies. During the downturn in technology industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. According to Dow Jones VentureOne, median pre-money valuations for venture capital-backed companies in 2000 was $25.0 million declining to a low of $10.0 million in 2003. In addition, according to VentureOne, as of December 31, 2006 median pre-money valuations for venture capital-backed companies in 2006 was $18.5 million compared to $15.0 million in 2005. While pre-money valuations have been steadily increasing since 2003, we believe the valuations currently assigned to venture capital and private equity-backed technology-related companies in private financing rounds are still relatively low and should allow us to continue to build a portfolio of equity-related securities at attractive valuation levels.

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured mezzanine investments in over 200 technology-related companies, representing over $1.0 billion in investments, 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 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, 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.

In addition, historically 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 investment. In addition, we expect, in some cases, to 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 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 mezzanine debt.

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 source of capital, both by the portfolio company and by the portfolio company's financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies and established companies. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company's development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies' development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not subject to requirements to return invested capital to investors nor do we have a finite investment horizon. Capital providers that are subject to such limitations are often required to seek a liquidity event more quickly than they otherwise might, which can result in a lower overall return on an investment.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2006, our proprietary SQL-based database system included over 10,900 technology-related companies and over 3,000 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 invest in debt securities and, to a lesser extent, equity securities, with a particular emphasis on structured mezzanine debt.

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 expect that such entities will, at the time of investment, be generating revenues or will have a business plan that anticipates generation of revenues within 24 to 36 months. Further, we anticipate that on the date of our investment we will 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 amortize their debt for at least six to 15 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.

We expect that our investments will generally range from $1.0 million to $25.0 million. Our debt investments generally have an average initial principal balance of between $3.0 million and $7.0 million and have maturities of two to seven years, with an expected average term of three years. 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, and 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 typically ranging from 8% to 14%. 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, which we may be required to include in income prior to receipt. We also generate revenue in the form of commitment and facility fees, and to a lesser extent, due diligence fees.

In addition, historically our structured mezzanine debt investments generally have had, and we expect they will continue to 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. The warrants typically will be immediately exercisable upon issuance and generally will remain exercisable for the lesser of seven years or three years after 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 and 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 debt and equity investments take one of the following forms:

- *Structured Mezzanine Debt.* We seek to invest a majority of our assets in structured mezzanine debt 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 structured mezzanine investments 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 (other than any tangible assets specifically financed with senior debt). Our structured mezzanine debt investments typically have maturities of between two and seven years, with full amortization for emerging-growth or expansion-stage companies and little or no amortization for select established companies. Our structured mezzanine debt investments carry a contractual interest rate between 8% and 14% and may include an additional end-of-term payment, are in an amount between $3 million and $25 million with an average initial principal balance of between $3 million and $7 million (although this investment size may vary proportionately as the size of our capital base changes) and have an average term of three years. In some 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 mezzanine debt investments with restrictive affirmative and negative covenants, default penalties, prepayment penalties, lien protection, equity calls, take control provisions and board observation rights.
- *Senior Debt.* We seek to invest a limited portion of our assets in senior debt 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. Our senior debt investments carry a contractual interest rate between 8% and 12%, are in an amount between $1 million and $7 million with an average initial principal balance of $3 million, and have an average term of under three years. 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 either carry an interest rate ranging from the prime rate to 12% or fixed or variable rates based on the prime rate or LIBOR plus a margin, generally maturing in one year, and will be secured by accounts receivable and / or inventory.

- *Equipment Loans.* We intend to seek 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 the assets financed. We anticipate that these loans will generally be for amounts up to $2.5 million, will carry a contractual interest rate between prime and prime plus 400 basis points, and have an average term between three and four years.
- *Equity-Related Securities.* The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our structured mezzanine debt investments. In addition to the warrants received as a part of a structured mezzanine debt financing, we typically receive the right to make equity investments in a portfolio company in connection with the next equity financing round for that company. This right will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. 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 direct equity investments into portfolio companies.

A comparison of the typical features of our various investment alternatives is set forth in the chart below.

	Senior Debt	Structured Mezzanine Debt	Equipment Loans	Equity Securities
Typical Structure	Term or revolving debt	Term debt with warrants	Term debt with warrants	Preferred stock or common stock
Investment Horizon	Usually 3 years	Long term, ranging from 2 to 7 years, with an average of 3 years	Ranging from 3 to 4 years	Long term
Ranking/Security	Senior/First lien	Senior or junior lien	Secured by underlying equipment	None/unsecured
Financial Covenants	Generally comprehensive	Less restrictive; Mostly financial; Maintenance-based	None	None
Risk Tolerance	Low	Medium	High	High
Coupon/Dividend	Cash pay—Floating or fixed rate	Cash Pay—fixed rate; Payment-in-kind in limited cases	Cash pay—floating or fixed rate	Payment-in kind in limited cases
Customization or Flexibility	Standard	More flexible	Standard	Flexible
Equity Dilution	None to low	Low	Low	High

Investment Criteria

We have identified several criteria 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.

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 have commitments for their first institutional round of equity financing. We expect a prospective portfolio company to demonstrate its ability to commence 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 sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. 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 6 to 15 months.

Security Interest. In many instances we generally 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 prohibit 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. We 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 typically include one or more of the following covenants; cross-default and 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, engage in transactions with affiliates and consummate an extraordinary transaction, such as a merger or recapitalization without our consent. In addition, we may require other performance or financial based covenants, as we deem appropriate.

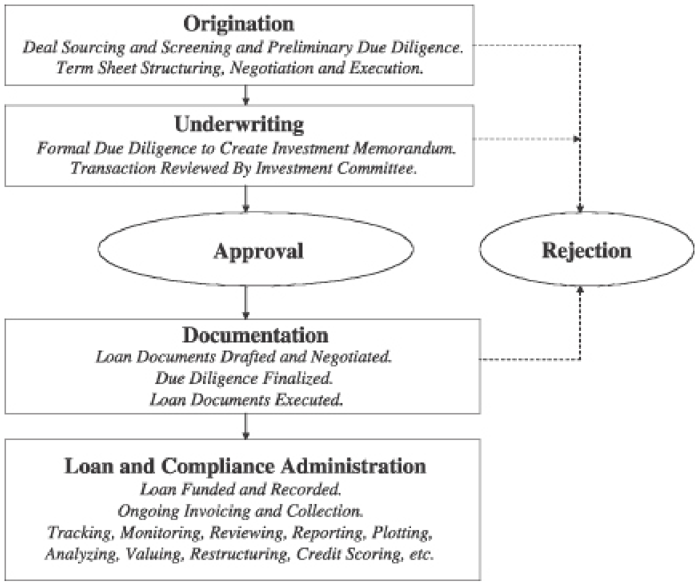
Exit Strategy. Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of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

Investment Process

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

- Origination;
- Underwriting;
- Documentation; and
- Loan and Compliance Administration.

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 17 senior investment professionals is headed by our Chief Executive Officer, Mr. Henriquez, and is responsible for sourcing potential investment opportunities. The origination team uses 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.

In addition, we have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of March 31, 2007, our proprietary SQL-based database system included over 10,900 technology-related companies and over 3,000 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, evaluation of select 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 which we define as the underwriting team. The underwriting team for a proposed investment consists of the deal sponsor who possesses specific 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. 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, accounting policies 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 meets 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 unanimous approval of our investment committee 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 Credit Officer and our Chief Financial Officer. The investment committee generally meets weekly and more frequently on an as-needed basis. Our investment committee process is generally the same at the SBIC except that our two Senior Managing Directors are also members of the committee. 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 loans. This group is responsible for documenting the term sheet approved by the investment committee to memorialize the transaction with a portfolio company. This group negotiates loan documentation and, subject to the approval of the Chief Legal Officer, 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, administers loans and tracks covenant compliance on 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 SQL-based database system. The loan and compliance administration group is also responsible for ensuring timely interest and principal payments and collateral management and advises the investment committee on the financial performance and trends of each portfolio company, including any covenant violations that occur, to aid us in assessing the appropriate course of action for each portfolio company and evaluating overall portfolio quality. In addition, the loan and compliance administration group advises the Valuation Committee of the board 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. 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 months to a year, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a level 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2.

Grade 4. The borrower is performing materially below expectations, and the loan risk has substantially increased since origination. Loans graded 4 may experience some partial loss or full return of principal but are expected to realize some loss of interest which is not anticipated to be repaid in full, which, to the extent not already reflected, may require the fair value of the loan to be reduced to the amount we anticipate will be recovered. Grade 4 investments are closely monitored.

Grade 5. The borrower is in workout, materially performing below expectations and a significant risk of principal loss is probable. Loans graded 5 will experience some partial principal loss or full loss of remaining principal outstanding is expected. Grade 5 loans will require the fair value of the loans be reduced to the amount, if any, we anticipate will be recovered.

At March 31, 2007, our investments had a weighted average investment grading of 2.16.

Managerial Assistance

As a business development company, we 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.

Asset Management

We may engage in the asset management business by providing investment advisory services to externally managed funds that may be formed in the future. Such funds may focus on our lower yielding assets, such as senior debt, equipment based only financing or equity only funding. We may contribute assets currently in our portfolio to the extent that our management and Board of Directors deems it appropriate. We may, from time to time, serve as the investment manager of such funds and may receive management and other fees for such services. Such funds may have overlapping investment objectives and may invest in asset classes similar to those targeted by us.

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 assess the value 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 and Structure—We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.”

Legal Proceedings

From time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

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. (“HTII”), our wholly-owned subsidiary, is licensed under the Small Business Investment Act of 1958 as a Small Business Investment Company. Hercules Technology SBIC Management, LLC (“HTM”), another wholly-owned subsidiary, functions as the general partner of our subsidiary HTII. Hercules Funding I LLC, our wholly owned subsidiary, and Hercules Funding Trust I, our affiliated statutory trust, function as vehicles to collateralize loans under our securitized credit facility with Citigroup Global Markets Realty Corp. In December 2006, we established Hydra Management LLC and Hydra Management Co., Inc. an investment manager and an investment management company, respectively.

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

Employees

As of March 31, 2007, we had 29 employees, including 17 investment and portfolio management professionals all of whom have extensive prior experience working on financing transactions for technology-related companies. We intend to expand our management team, financial analyst group and operational personnel to support our growing portfolio of companies. We may also hire additional managing directors if our business indicates the need to expand the team to take advantage of growing market opportunities.

PORTFOLIO COMPANIES

The following tables set forth certain information as of March 31, 2007 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[6][7]	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc. (1.57%)*[4]	Drug Discovery	Senior Debt			
24 Emily Street		Matures June 2009			
Cambridge, MA 02139		Interest rate 10.25%		$ 3,793,731	$ 3,793,731
		Preferred Stock Warrants	1.67%	69,106	413,349
		Preferred Stock Warrants	0.65%	34,996	32,709
Acceleron Pharmaceuticals, Inc. (0.41%)		Preferred Series A Stock	1.71%	1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				4,897,833	5,350,901
Aveo Pharmaceuticals, Inc. (5.57%)[4]	Drug Discovery	Senior Debt			
75 Sidney Street 4th Floor		Matures September 2009			
Cambridge, MA 02139		Interest rate 10.75%		14,863,247	14,863,247
		Preferred Stock Warrants	10.18%	144,056	107,840
		Preferred Stock Warrants	3.39%	46,288	41,439
Total Aveo Pharmaceuticals, Inc.				15,053,591	15,012,526
Elixir Pharmaceuticals, Inc. (3.71%)	Drug Discovery	Senior Debt			
One Kendall Square Building 1000		Matures June 2010		9,868,289	9,868,289
5th Floor		Interest rate Prime + 2.45%		149,510	139,244
Cambridge, MA 02139		Preferred Stock Warrants	1.47%		
Total Elixir Pharmaceuticals, Inc.				10,017,799	10,007,533
EpiCept Corporation (3.75%)	Drug Discovery	Senior Debt			
777 Old Saw Mill River Road		Matures August 2009			
Tarrytown, NY 10591		Interest rate 11.70%		9,377,181	9,377,181
		Common Stock Warrants	3.25%	794,633	740,783
Total EpiCept Corporation				10,171,814	10,117,964
Memory Pharmaceuticals Corp (2.13%)	Drug Discovery	Senior Debt			
100 Phillips Parkway		Matures February 2011			
Montvale, NJ 07645		Interest rate 11.45%		4,966,633	4,966,633
		Common Stock Warrants	0.83%	1,057,399	786,899
Total Memory Pharmaceuticals Corp				6,024,032	5,753,532
Merrimack Pharmaceuticals, Inc. (2.28%)[4]	Drug Discovery	Convertible Senior Debt			
101 Binney Street		Matures October 2008			
Cambridge, MA 02142		Interest rate 11.15%		5,449,928	5,736,928
		Preferred Stock Warrants	3.60%	155,456	398,921
Total Merrimack Pharmaceuticals, Inc.				5,605,384	6,135,849
Paratek Pharmaceuticals, Inc. (2.12%)[4]	Drug Discovery	Senior Debt			
75 Kneeland Street		Matures June 2008			
Boston, MA 02111		Interest rate 11.10%		5,622,203	5,622,203
		Preferred Stock Warrants	18.53%	137,396	101,151
Total Paratek Pharmaceuticals, Inc.				5,759,599	5,723,354
Portola Pharmaceuticals, Inc. (5.57%)	Drug Discovery	Senior Debt			
270 E Grand Ave South		Matures September 2010			
San Francisco, CA 94080		Interest rate Prime + 1.75%		14,865,809	14,865,809
		Preferred Stock Warrants	1.43%	151,557	139,614
Total Portola Pharmaceuticals, Inc.				15,017,366	15,005,423
Sirtris Pharmaceuticals, Inc (3.80%)[4]	Drug Discovery	Senior Debt			
790 Memorial Drive		Matures April 2011			
Cambridge, MA 02139		Interest rate 10.60%		9,928,937	9,928,937
		Preferred Stock Warrants	2.22%	88,829	316,536
Sirtris Pharmaceuticals, Inc. (0.19%)		Preferred Stock (C-1)	1.30%	500,000	500,000
Total Sirtris Pharmaceuticals, Inc.				10,517,766	10,745,473

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Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[6][7]	Cost[2]	Value[3]
Total Drug Discovery (31.10%)				$83,065,184	$83,852,555
IKANO Communications, Inc. (8.38%)[4]	Communications & Networking	Senior Debt			
265 East 100 South, Ste 245		Matures March 2011			
Salt Lake City, UT 84111		Interest rate 11.00%		22,500,000	22,500,000
		Preferred Stock Warrants	0.04%	45,460	30,260
		Preferred Stock Warrants	0.07%	72,344	50,900
Total IKANO Communications, Inc.				22,617,804	22,581,160
Interwise, Inc. (0.72%)[4]	Communications & Networking	Senior Debt			
25 First Street Suite 412		Matures August 2008			
Cambridge, MA 02141		Interest rate 17.50%		1,701,456	1,701,456
		Preferred Stock Warrants	7.84%	268,401	237,599
Total Interwise, Inc.				1,969,857	1,939,055
Pathfire, Inc. (1.74%)[4]	Communications & Networking	Senior Debt			
245 Hembree Park Drive					
Roswell, GA 30076		Matures December 2008 Interest rate Prime + 3.65%		4,678,068	4,678,068
		Preferred Stock Warrants	4.74%	63,276	13,390
Total Pathfire, Inc.				4,741,344	4,691,458
Ping Identity Corporation (0.92%)[4]	Communications & Networking	Senior Debt			
1099 18th Street Suite 2950		Matures June 2009			
Denver, CO 80202		Interest rate 11.50%	3.35%	2,309,476	2,309,476
		Preferred Stock Warrants		51,801	157,848
Total Ping Identity Corporation				2,361,277	2,467,324
Rivulet Communications, Inc. (1.30%)[4]	Communications & Networking	Senior Debt			
75 Rochester Avenue					
Portsmouth, NH 03801		Matures September 2009 Interest rate 10.60%		3,463,969	3,463,969
		Preferred Stock Warrants	2.59%	50,710	37,876
Rivulet Communications, Inc. (0.09%)		Preferred Series A Stock	2.31%	250,000	250,000
Total Rivulet Communications, Inc.				3,764,679	3,751,845
Simpler Networks Corp. (1.98%)[4]	Communications & Networking	Senior Debt			
90 Washington Valley Road		Matures July 2009			
Bedminster, NJ 07921		Interest rate 11.75%		4,606,291	4,606,291
		Preferred Stock Warrants	5.90%	160,241	733,919
Simpler Networks Corp. (0.19%)		Preferred Series C Stock	1.96%	500,000	500,000
Total Simpler Networks Corp.				5,266,532	5,840,210
Wireless Channels, Inc (4.63%)[4]	Communications & Networking	Senior Debt			
7101 S. Fulton St. #200		Matures April 2010			
Centenial, CO 80112		Interest rate 9.25%		2,348,971	2,348,971
		Subordinated Debt			
		Matures April 2010			
		Interest rate Prime + 4.25%		10,000,000	10,000,000
		Preferred Series A Stock	4.47%	155,139	158,872
Total Wireless Channels, Inc.				12,504,110	12,507,843
Total Communications & Networking (19.95%)				53,225,603	53,778,895
Atrenta, Inc. (1.82%)[4]	Software	Senior Debt			
2077 Gateway Place Suite 300		Matures June 2009			
San Jose, CA 95110		Interest rate 11.50%		4,643,687	4,643,687
		Preferred Stock Warrants	5.40%	102,396	194,647
		Preferred Stock Warrants	1.77%	33,760	63,869
Atrenta, Inc. (0.09%)		Preferred Series C Stock	1.56%	250,000	250,000
Total Atrenta, Inc.				5,029,843	5,152,203
Blurb, Inc. (0.09%)	Software	Senior Debt			
580 California St Suite 300					
San Francisco, CA 94104		Matures December 2009 Interest rate 9.55%		238,530	238,530
		Preferred Stock Warrants	0.62%	12,904	12,034
Total Blurb, Inc.				251,434	250,564
Compete, Inc. (1.31%)[4]	Software	Senior Debt			
4 Copley Place Suite 700		Matures March 2009			
Boston, MA		Interest rate Prime + 3.50%		3,490,402	3,490,402
		Preferred Stock Warrants	2.67%	62,067	46,064

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Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[6][7]	Cost[2]	Value[3]
Total Compete, Inc.				$3,552,469	$3,536,466
Forescout Technologies, Inc. (1.11%)	Software	Senior Debt			
10001 De Anza Blvd., Suite 220		Matures August 2009			
Cupertino, CA 95014		Interest rate 11.15%		2,455,217	2,455,217
		Revolving Line of Credit			
		Matures August 2007			
		Interest rate Prime + 1.49%		500,000	500,000
		Preferred Stock Warrants	3.06%	55,593	48,020
Total Forescout Technologies, Inc.				3,010,810	3,003,237
GameLogic, Inc. (1.11%)[4]	Software	Senior Debt			
139 Main Street 5th Floor					
Boston, MA 02142		Matures December 2009 Interest rate Prime + 4.125%		2,961,173	2,961,173
		Preferred Stock Warrants	1.54%	52,604	39,291
Total GameLogic, Inc.				3,013,777	3,000,464
Gomez, Inc. (0.35%)[4]	Software	Senior Debt			
610 Lincoln Street					
Waltham, MA 02451		Matures December 2007 Interest rate 12.25%		938,525	938,525
		Preferred Stock Warrants	4.35%	35,000	14,466
Total Gomez, Inc.				973,525	952,991
HighRoads, Inc. (0.65%)[4]	Software	Senior Debt			
150 Presidential Way					
Woburn, MA 01801		Matures February 2009 Interest rate 11.65%		1,723,912	1,723,912
		Preferred Stock Warrants	3.18%	44,466	33,159
Total HighRoads, Inc.				1,768,378	1,757,071
Intelliden, Inc. (1.11%)	Software	Senior Debt			
90 South Cascade Avenue					
Colorado Springs, CO 80903		Matures February 2010 Interest rate 13.20%		2,985,453	2,985,453
		Preferred Stock Warrants	0.94%	17,542	15,796
Total Intelliden, Inc.				3,002,995	3,001,249
Inxight Software, Inc. (1.39%)[4]	Software	Senior Debt			
500 Macara Avenue					
Sunnyvale, CA 94085		Matures February 2008 Interest rate 10.00%		3,729,819	3,729,819
		Preferred Stock Warrants	1.20%	55,963	24,430
Total Inxight Software, Inc.				3,785,782	3,754,249
Oatsystems, Inc. (2.17%)[4]	Software	Senior Debt			
265 Winter St.					
Waltham, MA 02451		Matures September 2009 Interest rate 11.00%		5,771,694	5,771,694
		Preferred Stock Warrants	5.45%	67,484	50,437
Total Oatsystems, Inc.				5,839,178	5,822,131
Proficiency, Inc. (1.51%)[5]	Software	Senior Debt			
880 Winter Street, Suite 320		Matures July 2008			
Waltham, MA 02415		Interest rate 12.00%		3,960,318	3,960,318
		Preferred Stock Warrants	9.27%	96,370	106,725
Total Proficiency, Inc.				4,056,688	4,067,043
PSS Systems, Inc. (0.13%)	Software	Senior Debt			
2471 East Bayshore Road, Suite 600					
Palo Alto, CA 94303		Matures March 2010			
		Interest rate 10.74%		300,217	300,217
		Preferred Stock Warrants	1.48%	51,205	53,257
Total PSS Systems, Inc.				351,422	353,474
Savvion, Inc. (1.84%)[4]	Software	Senior Debt			
5104 Old Ironsides Drive, Suite 205		Matures March 2009			
Santa Clara, CA 95054		Interest rate Prime + 3.45%		1,899,414	1,899,414
		Revolving Line of Credit			
		Matures March 2007			
		Interest rate Prime + 2.00%		3,000,000	3,000,000
		Preferred Stock Warrants	5.59%	52,135	39,070
Total Savvion, Inc.				4,951,549	4,938,484
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants	1.89%	39,339	26,992
4619 N. Ravenswood					
Chicago, IL 60640					
Total Sportvision, Inc.				39,339	26,992

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Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[6][7]	Cost[2]	Value[3]
Talisma Corp. (0.55%)[4] 10900 N.E. 4th Street, Suite 1510 Bellevue, WA 98004-5841	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%		$ 1,451,072	$ 1,451,072
		Preferred Stock Warrants	1.47%	49,000	19,430
Total Talisma Corp.				1,500,072	1,470,502
Total Software (15.24%)				41,127,261	41,087,120
Agami Systems, Inc. (2.60%)[4] 1269 Innsbruck Drive Sunnyvale, CA 94089	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%		6,931,616	6,931,616
		Preferred Stock Warrants	1.88%	85,601	74,782
Total Agami Systems, Inc.				7,017,217	7,006,398
Cornice, Inc. (0.99%)[4] 1951 S. Fordham Street Suite 105 Longmont, CO 80503	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%		2,680,376	2,680,376
		Preferred Stock Warrants	3.15%	101,597	—
		Preferred Stock Warrants	9.08%	35,353	—
		Preferred Stock Warrants	12.11%	135,403	—
Total Cornice, Inc.				2,952,729	2,680,376
Luminus Devices, Inc. (5.41%)[4] 175 New Boston Street Suite A Woburn, MA 01801	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%		14,346,470	14,346,470
		Preferred Stock Warrants	0.43%	183,290	141,418
		Preferred Stock Warrants	0.21%	83,529	79,349
Total Luminus Devices, Inc.				14,613,289	14,567,237
NeoScale Systems, Inc. (1.11%)[4] 1655 McCarthy Blvd. Milpitas, CA 95035-7415	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%		2,980,339	2,980,339
		Preferred Stock Warrants	1.38%	23,593	21,329
Total NeoScale Systems, Inc.				3,003,932	3,001,668
Sling Media, Inc. (0.53%) 901 Mariners Island Blvd, Suite 300 San Mateo, CA 94404	Electronics & Computer Hardware	Preferred Stock Warrants	2.36%	38,968	933,910
		Preferred Series B Stock	1.07%	500,000	500,000
Total Sling Media, Inc.				538,968	1,433,910
ViDeOnline Communications, Inc. (0.11%)[4] 656 Bair Island Road, Suite 108 Redwood City, CA 94063	Electronics & Computer Hardware	Preferred Series C Stock	2.62%	—	296,474
Total ViDeOnline Communications, Inc.				—	296,474
Total Electronics & Computer Hardware (10.75%)				28,126,135	28,986,063
Quatrx Pharmaceuticals Company (6.55%)[4] 777 East Eisenhower Pkwy Suite 100 Ann Arbor, MI 48108	Specialty Pharmaceuticals	Senior Debt Matures January 2010 Interest rate Prime + 3.00%		17,484,205	17,484,205
		Preferred Stock Warrants	2.89%	220,354	167,782
Total Quatrx Pharmaceuticals Company				17,704,559	17,651,987
Aegerion Pharmaceuticals, Inc (3.71%)[4] 1140 Route 22 East, Suite 304 Bridgewater, NJ 08807	Specialty Pharmaceuticals	Senior Debt Matures August 2010 Interest rate Prime + 2.50%		9,931,806	9,931,806
		Preferred Stock Warrants	0.58%	69,207	70,795
Total Aegerion Pharmaceuticals, Inc.				10,001,013	10,002,601
Total Special Pharmaceuticals (10.26%)				27,705,572	27,654,588
BabyUniverse, Inc. (1.88%)[4] 150 South US Highway One, Ste 500 Jupiter, FL 33477	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%		4,756,082	4,756,082
		Common Stock Warrants	1.59%	325,224	308,431
Total BabyUniverse, Inc.				5,081,306	5,064,513

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Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[6][7]	Cost[2]	Value[3]
Market Force Information, Inc. (0.66%) [4]	Consumer & Business Products	Senior Debt			
1877 Broadway, Suite 200		Matures May 2009			
Boulder, CO 80302		Interest rate 10.45%		$ 1,644,701	$ 1,644,701
		Preferred Stock Warrants	1.21%	23,823	143,058
Market Force Information, Inc. (0.19%)		Preferred Stock	1.57%	500,000	500,000
Total Market Force Information, Inc.				2,168,524	2,287,759
Wageworks, Inc. (5.13%)[4]	Consumer & Business Products	Senior Debt			
1100 Park Place 4th Floor					
San Mateo, CA 94403		Matures November 2008 Interest rate Prime + 4.00%		12,697,244	12,697,244
		Preferred Stock Warrants	6.72%	251,964	1,123,874
Wageworks, Inc. (0.09%)		Preferred Series C Stock	1.64%	249,995	249,995
Total Wageworks, Inc.				13,199,203	14,071,113
Total Consumer & Business Products (7.95%)				20,449,033	21,423,385
Ageia Technologies, Inc. (2.44%)[4]	Semiconductors	Senior Debt			
82 Pioneer Way, Suite 118		Matures August 2008			
Mountain View, CA 94041		Interest rate 10.25%		6,475,603	6,475,603
		Convertible Debt		43,316	43,316
		Preferred Stock Warrants	2.44%	99,190	67,663
Ageia Technologies, Inc. (0.19%)		Preferred Series C Stock	1.95%	500,000	500,000
Total Ageia Technologies				7,118,109	7,086,582
Cradle Technologies (0.02%)	Semiconductors	Preferred Stock Warrants	0.31%	79,150	59,303
1197 Borregas Avenue					
Sunnyvale, CA 94089					
Total Cradle Technologies				79,150	59,303
iWatt Inc. (1.50%)[4]	Semiconductors	Senior Debt			
90 Albright Way					
Los Gatos, CA 95032-1827		Matures September 2009 Interest rate Prime + 2.75%		1,963,453	1,963,453
		Revolving Line of Credit			
		Matures September 2007			
		Interest rate Prime + 1.75%		2,035,000	2,035,000
		Preferred Stock Warrants	0.99%	45,684	39,180
Total iWatt Inc.				4,044,137	4,037,633
NEXX Systems, Inc. (2.60%) [4]	Semiconductors	Senior Debt			
Five Suburban Park Drive					
Billerica, MA 01821-3904		Matures February 2010 Interest rate Prime + 2.75%		4,925,409	4,925,409
		Revolving Line of Credit			
		Matures December 2009			
		Interest rate Prime + 1.75%		2,000,000	2,000,000
		Preferred Stock Warrants	4.77%	83,116	79,800
Total NEXX Systems, Inc.				7,008,525	7,005,209
Total Semiconductors (6.75%)				18,249,921	18,188,727
Labopharm USA, Inc. (2.09%)[4][5]	Drug Delivery	Senior Debt			
480 Armand-Frappier Blvd.		Matures July 2008			
Laval, Canada H7V 4B4		Interest rate 11.95%		5,638,468	5,638,468
Total Labopharm USA, Inc.				5,638,468	5,638,468
TransOral Pharmaceuticals, Inc. (3.60%) [4]	Drug Delivery	Senior Debt			
300 Tamal Plaza Suite 220		Matures October 2009			
Corte Madera, CA 94925		Interest rate 10.69%		9,399,755	9,399,755
		Preferred Stock Warrants	0.85%	35,630	122,134
		Preferred Stock Warrants	1.27%	51,067	191,549
TrasnOral Pharmaceuticals, Inc. (0.19%)		Preferred Stock	1.25%	500,000	500,000
Total TransOral Pharmaceuticals, Inc.				9,986,452	10,213,438
Total Drug Delivery (5.88%)				15,624,920	15,851,906
BARRX Medical, Inc. (0.56%)	Therapeutic				
1334 Bordeaux Drive					
Sunnyvale, CA 94089		Preferred Stock	5.39%	1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(6)(7)	Cost(2)	Value(3)
Gynesonics, Inc. (0.76%)	Therapeutic	Senior Debt			
604 5th Ave Suite D		Matures October 2009			
Redwood City, CA 94063		Interest rate 9.50%		$ 1,987,462	$ 1,987,462
		Preferred Stock Warrants	2.48%	17,552	53,842
Gynesonics, Inc. (0.09%)		Preferred Stock	1.65%	250,000	250,000
Total Gynesonics, Inc.				2,255,014	2,291,304
Novasys Medical, Inc. (2.96%)(4)	Therapeutic	Senior Debt			
39684 Eureka Drive		Matures January 2010			
Newark, CA 94560		Interest rate 9.70%		8,000,000	8,000,000
Total Novasys Medical, Inc.				8,000,000	8,000,000
Power Medical Interventions, Inc. (0.01%)	Therapeutic				
2021 Cabot Blvd					
West Langhorne, PA 19047		Common Stock Warrants	0.39%	20,687	28,786
Total Power Medical Interventions, Inc.				20,687	28,786
Total Therapeutic (4.38%)				11,775,701	11,820,090
Hedgestreet, Inc. (1.41%)(4)	Internet Consumer & Business Services	Senior Debt			
1825 S. Grant, Suite 500		Matures March 2009			
San Mateo, CA 94402		Interest rate 11.30%		3,769,878	3,769,878
		Preferred Stock Warrants	2.08%	54,956	41,866
Total Hedgestreet, Inc.				3,824,834	3,811,744
Invoke Solutions, Inc. (0.82%)(4)	Internet Consumer & Business Services	Senior Debt			
375 Totten Pond Road Suite 400					
Waltham, MA 02451		Matures December 2008 Interest rate 11.25%		2,162,886	2,162,886
		Preferred Stock Warrants	4.06%	43,826	33,322
Total Invoke Solutions, Inc.				2,206,712	2,196,208
RazorGator Interactive Group, Inc. (1.11%)(4)	Internet Consumer & Business Services	Senior Debt			
11150 Santa Monica Blvd., Suite 500		Matures January 2008			
Los Angeles, CA 90025		Interest rate 9.95%		2,392,871	2,392,871
		Preferred Stock Warrants	2.80%	13,050	561,742
		Preferred Series B Warrants	0.70%	28,478	26,161
RazorGator Interactive Group, Inc. (0.63%)		Preferred Series A Stock	3.74%	1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,434,399	4,688,952
Total Internet Consumer & Business Services (3.97%)				9,465,945	10,696,904
Lilliputian Systems, Inc. (3.15%)(4)	Energy	Senior Debt			
36 Jonspin Road		Matures March 2010			
Wilmington, MA 01887		Interest rate 9.75%		8,466,078	8,466,078
		Preferred Stock Warrants	0.96%	48,460	36,946
Total Lilliputian Systems, Inc.				8,514,538	8,503,024
Total Energy (3.15%)				8,514,538	8,503,024
Active Response Group, Inc. (2.41%)	Information Services	Senior Debt			
900 Broadway, 2nd Floor		Matures March 2012			
New York, NY 10003-1210		Interest rate Libor + 6.55%		6,454,684	6,454,684
		Common Stock Warrants	3.00%	46,084	47,178
Total Active Response Group, Inc.				6,500,768	6,501,862
Buzznet, Inc. (0.09%)	Information Services	Senior Debt			
2404 Wilshire Blvd. #11b		Matures March 2010			
Los Angeles, CA 90057		Interest rate 10.25%		241,626	241,626
		Preferred Stock Warrants	0.86%	8,613	8,843
Total Buzznet, Inc.				250,239	250,469
Solutionary, Inc. (0.04%)	Information Services				
9420 Underwood Avenue, 3rd Floor					
Omaha, NE 68114		Preferred Stock Warrants	2.00%	93,827	96,055
Total Solutionary, Inc.				93,827	96,055

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(6)(7)	Cost(2)	Value(3)
Wallop Technologies, Inc. (0.09%)	Information	Senior Debt			
333 Bryant Street	Services	Matures March 2010			
San Francisco, CA 94107		Interest rate 10.00%		$ 229,942	$ 229,942
		Preferred Stock Warrants	0.45%	7,473	7,650
Total Wallop Technologies, Inc.				237,415	237,592
Total Information Services (2.63%)				7,082,249	7,085,978
Optiscan Biomedical, Corp. (0.31.%) (4)	Diagnostic	Senior Debt			
1105 Atlantic Ave, Suite 101		Matures March 2008			
Alameda, CA 94501		Interest rate 15.00%		784,135	784,135
		Preferred Stock Warrants	1.50%	80,486	59,548
Optiscan Biomedical, Corp. (0.37%)		Preferred Series B Stock	2.70%	1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				1,864,621	1,843,683
Xillix Technologies Corp. (1.41%)(4)(5)	Diagnostic	Senior Debt			
100– 13775 Commerce Parkway		Matures December 2008 Interest rate 12.40%		3,801,585	3,801,585
Richmond, British Columbia, Canada		Common Stock Warrants		313,108	—
V6V 2V4			1.92%		
Total Xillix Technologies Corp.				4,114,693	3,801,585
Total Diagnostic (2.09%)				5,979,314	5,645,268
Guava Technologies, Inc. (1.80%)(4)	Biotechnology	Senior Debt			
25801 Industrial Boulevard	Tools	Matures July 2009			
Hayward, CA 94545-2991		Interest rate Prime + 3.25%		4,781,887	4,781,887
		Preferred Stock Warrants	8.24%	105,399	78,193
Total Guava Technologies, Inc.				4,887,286	4,860,080
NuGEN Technologies, Inc. (0.02%)	Biotechnology				
821 Industrial Road, Unit A	Tools				
San Carlos, CA 94070		Preferred Stock Warrants	3.37%	44,837	45,902
Total NuGEN Technologies, Inc.				44,837	45,902
Total Biotechnology Tools (1.82%)				4,932,123	4,905,982
Waterfront Media, Inc. (1.11)	Media/Content/	Senior Debt			
300 Tamal Plaza Suite 220	Info	Matures December 2010 Interest rate Prime +			
Corte Madera, CA 94925		3.00%		941,994	941,994
		Revolving line credit			
		Matures March 2008			
		Interest rate Prime + 1.25%		2,000,000	2,000,000
		Preferred Stock Warrants	5.66%	59,663	60,939
Total Waterfront Media, Inc.				3,001,657	3,002,933
Total Media/Contents/Info (1.11%)				3,001,657	3,002,933
Total Investments (127.03%)				$338,325,156	$342,483,418

* 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 appreciation totaled $5,745,612, $1,587,350 and $4,158,262, respectively.
(3) Except for warrants in four publicly traded companies, all investments are restricted at March 31, 2007 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup Facility. Citigroup has an equity participation right on loans collateralized under the Citigroup Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $448,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at March 31, 2007.
(5) Non-U.S. company or the company's principal place of business is outside the United States.
(6) All investments are less than 5% owned.
(7) The "percentage of class held on a fully diluted basis" represents the percentage of the class of security we may own assuming we exercise our warrants or options (whether or not they are in-the-money) and assuming that warrants, options or convertible securities held by others are not exercised or converted. We have not included any security which is subject to significant vesting contingencies. Common stock, preferred stock, warrants, options and equity interests are generally non-income producing and restricted. The percentage was calculated based on the most current outstanding share information available to us (1) in the case of private companies, provided by that company, and (2) in the case of public companies, provided by that company's most recent public filings with the SEC.

Portfolio Company Descriptions

Acceleron Pharmaceuticals, Inc.

Acceleron Pharmaceuticals focuses on developing therapeutics for metabolic and musculoskeletal diseases.

Active Response Group, Inc.

Active Response provides targeted, qualified leads to clients from individuals who indicate interest or “opt-in” to receive marketing information. They are also a provider of display advertising and behavioral marketing.

Aegerion Pharmaceuticals, Inc.

Aegerion Pharmaceuticals is a privately held specialty pharmaceutical company focused on the development and commercialization of promising pharmaceuticals to treat cardiovascular and metabolic disease.

Agami Systems, Inc.

Agami is a provider of adaptive storage management solutions to the enterprise market. The company develops enterprise network storage systems for high-end storage area networks (SAN) and network-attached storage (NAS) management.

Ageia Technologies

Ageia Technologies is a developer of technology to enhance interactive media playback. The company develops chips for processing three dimensional visual data for applications such as computer simulation, gaming, and security.

Atrenta, Inc.

Atrenta Inc. is a provider of development solutions that seek to turn chip, system and software development into more predictable and controllable processes for the electronic systems industry.

Aveo Pharmaceuticals, Inc.

AVEO is a biopharmaceutical company focused on the discovery and development of novel cancer therapeutics.

BabyUniverse, Inc.

BabyUniverse is an online retailer and content publisher in the pregnancy, baby and toddler marketplace.

Barrx Medical, Inc.

Barrx is a medical device company that develops treatment solutions for Barrett’s esophagus.

Blurb, Inc.

Blurb provides a service that allows individuals to publish books using professional authoring templates plus a print-on-demand engine, a community content library and an online marketplace.

Buzznet, Inc.

Buzznet is a photoblog community site that provides members and viewers updated information about music and pop culture.

Compete, Inc.

Compete extends online market research to seek to transform the way consumers and brands communicate. By combining permission marketing, predictive analytics and a consumer behavior database, Compete helps marketers identify and reach their target consumers.

Cornice, Inc.

Cornice seeks to provide compact, low-cost, high-capacity storage for a variety of pocket-able consumer electronic devices, including mobile phones, MP3 players, personal video recorders, GPS devices and portable storage products.

Cradle Technologies

Cradle Technologies is a semiconductor company developing specialized digital signal processing technology for multimedia applications.

Elixir Pharmaceuticals, Inc.

Elixir is a biopharmaceutical company utilizing aging research to develop pharmaceuticals that treat and/or prevent metabolic disease such as obesity and diabetes.

Epicept Corporation

Epicept is a pharmaceutical company focused on the development and commercialization of topically-delivered prescription pain management therapeutics.

ForeScout Technologies, Inc.

ForeScout is a provider of clientless network access control (NAC) solutions that enable customers to gain complete control over network security without disrupting end-user productivity.

GameLogic, Inc.

GameLogic is a provider of next generation games, gaming systems, and platforms for casinos and lotteries. The company provides large-scale interactive games and game technology for distribution on a variety of digital media.

Gomez, Inc.

Gomez supplies enterprise solutions that help companies achieve and maintain the performance of their mission-critical Internet applications. Gomez provides performance measurement, benchmarking and competitive analysis to companies across all industry segments, including financial services, e-commerce, information technology and travel.

Guava Technologies, Inc.

Guava Technologies is a biotechnology company that develops, manufactures and markets cellular analysis systems for the life science research marketplace.

Gynesonics, Inc.

Gynesonics is a development stage company focusing on minimally invasive devices for women’s health.

HedgeStreet, Inc.

HedgeStreet is an Internet-based, government regulated market where traders can hedge against or speculate on economic events and price movements.

High Roads, Inc.

HighRoads provides technology-based solutions and services to provide visibility and enable collaboration throughout the design, procurement, management and communication of employee benefits plans.

Ikano Communications, Inc.

Ikano Communications partners with Internet Service Providers to help such providers in reducing operating costs, increasing revenues and expanding geographic reach and product offerings.

Intelliden, Inc.

Intelliden offers Intelligent Networking software solutions for network-driven organizations to control, manage and scale their networks.

Interwise, Inc.

Interwise, Inc. is a provider of an integrated data, video, and voice conferencing solution for delivering realtime multimedia communications across the extended enterprise. The solution combines voice, rich interactive content, and streaming video in a single platform to support a customer's e-learning.

Invoke Solutions, Inc.

Invoke Solutions develops and provides real-time research technologies that seek to help businesses gain instant insight into the opinions, views, and dynamics of their customers, employees, and other constituents.

Inxight Software, Inc.

Inxight is a provider of software solutions that enables customers to discover, retrieve, and collect information contained in unstructured data sources in a number of languages.

iWatt, Inc.

iWatt is a power management IC company that designs, develops and markets semiconductors for computer, communications and industrial markets.

Labopharm USA, Inc.

Labopharm seeks to develop improved formulations of currently marketed drugs using its advanced, proprietary controlled-release drug delivery technologies. Labopharm seeks to develop and commercialize new value-added formulations of existing products that address the market's preference for drugs that offer simplified dosing regimens, improved efficacy or a reduced side effect profile.

Lilliputian Systems, Inc.

Lilliputian Systems, Inc. is developing a next generation micro fuel cell system for portable electronics and wireless applications.

Luminus Devices, Inc.

Luminus Devices, Inc., develops and manufactures high performance solid state light emitting devices. PhlatLight (Photonic Lattice) technology, developed by Luminus Devices based on research done at MIT, is a solid state light source that provides enough brightness to illuminate large screen projection televisions. With PhlatLight chipsets in commercial production, Luminus provides a light source for a variety of applications, including projection TVs and other advanced, high-definition displays. Luminus recently began shipping its products to customers and is dependent on a small number of customers the loss of which could have a material adverse effect on its business.

Market Force Information, Inc.

Market Force is an emerging provider of store-level, customer experience information for retailers, restaurants, consumer packaged goods companies and the financial and hospitality communities.

Memory Pharmaceuticals Corp.

Memory Pharmaceuticals Corp., a biopharmaceutical company, is focused on developing innovative drugs for the treatment of debilitating central nervous system disorders such as Alzheimer’s disease, depression, schizophrenia, vascular dementia, Mild Cognitive Impairment, and memory impairments associated with aging.

Merrimack Pharmaceuticals, Inc.

Merrimack Pharmaceuticals is a drug discovery and clinical development company that has developed a proprietary drug discovery platform. Its clinical programs are focused on developing drugs in the fields of autoimmune disease and cancer.

NeoScale Systems, Inc.

NeoScale is a provider of storage security, enabling enterprise customers to achieve data privacy with the lowest operational impact and at the lowest total cost.

NEXX Systems, Inc.

Nexx is a provider of processing equipment for advance wager level packaging applications.

Novasys Medical, Inc.

Novasys is a medical company dedicated to the development of innovative therapies in women’s health.

NuGEN Technologies, Inc.

NuGEN is dedicated to the development and commercialization of high sensitivity nucleic acid amplification and detection technologies. These technologies form the foundation for a range of products used by researchers to prepare samples for genetic analysis.

OATSystems, Inc.

OATSystems is a developer of radio-frequency identification (RFID) framework software and services that provide solutions to centrally manage and control RFID for retail, consumer packaged goods and pharmaceutical companies.

OptiScan Biomedical Corporation

OptiScan Biomedical Corporation is developing a non-invasive blood glucose monitor utilizing proprietary infrared technology.

Paratek Pharmaceuticals, Inc.

Paratek is developing new therapeutics for the infectious disease market to combat the problem of antibiotic resistance.

Pathfire, Inc.

Pathfire provides digital content distribution and management solutions for the broadcast, media and entertainment industries and seeks to supply innovative digital solutions, from distribution to air, for broadcasters, news organizations, television networks, Hollywood studios and other media companies.

Ping Identity Corporation

Ping Identity Corporation provides federated identity solutions for web single sign-on and identity-enabled web services. Ping’s software seek to allow organizations to securely share identity information across security boundaries.

Portola Pharmaceuticals

Portola is a biopharmaceutical company focused on the discovery and development of novel therapeutics for the treatment and prevention of severe cardiovascular diseases.

Power Medical Interventions, Inc.

Power Medical seeks to combine computer-mediated technology with minimally invasive surgical techniques to create next-generation surgical staplers.

Proficiency, Inc.

Proficiency is delivering technology and products that make design intelligence portable and that increase the efficiency of product development processes. Proficiency supplies feature-based design interoperability and feature-based design data exchange solutions.

PSS Systems, Inc.

PSS Systems is a developer of automated records and information lifecycle management solutions.

QuatRx Pharmaceuticals Company

QuatRx Pharmaceuticals Company is a pharmaceutical company focused on discovering, licensing, developing and commercializing compounds in the endocrine, metabolic and cardiovascular therapeutic areas.

RazorGator, Inc.

RazorGator is an Internet-based ticket sales company focusing on sold-out or hard-to-find tickets for sporting events, concerts and theatrical productions. RazorGator also operates an electronic broker trading and clearing platform for the resale of tickets.

Rivulet Communications, Inc.

Rivulet develops technology that enables IP networks to carry all kinds of real-time and other delivery-critical traffic. Rivulet's sophisticated suite of algorithms guarantee real-time delivery of packets with zero packet loss due to router queue overflow.

Savvion, Inc.

Savvion develops software focused on helping businesses control and improve operations performed by their people and software systems.

Simpler Networks Corp

Simpler Networks seeks to engineer network solutions for local service providers to help them reduce their operational costs by automating labor-intensive processes at the distribution frame.

Sirtris Pharmaceuticals, Inc.

Sirtris is a biopharmaceutical company developing and commercializing novel therapeutics that modulate sirtuins, a recently discovered family of enzymes that promotes the body's natural defense against disease. Also known as class III histone deacetylases (HDACs), sirtuins are attractive drug targets for diseases of aging, including metabolic and neurological diseases.

Sling Media, Inc.

Sling Media is a provider of consumer electronics for the digital media consumers. The company's solutions aim to enhance existing products and standards with hardware and software that will improve consumers' usage experience. The first member of the Sling Media family is the Slingbox™, a device that allows consumers to access their living room television experience at any time, from any location.

Solutionary, Inc.

Solutionary is a security company that provides protection of the networks and electronic assets of companies and organizations. The company tailors its security solutions to clients' individual requirements.

Sportvision, Inc.

Sportvision is an interactive sports marketing and technology company developing products to enrich fans' interaction with sports via its unique broadcast and interactive solutions and helping create new value for sports properties, marketers and media companies. Sportvision's technologies have been utilized in broadcasts of all of the major sports including the NFL, NBA, NASCAR, NHL, PGA Tour, LPGA Tour, Major League Baseball, NCAA football and basketball, WTA, Arena Football League, XTERRA, Ironman Triathlon and other sporting events on-air and online.

Talisma Corporation

Talisma Corporation is a provider of multi-channel Customer Resource Management (CRM) software. The software integrates email, chat, real-time collaboration, and telephony applications with a multi-channel interaction management platform. In addition, the software offers comprehensive analytics and a fully integrated system-wide knowledgebase and customer database.

Transoral Pharmaceuticals, Inc.

TransOral is a specialty pharmaceutical company developing novel formulations of proven active agents to provide meaningful new patient benefits. The Company's initial proprietary technology is being employed to accelerate efficacy and reduce drug dose in the development of therapeutics for the treatment of migraine and insomnia.

ViDeOnline Communications, Ltd.

ViDeOnline develops an end to end secure network specifically designed to address the secure distribution and delivery of personal entertainment media.

Wageworks, Inc.

WageWorks provides employer-sponsored, tax-advantaged spending solutions, including medical and family-care reimbursement and transit passes.

Wallop, Inc.

Wallop is a social networking site using a user interface that enables people to interact in a way similar to the way they would in the real world.

Waterfront Media, Inc.

Waterfront Media is an internet-based publisher of health and wellness information. Waterfront Media derives both subscription and advertising revenue.

Wireless Channels, Inc.

Wireless Channels consolidates a number of large wholesalers (master distributors) and creates a distribution channel for wireless and associated products and services.

Xillix Technologies Corp.

Xillix Technologies Corp. develops fluorescence endoscopy technology for improved cancer detection. Xillix's latest device incorporates fluorescence and white-light endoscopy in a single device that has been developed for the detection and localization of lung and gastrointestinal (GI) cancers.

SENIOR SECURITIES

Information about our senior securities is shown in the following table for the periods ended December 31, 2006, 2005 and 2004 and March 31, 2007. The information has been derived from our financial statements which have been audited by Ernst & Young LLP for the periods ending December 31, 2006, 2005 and 2004. The March 31, 2007 information has been derived from our unaudited financial statements. Ernst & Young LLP's report on the senior securities table is attached as an exhibit to the registration statement of which this prospectus is a part. See "Management's Discussion and Analysis—Borrowings" 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
March 31, 2007	—	—	N/A
Securitized Credit Facility with Citigroup Global Markets Realty Corp.			
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
March 31, 2007	$113,000,000	$ 3,386	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.
(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, 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.

DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of the date of this prospectus, we do not have any preferred stock outstanding.

At March 31, 2007, approximately 89% of our total assets represented investments in portfolio companies of which 99% 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 in accordance with established valuation procedures and the recommendation of the Valuation Committee of the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our management pursuant to a valuation policy and a consistent valuation process. 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 management may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. Instead, we must determine the fair value of each individual investment on a quarterly basis. We will record unrealized depreciation on investments when we believe that an investment has decreased in value, including where collection of a loan or realization of an equity security is doubtful. Conversely, we will record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value and, therefore, our investment has also appreciated in value, where appropriate.

As a business development company, we invest primarily in illiquid securities including debt and equity-related securities of private companies. Our investments are generally subject to some restrictions on resale and generally have no established trading market. Because of the type of investments that we make and the nature of our business, our valuation process requires an analysis of various factors. Our valuation methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

With respect to private debt and equity-related securities, each investment is valued using industry valuation benchmarks and, where appropriate, equity values are assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation. Securities that are traded in the over-the-counter market or on a stock exchange generally will be valued at the prevailing bid price on the valuation date. However, restricted or thinly traded public securities may be valued at discounts from the public market value due to restrictions on sale.

Determinations In Connection With Offerings

In connection with each offering of shares of our common stock, the Board of Directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below our then current net asset value at the time at which the sale is made. The Board of Directors considers the following factors, among others, in making such determination:

- the net asset value of our common stock disclosed in the most recent periodic report we filed with the SEC;
- our management's assessment of whether any material change in the net asset value has occurred (including through the realization of net gains on the sale of our portfolio investments) from the period beginning on the date of the most recently disclosed net asset value to the period ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between the net asset value disclosed in the most recent periodic report we filed with the SEC and our management's assessment of any material change in the net asset value since the date of the most recently disclosed net asset value, and the offering price of the shares of our common stock in the proposed offering.

Importantly, this determination does not require that we calculate net asset value in connection with each offering of shares of our common stock, but instead it involves the determination by the Board of Directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value at the time at which the sale is made.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provided to the SEC in the registration statement to which this prospectus is a part) to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value fluctuates by certain amounts in certain circumstances until the prospectus is amended, the Board of Directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine net asset value within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine net asset value to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records we are required to maintain under the 1940 Act.

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:[(1)]		
Manuel A. Henriquez	43	Chairman of the Board of Directors, President and Chief Executive Officer
Independent Directors:		
Robert P. Badavas[(2)(3)(4)(5)]	54	Director
Joseph W. Chow[(2)(3)(4)(5)]	54	Director
Allyn C. Woodward, Jr.[(2)(3)(4)(5)]	66	Director
Executive Officers:		
Manuel A. Henriquez	43	Chairman of the Board of Directors, President and Chief Executive Officer
Samir Bhaumik	43	Senior Managing Director
James C. Crumpton	53	Chief Credit Officer
H. Scott Harvey	53	Chief Legal Officer and Chief Compliance Officer
David M. Lund	53	Chief Financial Officer
Shane A. Stettenbenz	36	Chief Technology Officer
Parag I. Shah	35	Senior Managing Director
Key Employees:		
Kathleen Conte	60	Managing Director
Mark S. Denomme	40	Managing Director
Kevin L. Grossman	38	Managing Director
Roy Y. Liu	46	Managing Director
Edward M. Messman	36	Managing Director
Paul Walborsky	41	Managing Director

(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 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.

Interested Director

Manuel A. Henriquez is a co-founder of the company and has been our Chairman and Chief Executive Officer since December 2003 and our President since April 2005. Prior to co-founding our company, Mr. Henriquez was a Partner at VantagePoint Venture Partners 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 received a B.S. in Business Administration from Northeastern University.

Independent Directors

Robert P. Badavas has served as a director since March 2006. Mr. Badavas is the President and Chief Executive Officer of TAC Worldwide, a staffing and business services company owned by Goodwill Group of Japan. From November 2003 until becoming president and CEO in December 2005, he was the Executive Vice President and Chief Financial Officer of TAC Worldwide. Prior to joining TAC Worldwide, Mr. Badavas was Senior Principal and Chief Operating Officer of Atlas Venture, a venture capital firm, from September 2001 to September 2003. Prior to joining Atlas Venture, he was Senior Corporate Adviser to the Office of the Chairman of Aether Systems, Inc., a provider of wireless data products and services, from September 2000 to June 2001. Prior to that, he was Chief Executive Officer of Cerulean Technology, Inc., a provider of mobile information systems applications, from December 1995 until Aether Systems, Inc. acquired the company in September 2000. From 1986 to October 1995, Mr. Badavas was Senior Vice President and Chief Financial Officer, among other capacities, of Chipcom Corporation, a manufacturer of computer networking intelligent switching systems. Mr. Badavas was previously a board member and Chairman of the Audit Committee for RSA Security, Inc. until its acquisition by EMC Corporation in September 2006. He was previously a director and Chairman of the Audit Committee of ON Technology, until ON Technology was acquired by Symantec, Inc. in 2004 and is a former director of Renaissance Worldwide, until its acquisition by a privately-held company in 2001. Mr. Badavas is a Trustee of both Bentley College in Waltham, MA and Hellenic College/Holy Cross School of Theology in Brookline, MA. He is also Chairman of the Board of the Learning Center for Deaf Children, Framingham, MA. Mr. Badavas is a graduate of Bentley College with a BS in Accounting and Finance.

Joseph W. Chow has served as a director since February 2004. Mr. Chow is Executive Vice President and Chief Risk and Corporate Administration Officer at State Street Corporation, having retired from the company in August 2003 and rejoining it in July 2004. Prior to August 2003, Mr. Chow was Executive Vice President and Head of Credit and Risk Policy at State Street. Before joining State Street in 1990, Mr. Chow worked at Bank of Boston in various international and corporate banking roles and specialized in the financing of emerging-stage high technology companies from 1983 to 1989. Mr. Chow is a graduate of Brandeis University with a B.A. in Economics. He also received an M.C.P. from the Massachusetts Institute of Technology and an M.S. in Management (Finance) from the MIT Sloan School of Management.

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. He previously served as President from 1995-2001. 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 a Director, Chairman of the Compensation Committee and a member of the Audit Committee of Lecroy Corporation. He is also a former Director of Viewlogic and Cayenne Software, Inc. Mr. Woodward serves on the Board of Directors of three private companies and is on the Board of Advisors of five venture capital firms. 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.

Executive Officers who are not Directors

Samir Bhaumik joined the company in November 2004 as a Managing Director and was promoted to Senior Managing Director in June 2006. Mr. Bhaumik previously served as Vice President—Western Region of the New York Stock Exchange from January 2003 to October 2004. Prior to working for the New York Stock Exchange, Mr. Bhaumik was Senior Vice President of Comerica Bank, previously Imperial Bank, from April 1993 to January 2003. Mr. Bhaumik received a B.A. from San Jose State University and an M.B.A from Santa Clara University. He serves on the advisory boards of Santa Clara University Leavey School of Business, Junior Achievement of Silicon Valley and the American Electronics Association-Bay Area council.

James C. Crumpton joined the company in April 2007 as Chief Credit Officer. Prior to joining Hercules, Mr. Crumpton served as Senior Vice President and Credit Administration Officer at Comerica Bank since 1999. Prior to that, he served as Senior Vice President and Senior Technology Leader at Silicon Valley Bank and Vice President, Relationship Management at Wells Fargo Bank. Mr. Crumpton also held executive positions at First Interstate Bank, Bank Boston and The CIT Group. Mr. Crumpton earned a Master of Business Administration from the Edward S. Ageno School of Business at Golden Gate University and a Bachelor of Arts from the University of California at Santa Barbara.

H. Scott Harvey is a co-founder of the company and has been our Chief Legal Officer since December 2003. Mr. Harvey has over 20 years of legal and business experience with leveraged finance and financing public and private technology-related companies. Since July 2002, and prior to joining us, Mr. Harvey was in a diversified private practice. Previously, Mr. Harvey was Deputy General Counsel of Comdisco, Inc., a leading technology and 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.

David M. Lund joined us in July 2005 as Vice President of Finance and Corporate Controller, and was promoted to Chief Financial Officer on October 2, 2006. Mr. Lund is our principal financial and accounting officer. He has over 20 years of experience in finance and accounting serving companies in the technology sector. Prior to joining Hercules, Mr. Lund served in senior financial positions for publicly traded companies: InterTrust Technologies, Centillium Communications and Rainmaker Systems, and in private companies: Urban Media, Scion Photonics and APT Technology. Mr. Lund also served in public accounting with Ernst & Young LLP and Grant Thornton LLP. He received a B.S. degree in Business Administration with an emphasis in Accounting from San Jose State University and a B.S. degree in Business Administration with an emphasis in Marketing from California State University, Chico. Mr. Lund is a Certified Public Accountant in the State of California.

Parag I. Shah joined the company in November 2004 as Managing Director of Life Sciences and was promoted to Senior Managing Director in June 2006. Prior to joining Hercules, Mr. Shah served as Managing Director for Biogenesys Capital from April to November 2004. From April 2000 to April 2004, Mr. Shah served as a Senior Vice President in Imperial Bank's Life Sciences Group, 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 Bachelors 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.

Shane A. Stettenbenz joined the company in February 2004 as Vice President—Information Systems and has served as Chief Technology Officer since December 2004. Mr. Stettenbenz previously served as an IT Director for VantagePoint Venture Partners from May 2001 to June 2003. Prior to that, Mr. Stettenbenz was an IT Manager for Comdisco Ventures, a division of Comdisco, Inc. from May 1997 to May 2001. Mr. Stettenbenz attended San Jose State University from 1991 to 1995 while majoring in Management Information Systems.

Key Employees

Kathleen Conte joined the company as a Managing Director of Life Sciences in November 2004. From December 2003 to November 2004, she worked as an independent consultant. From 1993 to December 2003, she served as Senior Vice President at Comerica Bank running its West Coast Life Sciences Group. Ms. Conte was at Prudential Capital Corporation from 1988 to 1993 originating structured private placements. Prior to that she spent 13 years at Wells Fargo Bank in various lending positions. Ms. Conte holds a B.A. degree and an M.B.A. from the University of Delaware.

Mark S. Denomme joined the company as a Managing Director in September 2006. Mr. Denomme has over 18 years of experience in financial services. Prior to joining the company, Mr. Denomme was a Senior Vice President at Brown Brothers Harriman & Co., focusing on investments in middle market healthcare companies. From 2000 to 2006, Mr. Denomme was a Managing Director and co-founder of Consilium Partners, an investment banking firm focused on sell-side and buy-side engagements for middle market companies. From 1997 to 2000, Mr. Denomme was a Director in the Leveraged Finance group of BancBoston Robertson Stephens, focusing on originating loan syndication and high yield debt opportunities for the firm's technology and media clients. From 1988 to 1997, Mr. Denomme was a commercial lender with Bank of Boston focused on structured debt opportunities with technology and media-related companies. Mr. Denomme holds a BBA degree from the University of Michigan and his series 7, 63 and 24 NASD licenses.

Kevin Grossman joined the company in September 2006 as a Managing Director. Mr. Grossman previously served as a Senior Relationship Manager and Senior Vice President in Silicon Valley Bank's Colorado office from July 1999 to August 2006 servicing technology and life sciences companies throughout Arizona, New Mexico, Utah, and Colorado. From December 1998 through July 1999, Mr. Grossman was with Fremont Financial in a Business Development capacity providing Asset Based Lending facilities. Prior to that he served from January 1996 through February 1998 at the National Bank of Canada providing Asset Based Lending deals with Portfolio Management responsibilities. From June 1993 through December 1995 he opened two offices for an asset based lending company in the Pacific Northwest providing services to highly leveraged entities and companies experiencing financial stress. Mr. Grossman earned a Bachelor's degree in Business Economics at the University of California at Santa Barbara and a Master's degree in Business Administration from Northern Arizona University. Mr. Grossman is a member of the Board of Advisors for Agility Leasing, and a member of Association for Corporate Growth, Rockies Venture Club, and the Colorado Venture Capital Association. He is also on the Board of Directors of the Denver Metro YMCA and serves as Program Chairman for the Duncan Family Branch.

Roy Y. Liu joined the company as a Managing Director in April 2004. Mr. Liu has over 20 years experience in operations and finance of technology companies. Formerly, Mr. Liu was a Vice President at GrandBanks Capital, an early-stage, information technology-focused venture capital firm. From 2000 to 2002, Mr. Liu was a founding principal of VantagePoint Structured Investments, a debt fund affiliated with VantagePoint Venture Partners. Prior to joining VantagePoint, Mr. Liu was VP Finance and Chief Financial Officer for toysmart.com, Inc. Prior to joining toysmart.com, he was a First Vice President and co-founded Imperial Bank's Emerging Growth Industries Boston office in 1997, where he focused specifically on debt financing for venture-backed companies. Prior to co-founding Imperial Bank's Emerging Growth Industries Boston office, Mr. Liu was the Chief Financial Officer of Microwave Bypass Systems, Inc. Prior to joining Microwave Bypass, Mr. Liu was Vice President and head of the High Tech Lending group for State Street Bank & Trust Co. Mr. Liu started his finance career in the Acquisition Finance Division of the Bank of Boston. Prior to his career in finance, Mr. Liu worked four years at IBM in research and product development. He holds a B.S. degree in Electrical Engineering and an M.B.A. from the University of Michigan.

Edward M. Messman joined the company in July 2005 as a Managing Director. From June 2004 to July 2005, Mr. Messman served as the Southwest Regional Market Manager of the Structured Finance Group of Silicon Valley Bank. Prior to Silicon Valley Bank, Mr. Messman worked as an independent consultant from December 2003 to June 2004. From October 1998 to December 2003, Mr. Messman was Vice President of Comerica Bank, previously Imperial Bank, where he formed and managed the Technology and Life Sciences group in Denver, Colorado covering the Rocky Mountain region. Mr. Messman received a B.S. degree in International Business from Grand Canyon University and an M.B.A from the University of Colorado.

Paul Walborsky joined the company in November 2006 as a Managing Director. He previously served as founder and CEO of Grupo Arca, Inc., from January 2004 to November 2006. Prior to founding Grupo Arca, Paul was Senior Vice President in the Wealth and Asset Management group of Lehman Brothers from May 2002 to December 2003. Paul was a Senior Vice President of Business Development at Moneyline, Inc. from November 2001 until May 2002. Prior to this, Paul founded and served as Senior Vice President of Corporate Development at WorldStreet Corporation from February 1996 through October 2001. Paul holds a B.A. in Economics from Brandeis University and an M.A. in Finance and Economics from the Lemberg Program at Brandeis University.

Board of Directors

The number of directors is currently fixed at four directors.

Our Board of Directors is divided into three classes. One class holds office for a term expiring at the annual meeting of stockholders to be held in 2007, a second class holds office for a term expiring at the annual meeting of stockholders to be held in 2008, and a third class holds office initially for a term expiring at the annual meeting of stockholders to be held in 2009. 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. Henriquez's term expires in 2007, Mr. Badavas and Mr. Chow's terms expire in 2008 and Mr. Woodward's term expires in 2009. 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 engages an outside compensation consultant to review the competitiveness and effectiveness of our director compensation program relative to market practices within a select group of peers based on market size, industries, geographic regions and other factors. We historically have retained Watson Wyatt Worldwide, Inc. to act as its compensation consultant regarding independent director compensation. The consultant recommends to the Compensation Committee the mix of cash versus equity compensation to be offered as well as the types of long-term incentives to be granted.

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 2006.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($)(2)	All Other Compensation ($)	Total ($)
Robert P. Badavas	$ 204,215	$ —	$ —	$ —	$204,215
Joseph W. Chow	521,085	—	—	—	521,085
Allyn C. Woodward, Jr.	524,835	—	—	—	524,835
Manuel A. Henriquez(3)	—	—	—	—	—

(1) During 2006, Messrs. Badavas, Chow and Woodward were awarded additional fees of $125,465, $374,085 and $374,085 respectively. Messrs. Badavas, Chow and Woodward elected to receive 5,001, 15,000 and 15,000 shares of our common stock, respectively, in lieu of a portion of the cash payment. The total value of the shares issued for services in fiscal 2006 was $65,368, $194,900 and $194,900 for Messrs. Badavas, Chow and Woodward, respectively.

(2) As part of our plan to compensate our non-employee directors, Messrs. Chow and Woodward were granted options to purchase shares of our common stock when they joined the board of directors in 2004. Pursuant to the requirements of the 1940 Act, we cancelled these options when we elected to be regulated as a business development company in 2005. On February 15, 2007, we received exemptive relief from the SEC to issue stock options to our non-employee directors, though no options have been granted yet.

(3) 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 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. Employee directors and non-independent directors will not receive compensation for serving on the Board. In addition, we reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of the Board.

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

Under current SEC rules and regulations applicable to business development companies, a business development company may not grant options to non-employee directors, unless it receives exemptive relief from the SEC. On June 21, 2005, we applied for exemptive relief from the SEC to permit us to grant options to purchase shares of our common stock to our non-employee directors as a portion of their compensation for service on our Board and on February 15, 2007, we received approval from the SEC on this exemptive request. No stock options were granted to our non-employee directors as of December 31, 2006.

Committees of the Board of Directors

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 requirements for purposes of the Nasdaq Global Market listing standards and the requirements to be a non-interested director as defined in Section 2(a)(19) of 1940 Act. Mr. Badavas currently serves as Chairman of the Audit Committee and is a financial expert as defined under Nasdaq 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 seven meetings.

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 Nasdaq National Market listing standards 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 that are not publicly traded in accordance with established valuation procedures. The Valuation Committee may utilize the services of an independent valuation firm in arriving at fair value of these securities. During the last fiscal year, the Valuation Committee held five meetings.

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 Nasdaq National Market listing standards 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 our 2004 Equity Incentive Plan and the 2006 Non-Employee Director Plan, which is described below and a copy of such plan as proposed to be amended is attached hereto as Exhibits B and C. During the last fiscal year, the Compensation Committee held two meetings.

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. Chow, Badavas and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the Nasdaq National Market listing standards 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 did not hold any meetings, however, discussions regarding candidate nominations and corporate governance were held in conjunction with the meetings of 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 Exchange Act; or (ii) is an executive officer of another entity, at which one of our executive officers serves on the board of directors.

Compensation of Executive Officers

Under SEC rules applicable to business development companies, we are required to set forth certain information regarding the compensation of certain of our executive officers and directors. The following sets forth information regarding the compensation earned by individuals who served as our chief executive officer or our chief financial officer during the year ended December 31, 2006, as well as our next three most highly compensated executive officers (collectively, they are referred to as “named executive officers”) in all capacities during the fiscal year ending serving as of December 31, 2006. We have not included any disclosure with respect to our Chief Credit Officer who joined the Company in April 2007.

Compensation Discussion and Analysis

Compensation Philosophy

The compensation and benefit programs of Hercules Technology Growth Capital, Inc. are designed with the goal of providing compensation that is fair, reasonable and competitive. The programs are intended to help us align the compensation paid to our executive officers with corporate and executive performance goals that have been established to achieve both our short-term and long-term objectives. We also believe that the compensation programs should enable us to attract, motivate, and retain employees who will contribute to our future success.

The design of the Company’s compensation programs is based on the following:

- *Competitiveness and Market Alignment*—Our compensation and benefits programs are designed to be competitive with compensation plans provided by companies with whom we compete for talent in order to attract the best talent from an increasingly competitive market for top performers in the industries in which we compete.

We compete with private equity, mezzanine and hedge funds for investment professionals. Such funds commonly pay 20% of the net profits (including capital gains), or carried interest, of each newly-raised fund to the partners and employees of the private equity, mezzanine or hedge fund. Thus, we believe that our employee option plans should be designed to provide an economic interest in us similar to that generally gained by partners and employees in private equity, mezzanine lenders, venture capital or hedge funds.

- *Compensation Consultant*—The Compensation Committee engages an outside compensation consultant to review the competitiveness and effectiveness of our employee compensation program relative to market practices and business goals. We historically have retained Watson Wyatt Worldwide, Inc. to act as our compensation consultant. The consultant reviews overall compensation levels and the relationship of our financial performance to actual compensation levels received over the previous year.

The consultant recommends to the Compensation Committee changes in the mix of cash versus equity compensation to be offered as well as the types of long-term incentives to be granted. The consultant makes suggestions related to the types of performance measures to be used in the Company's annual and long-term plans consistent with our business strategies and presents the relevant practices of peer companies. The consultant and the Company developed a list of peer companies based on market size, industries, geographic regions and other factors to be used for compensation and financial analyses. The comparative group included ten business development companies and six other specialty finance companies. However, given the fact that most of our direct competitors are private equity partnerships, specific compensation with respect to our direct competitors typically is not publicly available.

During 2006, the consultant also prepared summary analyses of total compensation for the Compensation Committee with respect to each of the named executive officers and our origination team. These summaries included all forms of current compensation including salary, annual incentives, long-term incentives, and employee benefits.

The consultant shares preliminary findings with the Chair of the Compensation Committee and presents the full report to the Compensation Committee. The Compensation Committee reviews the information provided by the consultant, including the summary analyses of key elements of compensation paid to each of the peer group executives and members of the origination team. In 2006, using the information previously provided by the consultant, the Compensation Committee determined the appropriate mix of short-term and long-term compensation for the Chief Executive Officer and, based upon recommendations from the Chief Executive Officer concerning individual performance, also determined the appropriate mix of short-term and long-term compensation for each of the other named executive officers.

- *Achievement of Corporate and Individual Performance Objectives*—We believe that the best way to align compensation with the interests of our shareholders is to link individual compensation with corporate objectives. Compensation is determined by the Compensation Committee on a discretionary basis and is dependent on the achievement of certain corporate and executive performance objectives that have been established to achieve short-term and long-term objectives of the Company. The objectives considered include, among other things, new investment originations and funding growth, revenue growth, realized and unrealized gains, yield on the investment portfolio, operating efficiency, credit performance, information system improvements, and capital (equity and debt) fund raising. We do not attach a specific weight or apply a formula with respect to the foregoing factors. When individual performance exceeds expectation and performance goals established during the year, compensation levels for the individual may exceed the target compensation level. When individual performance falls below expectations, compensation levels are expected to be below target levels.
- *Benchmarking*—We do not specifically benchmark the compensation of our executive officers 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 executive officers and other employees are private equity firms. Such 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 other sources provide us Industry Data with regard to these firms, we

believe that without accurate, publicly disclosed information on these entities that would serve as benchmarks, it is inappropriate to set formal benchmarking procedures.

- *Alignment with Requirements of the Investment Company Act of 1940 (the "1940 Act")*—Our compensation program must comply with the requirements of the 1940 Act which imposes certain limitations on the structure of a business development company's ("BDC") 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, it is prohibited from using a profit sharing arrangement such as a carried interest formula, a common form of compensation in the private equity industry, as a form of compensation. These limitations and other similar restrictions imposed by the 1940 Act limit the compensation arrangements that can be utilized in order to attract and retain employees.

Components of Total Compensation

The Compensation Committee determined that the compensation packages for 2006 for its named executive officers should consist of the following three key components:

- Annual base salary,
- Annual cash bonus, and
- Incentive stock option awards.

Annual Base Salary

Base salary is designed to attract and retain experienced executives who can drive the achievement of our goals and objectives. While our executive's initial base salaries are determined by an assessment of competitive market levels for comparable experience and responsibilities, the factors used in determining changes in base salary include individual performance, changes in role and/or responsibility and changes in the competitive market environment.

Annual Cash Bonus

The annual cash bonus is designed to reward our executives that have achieved certain corporate and executive performance objectives. 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 quantitative and qualitative objectives during the year that were established to achieve both short-term and long-term objectives.

Incentive Stock Option Awards

The Compensation Committee's principal objective in awarding incentive stock options is to align each optionee's interests with our success and the financial interests of its stockholders. The Compensation Committee evaluates a number of criteria, including the past service of each such optionee, the present and potential contributions of such optionee 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 does not apply a formula assigning specific weights to any of these factors when making its determination. The Compensation Committee awards incentive stock options on a subjective basis and such awards depend in each case on the performance of the executive under consideration, and in the case of new hires, their potential performance. See "2004 Stock Incentive Plan" for additional information.

Option awards under the 2004 Equity Incentive Plan are generally awarded upon initial employment and on an annual basis thereafter. Options generally vest one-third one year after the date of grant and ratably over the succeeding 24 months.

On July 7, 2006, we applied for exemptive relief with the SEC in order to permit us to issue restricted stock pursuant to the 2004 Equity Incentive Plan and the 2006 Non-Employee Director Plan (together, the "Plans"). The SEC has commenced its review of the exemptive application and we are currently responding to questions on the relief request, but as of the date hereof, we have not received approval of the application and accordingly cannot evaluate when or if an order regarding our application may be granted.

We believe that the issuance of restricted stock permits us to provide long-term incentives to attract experienced business professionals who might otherwise elect to become employed with private equity, mezzanine lenders, venture capital firms or hedge funds.

Benefits and Perquisites

In addition to base salaries, annual cash bonuses and incentive stock option awards, we provide our executives with certain other benefits to assist in remaining competitive in the marketplace. All executive officers and other full-time employees receive general health and welfare benefits, which consist of life and health insurance benefits and the opportunity to participate in our defined contribution 401(k) plan. Our 401(k) plan does not currently provide for a match of contributions by the Company. Our executive officers receive the same benefits and perquisites as our full-time employees. Other than the benefits described above, our executive officers do not receive any other benefits or perquisites from the Company.

Tax and Accounting Implications

Stock-Based Compensation. The Company accounts for stock-based compensation, including options granted pursuant to its 2004 Equity Incentive Plan in accordance with the requirements of SFAS No. 123R.

Deductibility of Executive Compensation. Our compensation philosophy and policies are intended to comply with Code Section 162(m) and related regulations, which establish certain requirements in order for performance-based compensation in excess of $1,000,000 paid to certain executive officers to be deductible by us. In establishing and administering our compensation programs, the Compensation Committee generally intends that performance-based compensation will be deductible under Code Section 162(m), although we retain the flexibility to pay compensation that is not eligible for such treatment if it is in our best interest to do so.

Establishing Compensation Levels

Role of the Compensation Committee and Management

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 and independent directors as defined by Nasdaq Global Market rules.

The Compensation Committee operates pursuant to a charter that sets forth the mission of the Compensation Committee and its specific goals and responsibilities. The Compensation Committee Charter is available on our website at *www.herculestech.com*. The Compensation Committee evaluates the compensation of the executive officers and 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.

The key member of management involved in the compensation process is our Chief Executive Officer, Manuel Henriquez. Mr. Henriquez identifies certain corporate and executive performance objectives that have been established to achieve short-term and long-term objectives that are used to determine total compensation. Mr. Henriquez also recommends the overall funding level for the annual cash bonus plan. Mr. Henriquez's recommendations are presented to the Compensation Committee for review and approval, but he is not a member of the Compensation Committee and is not involved in the deliberations of the Committee.

The Compensation Committee makes all decisions with respect to compensation of the named executive officers, subject to review and approval by the full Board of Directors. The Chief Executive Officer reviews the performance of our executive officers (other than himself) and, based on that review, provides input regarding the performance of the other executive officers and makes recommendations for compensation amounts payable to the other executive officers, including the other named executive officers. Our Compensation Committee meets outside of the presence of the Chief Executive Officer when reviewing and determining his compensation.

Company Compensation Policies

In determining the individual compensation for the Company's executives and employees, the Compensation Committee considers the total compensation to be awarded to each executive and employee and exercises discretion in determining the portion allocated to the various components 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 its executives and employees.

Assessment of Company Performance

In determining the 2006 annual cash bonuses for the executives, the Compensation Committee considered the achievement of certain corporate and executive performance objectives and the short-term and long-term objectives of the company as described above. During 2006, we achieved several strategic investment and operational goals and objectives, including increasing revenues to $29.5 million representing a 177% increase over 2005 revenues of $10.7 million, generating $3.3 million in net realized gains attributed to sales of warrants and equity in four portfolio companies, raising approximately $143 million in net proceeds from the sale of our common stock, increasing our credit facility from $100 million to $150 million, investing $193 million in 35 total portfolio companies, paying $1.20 in dividends to stockholders, and expanding our organizational capabilities through growth in investment talent in our Palo Alto office and regional offices in Boulder and Boston.

Determination of 2006 Salaries of Named Executive Officers

The Compensation Committee reviews the components of the compensation provided to our executives.

Individual compensation levels for executives are determined based on individual performance and the achievement of certain corporate and executive performance objectives that have been established to achieve our short-term and long-term objectives.

Increases to base salary are awarded when necessary to address significant changes in the external competitive market for a given position, to recognize an executive for assuming significant additional responsibilities and his/her related performance, or to achieve an appropriate competitive level due to a promotion. Annual increases are generally approved by the Compensation Committee in June or July of each year.

During June 2006, Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah base salaries were set at $550,000, $200,000, $190,000, $210,000 and $210,000, respectively, and base salaries in June 2005 were set at $550,000, $160,000, $150,000, $175,000 and $175,000, respectively.

Determination of 2006 Annual Cash Bonus for Named Executive Officers

In determining the amount of an executive's variable compensation—the annual cash bonus—the Compensation Committee evaluates the executive's performance based on qualitative and quantitative measures, for example, new funding originations during the year, yields on our investment portfolio, realized and unrealized gains, credit performance of the investment portfolio, operating efficiency, information system improvements, timeliness of public reporting, amongst other things. Within those guidelines, the Committee considers the overall funding available for such awards, the executive's performance, 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 executive. 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 compensation level to the executive.

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

During fiscal 2006, Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah received cash bonuses of $1,000,000, $100,000, $100,000, $25,000 and $272,500, respectively, as compared to cash bonuses for 2005 of $700,000, $50,000, $100,000, $65,000 and $150,000, respectively.

Incentive Stock Option Awards

Our principal objective in awarding incentive stock option awards to the eligible executive officers and employees is to align each optionee's interests with our success and the financial interests of our stockholders by linking a portion of such optionee's compensation with the long-term performance. The Compensation Committee awards incentive stock option awards on a subjective basis and such awards depend in each case on the performance of the executive and employee under consideration, and in the case of new hires, their potential performance. Incentive stock option awards are priced at the closing price of the stock on the date the Committee meets and the grant is issued. The Compensation Committee takes into account whether there is material non-public information related to the Company at the time of the option grant, among other factors, when granting stock options. See "2004 Equity Incentive Plan" for additional information.

Potential Payments Upon Termination or Change of Control

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 acquiror or survivor or an affiliate of the acquiror 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 that results in the common stock of the company being acquired by a single person or group; (ii) a sale of substantially all of the company's assets; or (iii) a dissolution or liquidation of the company; (iv) a change in a majority of the board's composition unless approved by a majority of the directors continuing in office.

No executive officer or employee of the Company has a written employment or severance agreement. As a result, no executive officer is entitled to any severance payments.

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Summary Compensation Table

The following table sets forth the compensation earned by our chief executive officer, chief financial officer and our next three most highly paid executives for services rendered to the Company and its subsidiaries for the fiscal year ended December 31, 2006.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Option Awards ($)(2)	Total ($)
Chief Executive Officer Manuel A. Henriquez	2006	$ 466,667	$ 1,000,000	$ 279,200(3)	$ 1,745,867
Chief Financial Officer David M. Lund	2006	180,000	100,000	26,900(4)	306,900
Chief Legal Officer H. Scott Harvey	2006	170,100	100,000	66,800(5)	336,900
Senior Managing Director Samir Bhaumik	2006	195,417	25,000	43,400(6)	263,817
Senior Managing Director Parag I. Shah	2006	195,417	272,500	41,500(7)	509,417

(1) Salary column represents base salary compensation received by each named executive officer during fiscal 2006.
(2) The amounts reported in the Option Awards column represents the portion of the grant date fair value of the stock option grants made to the Named Executive Officers during 2006 and in prior years that was recognized as expense for financial reporting purposes during 2006 in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-based Payments.” See “Critical Accounting Policies” section of the MD&A in the Company’s Annual Report for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards.
(3) Represents expense in 2006 for options to purchase 702,400 shares of our common stock issued under our 2004 Equity Incentive Plan.
(4) Represents expense in 2006 for options to purchase 85,000 shares of our common stock issued under our 2004 Equity Incentive Plan.
(5) Represents expense in 2006 for options to purchase 171,000 shares of our common stock issued under our 2004 Equity Incentive Plan.
(6) Represents expense in 2006 for options to purchase 137,900 shares of our common stock issued under our 2004 Equity Incentive Plan.
(7) Represents expense in 2006 for options to purchase 137,900 shares of our common stock issued under our 2004 Equity Incentive Plan.

Grants of Plan Based Awards

The following table sets forth certain information with respect to the options granted during the fiscal year ended December 31, 2006 to each of our named executive officers:

Name and Principal Position	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards ($)(1)(2)
Chief Executive Officer Manuel A. Henriquez	06/16/06	97,400	$ 12.14	$ 124,800
Chief Financial Officer David M. Lund	06/16/06	45,000	$ 12.14	57,600
Chief Legal Officer H. Scott Harvey	06/16/06	30,000	$ 12.14	38,400
Senior Managing Director Samir Bhaumik	06/16/06	93,900	$ 12.14	120,300
Senior Managing Director Parag I. Shah	06/16/06	94,400	$ 12.14	120,900

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(1) Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant.
(2) The amounts reported in the Option Awards column represents the grant date fair value of the stock option grants made to the Named Executive Officers during 2006 in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-based Payments." See "Critical Accounting Policies" section of the MD&A regarding assumptions underlying valuation of equity awards.

Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding incentive stock option awards classified as exercisable and unexercisable as of December 31, 2006 for each of the named executive officers:

Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (2)	Option Exercise Price ($)	Option Expiration Date
Chief Executive Officer				
Manuel A. Henriquez	125,000	—	$15.00	06/23/11
	302,500	302,500	13.00	06/17/12
	—	97,400	12.14	06/16/13
Chief Financial Officer				
David M. Lund	18,889	21,111	13.00	07/15/12
	—	45,000	12.14	06/16/13
Chief Legal Officer				
H. Scott Harvey	12,821	—	15.00	06/23/11
	70,500	70,500	13.00	06/17/12
	—	30,000	12.14	06/16/13
Senior Managing Director				
Samir Bhaumik	4,500	1,500	15.00	12/13/11
	19,000	19,000	13.00	06/17/12
	—	93,900	12.14	06/16/13
Senior Managing Director				
Parag I. Shah	4,125	1,375	15.00	12/13/11
	19,000	19,000	13.00	06/17/12
	—	94,400	12.14	06/16/13

(1) No options were exercised or transferred during the year ended December 31, 2006.
(2) Options expiring in 2011 to Messrs. Henriquez and Harvey were 100% vested on the date of grant. Options to Messrs. Bhaumik and Shah expiring in 2011 were 25% vested one year after the date of grant and ratably over the succeeding 24 months. All other options vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant.

2004 Equity Incentive Plan

Our Board of Directors and our stockholders have approved the 2006 Amendment and Restatement of the Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan, for the purpose of attracting and retaining the services of executive officers, directors and other key employees. Under the 2004 Equity Incentive Plan, our Compensation Committee may award incentive stock options within the meaning of Section 422 of the Code, or ISOs, to employees, and nonstatutory stock options to employees and employee directors.

Under the 2004 Equity Incentive Plan, we have authorized for issuance up to 7,000,000 shares of common stock. Participants in the 2004 Equity Incentive Plan may receive awards of options to purchase our common stock, as determined by our Compensation Committee. Options granted under the 2004 Equity Incentive Plan generally may be exercised for a period of no more than ten years from the date of grant unless the option agreement provides for an earlier expiration. Unless sooner terminated by our Board of Directors, the 2004 Equity Incentive Plan will terminate on the tenth anniversary of its adoption and no additional awards may be made under the 2004 Equity Incentive Plan after that date. The 2004 Equity Incentive Plan provides that all awards granted under the plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act applicable to us.

Options granted under the 2004 Equity Incentive Plan will entitle the optionee, upon exercise, to purchase shares of common stock from us at a specified exercise price per share. ISOs must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant or, if the optionee owns or is treated as owning (under Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of our stock, 110% of the fair market value of a share of stock on the date of the grant. Nonstatutory stock options granted under the 2004 Equity Incentive Plan must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant. Options will not be transferable other than by laws of descent and distribution, or in the case of nonstatutory stock options, by gift, and will generally be exercisable during an optionee's lifetime only by the optionee.

Our Compensation Committee administers the 2004 Equity Incentive Plan and has the authority, subject to the provisions of the 2004 Equity Incentive Plan, to determine who will receive awards under the 2004 Equity Incentive Plan and the terms of such awards. Our Compensation Committee will have the authority to adjust the number of shares available for awards, the number of shares subject to outstanding awards and the exercise price for awards following the occurrence of events such as stock splits, dividends, distributions and recapitalizations. The exercise price of an option may be paid in the form of shares of stock that are already owned by such optionholder.

Upon specified covered transactions (as defined in the 2004 Equity Incentive Plan), all outstanding awards under the 2004 Equity Incentive Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the participants will be accelerated in full and then terminated to the extent not exercised prior to the covered transaction.

2006 Non-Employee Director Plan

Our Board of Directors and stockholders have approved the 2006 Non-employee Director Plan (the "Director Plan"). Under current SEC rules and regulations applicable to business development companies, a business development company may not grant options to non-employee directors. On February 15, 2007, we received exemptive relief from the SEC to permit us to grant options to non-employee directors as a portion of their compensation for service on our Board. The following is a summary of the material features of the Director Plan.

The Company has instituted the Director Plan for the purpose of advancing the interests of the Company by providing for the grant of awards under the Director Plan to eligible non-employee Directors. The Director Plan authorizes the issuance of non-statutory stock options ("NSOs") to non-employee Directors to purchase shares of common stock at a specified exercise price per share. NSOs granted under the Director Plan will have a per share exercise price of no less than the current market value of a share of stock as determined in good faith by the Board on the date of the grant.

Under the Director Plan, non-employee Directors will each receive an initial grant of an option, to purchase shares of common stock. In addition, options granted to the Company's non-employee Directors will generally vest over two years, in equal installments on each of the first two anniversaries of the date of grant. The Compensation Committee has the authority to adjust the number of shares available for options, the number of shares subject to outstanding options under the Director Plan and the exercise price of options; provided, however, that the exercise price of options granted under the Director Plan will not be adjusted unless the Company receives an exemptive order from the SEC or written confirmation from the staff of the SEC that the Company may do so (except for adjustments resulting from changes in the Company's capital structure, such as stock dividends, stock splits and reverse stock splits).

Unless sooner terminated by the Board, the Director Plan will terminate on the tenth anniversary of its adoption and no additional awards may be made under the Director Plan after that date. The Director Plan provides that all awards granted under the Director Plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act.

The Board will determine the period during which any options granted under the Director Plan shall remain exercisable, provided that no option will be exercisable after the expiration of ten years from the date on which it was granted. Options granted under the Director Plan are not transferable other than by will or the laws of descent and distribution, or by gift, and will generally be exercisable during a non-employee Director's lifetime only by such non-employee Director. In general, any portion of any options that are not then exercisable will terminate upon the termination of the non-employee Director's services to the Company. Generally, any portion of any options that are exercisable at the time of the termination of the non-employee Director's services to the Company will remain exercisable for the lesser of (i) a period of three months (or one year if the non-employee Director's services to the Company terminated by reason of the non-employee Director's death) or (ii) the period ending on the latest date on which such options could have been exercised had the non-employee Director's services to the Company not terminated. In addition, if the Board determines that a non-employee Director's service to the Company terminated for reasons that cast such discredit on the non-employee Director as to justify immediate termination of the non-employee Director's options, then all options then held by the non-employee Director will immediately terminate.

The Compensation Committee administers the Director Plan. Under the Director Plan, options may be granted from time-to-time for up to a maximum of 1,000,000 shares of common stock. No options have been issued pursuant to the Director Plan.

If there is a change in the capital structure of the Company by reason of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Board will make appropriate adjustments to the number and class of shares of stock subject to the Director Plan and each option outstanding under it. In the event of a consolidation, merger, stock sale, a sale of all or substantially all of the Company's assets, a dissolution or liquidation of the Company or other similar events (a "Covered Transaction"), the Board may provide for the assumption of some or all outstanding options or for the grant of new substitute options by the acquirer or survivor. If no such assumption or substitution occurs, all outstanding options will become exercisable prior to the Covered Transaction and will terminate upon consummation of the Covered Transaction.

On February 15, 2007, we received approval from the SEC to grant awards to our non-employee directors. We intend to award options under the Director Plan on an annual basis, though the amount of the options that may be granted are limited by the terms of the Director Plan, which prohibits any grant that would cause the Company to be in violation of Section 61(a)(3) of the 1940 Act.

The Board may at any time or times amend the Director Plan or any outstanding awards for any purpose which may at the time be permitted by law, and may at any time terminate the Director Plan as to any future grants of awards; provided, that except as otherwise expressly provided in the Director Plan the Board may not, without the participant's consent, alter the terms of an award so as to affect adversely the participant's rights under the award, unless the Board expressly reserved the right to do so at the time of the grant of the award.

We intend to issue options and restricted shares to each of Messrs. Badavas, Chow and Woodward.

Compensation of Portfolio Management Employees

The compensation of our portfolio management employees, including our investment committee, is set by the compensation committee of our Board of Directors. The portfolio management employees are compensated in the form of annual salaries, annual cash bonuses based on performance measured against specific goals and long-term compensation in the form of stock option grants.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

No person will be deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, as of May 8, 2007, information with respect to the beneficial ownership of our common stock by:

- each person known to us to beneficially own more than 5% of the outstanding shares of our common stock based on our records of ownership of our common stock as of the date of our initial public offer and filings submitted by these companies to the SEC regarding their ownership of our common stock.
- each of our directors and each executive officer; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of May 8, 2007 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 23,102, 418 shares of common stock outstanding as of May 8, 2007.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by spouses under applicable law, and maintains an address of c/o Hercules Technology Growth Capital, Inc., 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301.

Name and Address	Shares of Common Stock Beneficially Owned: Number of Shares	Shares of Common Stock Beneficially Owned: Percentage of Class
Principal Stockholders:		
Farallon Capital Management, L.L.C.(1)(2) One Maritime Plaza, Suite 1325 San Francisco, CA 94111	2,006,181	8.7%
T. Rowe Price Associates, Inc.(2) 100 E. Pratt Street Baltimore, MD 21202	1,631,668	7.1%
Dreman Value Management L.L.C.(2) Harbor Side Financial Center Plaza 10, Suite 800 Jersey City, NJ 07311	1,474,567	6.4%
JMP Group LLC(2)(3) 600 Montgomery Street, Suite 1100 San Francisco, CA 94111	1,342,411	5.8%
Jolson 1996 Trust(4)	645,942	2.8%

(1) Farallon Capital Management, L.L.C. may be deemed to beneficially own shares of our common stock held of record by certain investment funds affiliated with Farallon Capital Management, L.L.C.

(2) Information about the beneficial ownership of our principal stockholders is derived from filings made by them with the SEC.

(3) Includes 152,797 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants. JMP Group LLC may be deemed to beneficially own shares of our common stock, including shares of common stock issuable upon the exercise of outstanding 5-year warrants, held of record by certain investment funds for which its wholly-owned subsidiary, JMP Asset Management LLC, acts as either general partner or investment adviser. JMP Group LLC and JMP Asset Management LLC each disclaim beneficial ownership of all shares held of record by the funds to the extent attributable to partnership or equity interests therein held by persons other than JMP Group LLC, JMP Asset Management LLC, or their affiliates. Joseph A. Jolson serves as Chief Executive Officer of JMP Group LLC.

(4) Includes 548,280 shares of our common stock and 52,994 shares of our common stock issuable upon the exercise of outstanding 5-year warrants held by the Jolson 1996 Trust. Joseph A. Jolson serves as the trustee of the Jolson 1996 Trust and, as a result, may be deemed to beneficially own such shares of common stock, including such 5-year warrants to purchase shares of common stock. This does not include 54,996 shares of our common stock and 9,008 shares of our common stock issuable upon the exercise of 5-year warrants held by the Jolson Family Foundation. Mr. Jolson may be deemed to beneficially own the shares of common stock, including the 5-year warrants to purchase common stock held of record by the Jolson Family Foundation, for which he serves as the President. Mr. Jolson disclaims beneficial ownership of all such shares held by the Jolson Family Foundation.

	Shares of Common Stock Beneficially Owned	
Name	**Number of Shares**	**Percentage of Class**
Interested Director		
Manuel A. Henriquez[(1)]	1,116,771	4.8%
Independent Directors		
Robert P. Badavas	13,668	*
Joseph W. Chow[(2)]	35,126	*
Allyn C. Woodward, Jr.	29,016	*
Executive Officers		
Samir Bhaumik[(3)]	86,001	*
James C. Crumpton	—	—
H. Scott Harvey[(4)]	131,105	*
David M. Lund[(5)]	43,881	*
Parag I Shah [(6)]	79,532	*
Shane A. Stettenbenz[(7)]	73,891	*
Executive officers and directors as a group[(8)]	1,608,990	7.0%

(1) Includes 560,800 shares of common stock that can be acquired upon the exercise of outstanding options. Includes shares of our common stock held by certain trusts controlled by Mr. Henriquez.

(2) Includes 794 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants.

(3) Includes 3,797 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 61,321 shares of common stock that can be acquired upon the exercise of outstanding options.

(4) Includes 4,279 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 116,821 shares of common stock that can be acquired upon the exercise of outstanding options.

(5) Includes 40,556 shares of common stock that can be acquired upon the exercise of outstanding options.

(6) Includes 2,994 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 61,097 shares of common stock that can be acquired upon the exercise of outstanding options.

(7) Includes 71,667 shares of common stock that can be acquired upon the exercise of outstanding options.

(8) Includes 11,864 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 912,261 shares of common stock that can be acquired upon the exercise of outstanding options.

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The following table sets forth as of May 8, 2007, the dollar range of our securities owned by our directors and portfolio management employees.

Name	Dollar Range of Equity Securities in the Company
Independent Directors:	
Robert P. Badavas	over $100,000
Joseph W. Chow	over $100,000
Allyn C. Woodward, Jr.	over $100,000
Interested Director/Portfolio Management Employee:	
Manuel A. Henriquez	over $100,000
Portfolio Management Employees:	
Samir Bhaumik	over $100,000
James C. Crumpton	0
H. Scott Harvey	over $100,000
David M. Lund	$10,001-$50,000
Shane A. Stettenbenz	$10,001-$50,000
Parag I. Shah	over $100,000

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In December 2003, we entered into an engagement letter with JMP Securities LLC, the lead underwriter in our initial public offering. The engagement letter expired on June 16, 2004. Pursuant to the engagement letter, we offered to JMP Securities LLC the opportunity to act as the initial purchaser and placement agent in connection with our June 2004 private offering. As compensation for the services rendered, we agreed to pay to JMP Securities LLC an aggregate amount equal to 7% of the gross proceeds of the private offering, subject to limited exceptions in connection with sales of our securities to persons affiliated with us. In addition, we agreed to reimburse JMP Securities LLC, upon its request, for up to $150,000 of its reasonable out-of-pocket expenses. In accordance with the foregoing, we paid $1,343,619 in placement fees to JMP Securities LLC in connection with our June 2004 private placement. We have agreed to indemnify JMP Securities LLC, its affiliates and other related parties against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that such persons may be required to make for these liabilities.

In February 2004, we issued and sold 400 shares of our Series A-1 preferred stock to JMP Group LLC, the ultimate parent entity of JMP Securities LLC, for an aggregate purchase price of $2.5 million and, in connection with such sale, we paid a $175,000 placement fee to JMP Securities LLC. In addition, we issued and sold 100 shares of our Series A-2 preferred stock to an entity related to Mr. Henriquez for an aggregate purchase price of $125,000, and we issued and sold 100 shares of our Series A-2 preferred stock to Mr. Howard for an aggregate purchase price of $125,000. Our Series A-1 preferred stock held a liquidation preference over our Series A-2 preferred stock and also carried separate, preferential voting rights. In June 2004, each share of Series A-1 preferred stock and Series A-2 preferred stock was exchanged for 208.3333 units with the same terms as the units sold in our June 2004 private offering.

In connection with the issuance of our Series A-1 preferred stock and Series A-2 preferred stock, we entered into a registration rights agreement with the holders of our Series A-1 preferred stock and Series A-2 preferred stock. In June 2004, in connection with the conversion of the Series A preferred stock, the registration rights agreement entered into in connection with the issuance of our preferred stock was terminated and the shares of our common stock issued upon conversion were included in the registration rights agreement entered into in connection with our June 2004 private offer. See “Description of Capital Stock—Registration Rights.”

We have entered into a letter agreement with Farallon Capital Management, L.L.C. that provides that prior to the date that is two years after certain investment funds controlled by Farallon Capital Management, L.L.C. cease to own at least 10% of our outstanding common stock and without the written consent of Farallon Capital Management, L.L.C., we will not (i) take any action to alter or repeal the resolution adopted by our board exempting from the Business Combination Act any business combination between us and certain investment funds managed by Farallon Capital Management, L.L.C. in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company’s common stock by investment funds controlled by Farallon Capital Management, L.L.C.

We have also entered into a letter agreement with JMP Asset Management LLC that provides that prior to the date that is two years after certain investment funds controlled by JMP Asset Management LLC cease to own at least 10% of our outstanding common stock and without the written consent of JMP Asset Management LLC that we will not (i) take any action to alter or repeal the resolution adopted by our board exempting from the Business Combination Act any business combination between us and certain investment funds managed by JMP Asset Management LLC in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company’s common stock by investment funds controlled by JMP Asset Management LLC.

In connection with our June 2004 private offering, we agreed to obtain the approval of each of JMP Asset Management LLC and Farallon Capital Management, L.L.C. for each investment made by us. Though this arrangement was terminated in connection with our election to be regulated as a business development company, under the terms of the letter agreements described above, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company on terms similar to those afforded to our directors and officers under our charter and bylaws.

In accordance with a letter agreement dated June 22, 2004 between us and JMP Group LLC, in January 2005 we issued and sold 72,000 units to funds managed by JMP Asset Management LLC at a price equal to $30.00 per unit, less a $2.10 initial purchaser's discount per unit.

On April 12, 2005, we entered into our Bridge Loan Credit Facility with Alcmene Funding, LLC, a special purpose entity affiliated with Farallon Capital Management, L.L.C., one of our significant stockholders. See "Management's Discussion and Analysis of Financial Condition—Borrowings." In connection with the closing of the Bridge Loan Credit Facility, we paid a $500,000 upfront fee and will be obligated to pay additional fees under the terms of the facility. On August 1, 2005, we amended our Bridge Loan Credit Facility. The amendment agreement extended the term of the loan to April 12, 2006, eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. The loan fees are being amortized over the remaining ten-month period. On March 6, 2006, we entered into an amendment of our Bridge Loan Facility pursuant to which we repaid $10 million to Alcmene Funding LLC, extended the maturity date to June 30, 2006 and decreased the interest rate to 10.86%. On May 10, 2006, we repaid the remaining $15.0 million of the Bridge Loan Credit Facility and paid a $500,000 loan fee due on maturity and all accrued and unpaid interest through the date of repayment. At December 31, 2006, the Bridge Loan Credit Facility was no longer outstanding.

At March 2, 2006, we entered into an agreement with various affiliates of Farallon Capital Management, L.L.C. to sell $5 million of common stock, priced at the net asset value on February 28, 2006. On March 20, 2006, we completed the sale of 432,900 shares of common stock to the Farallon funds at a price per share of $11.55, which was the net asset value per share at February 28, 2006.

On June 8, 2005, we entered into an Underwriting Agreement with JMP Securities LLC pursuant to which JMP Securities LLC purchased 4,200,000 shares of our common stock and served as the lead underwriter in our initial public offer.

In conjunction with the Company's Rights offering completed on April 21, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $700,000 as co-manager of the offering.

In conjunction with the Company's public offering completed on December 7, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $1.2 million as co-manager of the offering.

In August 2000, Mr. Henriquez acquired an interest in JMP Group LLC, the ultimate parent entity of the lead underwriter in our initial public offering. Mr. Henriquez's interest represents approximately 0.1% of the fully-diluted equity of JMP Group LLC.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material United States federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under United States federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as in effect as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offer. This summary does not discuss any aspects of United States estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under United States federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets in which we do not currently intend to invest.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock who is for United States federal income tax purposes:

- a citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the “substantial presence” test under Section 7701(b) of the Code;
- a corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust over which a court in the United States has primary supervision over its administration or over which United States persons have control; or
- an estate, the income of which is subject to United States federal income taxation regardless of its source.

A “Non-U.S. stockholder” is a beneficial owner of shares of our common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder who is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Election to be Taxed as a Regulated Investment Company

In conjunction with the filing of our December 31, 2006 tax return, we will elect to be treated as a RIC under Subchapter M of the Code as of January 1, 2006. However, such an election and qualification to be treated as a RIC and as eligible for RIC tax treatment 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.

Conversion to Regulated Investment Company Status

We operate to qualify as a regulated investment company, or RIC, under Subchapter M of Code. If we qualify as a regulated investment company and annually distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and capital gains we distribute to our shareholders. Taxable income generally differs from net income as defined by generally accepted accounting principles due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation.

We have met the criteria specified below to qualify as a RIC, and will elect to be treated as a RIC under Subchapter M of the Code with the filing of our federal tax return for 2006, which election will be effective as of January 1, 2006. As a RIC, we generally will not have to pay corporate taxes on any income we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. Prior to the effective date of our RIC election, we were taxed as a regular corporation under Subchapter C of the Code. Immediately before the effective date of that election, we held assets (including intangible assets not reflected on the balance sheet, such as goodwill) with "built-in gain," which are assets whose fair market value as of the effective date of the election exceeds their tax basis. We elected to recognize all of our net built-in gains at the time of the conversion and paid tax on the built-in gains with the filing of our 2005 tax return. In making this election, we marked our portfolio to market at the time of our RIC election and paid approximately $294,000 in tax on the resulting taxable income.

By December 31, 2006, we were required to distribute our accumulated earnings and profits while we were taxable as a C corporation. During 2006, we distributed $1.20 per share to our shareholders of which approximately $0.09 was deemed to be a distribution of these accumulated earnings and profits, $0.97 was deemed to be a distribution of income and $0.14 was a return of capital. The distribution of our income and our accumulated earnings and profits is considered ordinary income to our shareholders in 2006.

Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and
- distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement"):

we generally will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (*i.e.*, net realized long-term capital gains in excess of net realized short-term capital losses) we distribute to stockholders with respect to that year. In addition, if we subsequently acquire built-in gain assets from a C corporation in a carryover basis transaction, then we may be subject to tax on the gains recognized by us on dispositions of such assets unless we make a special election to pay corporate-level tax on such built-in gain at the time the assets are acquired. We will be subject to United States federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

In order to qualify as a RIC for federal income tax purposes and obtain the tax benefits of RIC status, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

- have in effect at all times during each taxable year an election to be regulated as a business development company under the 1940 Act;
- derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a "qualified publicly traded limited partnership" (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
    - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and
    - no more than 25% of the value of our assets is invested in (i) securities (other than U.S. government securities or securities of other RICs) of one issuer, (ii) securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more "qualified publicly traded partnerships" (the "Diversification Tests").

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.

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

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement (collectively, the "Distribution Requirements"). However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation—Senior Securities; Coverage Ratio." Moreover, our ability to dispose of assets to meet the Distribution Requirements may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Distribution Requirements, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Any transactions in options, futures contracts, hedging transactions, and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

A RIC is limited in its ability to deduct expenses in excess of its "investment company taxable income" (which is, generally, ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses). If our expenses in a given year exceed investment company taxable income (e.g., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Taxation of U.S. Stockholders

For federal income tax purposes, distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. For taxable years beginning on or before December 31, 2010, to the extent such distributions paid by us are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be designated by us as "qualified dividend income" eligible to be taxed in the hands of non-corporate stockholders at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum rate of 15%) in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We currently intend to retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but to designate the retained net capital gain as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a tax credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's cost basis for his, her or its common stock. Since we expect to pay tax on any retained net capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. For federal income tax purposes, the tax basis of shares owned by a stockholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the stockholder's gross income and the tax deemed paid by the stockholder as described in this paragraph. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

For taxable years beginning on or before December 31, 2010, individual U.S. stockholders are subject to a maximum federal income tax rate of 15% on their net capital gain (*i.e.* , the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.* , capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% "qualified dividend income" rate). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. stockholder's particular situation. Dividends distributed by us generally will not be eligible for the corporate dividends-received deduction or the preferential rate applicable to "qualified dividend income."

In some taxable years, we may be subject to the alternative minimum tax ("AMT"). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our stockholders, and this may affect our stockholder's AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the Internal Revenue Service, we may apportion these items in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances. You should consult your own tax advisor to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold federal income tax ("backup withholding"), currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service (the "IRS") notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisors before investing in our common stock.

In general, dividend distributions (other than certain distributions derived from net long-term capital gains) paid by us to a Non-U.S. stockholder are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a Non-U.S. stockholder directly, would not be subject to withholding. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, (and, if an income tax treaty applies, attributable to a permanent establishment in the United States), we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. stockholders. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.)

For taxable years beginning prior to January 1, 2008, except as provided below, we generally will not be required to withhold any amounts with respect to certain distributions of (i) U.S.-source interest income, and (ii) net short-term capital gains in excess of net long-term capital losses, in each case to the extent we properly designate such distributions. We may or may not make any such designations. In respect of distributions described in clause (i) above, we will be required to withhold amounts with respect to distributions to a Non-U.S. stockholder:

- that has not provided a satisfactory statement that the beneficial owner is not a U.S. person;

- to the extent that the dividend is attributable to certain interest on an obligation if the Non-U.S. stockholder is the issuer or is a 10% stockholder of the issuer;
- that is within certain foreign countries that have inadequate information exchange with the United States; or
- to the extent the dividend is attributable to interest paid by a person that is a related person of the Non-U.S. stockholder and the Non-U.S. stockholder is a "controlled foreign corporation" for United States federal income tax purposes.

The cash dividend(s) we intend to pay to our stockholders representing all of our accumulated earnings and profits, if any, for the period from our inception through the effective date of our election to be treated as a RIC, generally will be taxable to Non-U.S. stockholders in the same manner as other dividend distributions described above.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the U.S.), or in the case of an individual stockholder, the stockholder is present in the U.S. for a period or periods aggregating 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute or successor form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisors with respect to the United States federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Such distributions (if made in a taxable year beginning on or before December 31, 2010) would be taxable to our stockholders and, provided certain holding period and other requirements were met, could qualify for treatment as "qualified dividend income" eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. 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. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

REGULATION

The following discussion is a general summary of the material prohibitions and descriptions governing business development companies generally. It does not purport to be a complete description of all of the laws and regulations affecting business development companies.

We have elected to be treated as a business development company under the 1940 Act and will elect to be treated as a RIC under Subchapter M of the Code as of January 1, 2006. A business development company is a unique kind of investment company that primarily focuses on investing in or lending to private companies and making managerial assistance available to them. A business development company provides stockholders with the ability to retain the liquidity of a publicly-traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage privately-owned companies. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company’s shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, the United States;
- (b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
- (c) does not have any class of securities listed on a national securities exchange.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Significant Managerial Assistance

A business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than companies that have total assets of not more than $4,000,000 and capital surplus (shareholders' equity less retained earnings) of not less than $2,000,000) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests imposed on us by the Code in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Warrants and Options

Under the 1940 Act, a business development company is subject to restrictions on the amount of warrants, options or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of the business development company's total outstanding shares of capital stock. This amount is reduced to 20% of the business development company's total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the business development company's total outstanding shares of capital stock.

Senior Securities; Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200%

immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the dividend distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes. For a discussion of the risks associated with the resulting leverage, see "Risk Factors — Because we borrow money, there would be increased risk in investing in our company."

Code of Ethics

We have adopted and will maintain a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics will generally not permit investments by our employees in securities that may be purchased or held by us. We may be prohibited under the 1940 Act from conducting certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, the prior approval of the SEC.

Our code of ethics was filed with the SEC as an exhibit to the registration statement (Registration No. 333-126604) for our initial public offering. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-202-942-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

We restrict access to non-public personal information about our stockholders to our employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Proxy Voting Policies and Procedures

We vote proxies relating to our portfolio securities in the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that may have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by our investment committee, which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Exemptive Relief

On June 21, 2005, we applied for exemptive relief from the SEC to permit us to grant options to purchase shares of our common stock to our non-employee directors as a portion of their compensation for service on our Board and on February 15, 2007, we received approval from the SEC on this exemptive request. No stock options were granted to our non-employee directors as of December 31, 2006.

On July 7, 2006, we applied for exemptive relief with the SEC in order to permit us to issue restricted stock pursuant to the 2004 Equity Incentive Plan and our 2006 Non-Employee Director Plan (together, the "Plans"). The SEC has commenced its review of the exemptive application and we are currently responding to questions on the relief request, but as of the date hereof, we have not received approval of the application and accordingly cannot evaluate when or if an order regarding our application may be granted.

In addition, on September 28, 2005, we filed an exemptive relief application requesting that the SEC permit us to exclude the indebtedness that our wholly-owned subsidiary, Hercules Technology II, L.P., which is qualified as a small business investment company, issues to the Small Business Administration from the 200% asset coverage requirement applicable to us. We received the exemptive order on April 5, 2007.

Other

We will be periodically examined by the SEC for compliance with the 1934 Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We have designated Mr. Harvey, our Chief Legal Officer, to be our Chief Compliance Officer to be responsible for administering these policies and procedures.

Small Business Administration Regulations

In January 2005, we formed HTII and HTM. On September 27, 2006, HTII received final approval to be licensed as a Small Business Investment Company ("SBIC"). HTII is able to borrow funds from the Small Business Administration against eligible pre-approved investments and additional deposits to regulatory capital. The Small Business Investment Company regulations currently limit the amount that is available to borrow by any SBIC to $127.2 million, subject to periodic adjustments by the SBA. There is no assurance that we will draw up to the maximum limit available under the Small Business Investment Company program.

Small business investment companies are designed to stimulate the flow of private equity capital to eligible small businesses. Under present Small Business Administration 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 million for the two most recent fiscal years. In addition, a small business investment company must devote 20% of its investment activity to “smaller” concerns as defined by the Small Business Administration. A smaller concern is one that has a tangible net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the two most recent fiscal years. Small Business Administration 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 Small Business Administration regulations, small business investment companies may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through our wholly-owned subsidiary HTII, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

Our investment committee process is generally the same at the SBIC except that Parag Shah and Sam Bhaumik are also members of the Committee. Messrs. Shah and Bhaumik abstain from voting with respect to investments they originate.

HTII will be periodically examined and audited by the Small Business Administration’s staff to determine its compliance with small business investment company regulations. On January 30, 2007, HTII received notification that its initial application for leverage under its SBC license was approved allowing HTII to commence drawing up to $50.0 million of leverage under its first tranche of capital from the SBA. On April 26, 2007, we received our first borrowing of $12.0 million under the program. In May 2007, we submitted an application for approval to borrow an additional $77.2 million under the program.

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan (the "DRP"), through which all dividend distributions are paid to our stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash as provided below. In this way, a stockholder can maintain an undiluted investment in our common stock and still allow us to pay out the required distributable income.

No action is required on the part of a registered stockholder to receive a dividend distribution in shares of our common stock. A registered stockholder may elect to receive an entire dividend distribution in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, so that such notice is received by the plan administrator no later than 3 days prior to the payment date for dividend distributions to stockholders. The plan administrator will set up an account for shares acquired through the DRP for each stockholder who has not elected to receive distributions in cash (each a "Participant") and hold such shares in non-certificated form. Upon request by a Participant, received not less than 3 days prior to the payment date, the plan administrator will, instead of crediting shares to the Participant's account, issue a certificate registered in the Participant's name for the number of whole shares of our common stock and a check for any fractional share.

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.

We expect to use primarily newly-issued shares to implement the DRP, whether our shares are trading at a premium or at a discount to net asset value. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the Nasdaq Global Market on the valuation date for such dividend distribution. Market price per share on that date will be the closing price for such shares on the Nasdaq Global Market or, if no sale is reported for such day, at the average of their electronically-reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There is no charge to our stockholders for receiving their dividend distributions in the form of additional shares of our common stock. The plan administrator's fees for handling dividend distributions in stock are paid by us. There are no brokerage charges with respect to shares we have issued directly as a result of dividend distributions payable in stock. If a Participant elects by internet or by written or telephonic notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the Participant's account and remit the proceeds to the Participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus brokerage commissions from the proceeds.

Any shares issued in connection with a stock split or stock dividend will be added to a Participant's account with the Plan Administrator. The Plan Administrator may curtail or suspend transaction processing until the completion of such stock split or payment of such stock dividend.

Stockholders who receive dividend distributions in the form of stock generally are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividend distributions in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend distribution from us will be equal to the total dollar amount of the dividend distribution payable to the stockholder.

The DRP may be terminated by us upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend distribution by us. All correspondence concerning the DRP, including requests for additional information, should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, Attn: Dividend Reinvestment Department, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by phone at 1-866-669-9888.

DESCRIPTION OF CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary may not contain all of the information that is important to you, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Under the terms of our charter, our authorized capital stock consists of 60,000,000 shares of common stock, par value $0.001 per share, of which 23,102,418 shares are outstanding as of May 8, 2007. Under our charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to cause the issuance of such shares, without obtaining stockholder approval. In addition, as permitted by the Maryland General Corporation Law, but subject to the 1940 Act, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Title of Class	Amount Authorized	Amount Held by Company for its Account	Amount Outstanding
Common Stock, $0.001 par value per share	60,000,000	—	23,102,418

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting privileges, except as described below and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable.

Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefor. Shares of our common stock have no conversion, exchange, preemptive or redemption rights. In the event of a liquidation, dissolution or winding up of Hercules Technology Growth Capital each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, 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. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

5-Year Warrants

As of March 31, 2007, we had outstanding 5-year warrants to purchase an aggregate of 393,664 shares of our common stock. These warrants were issued as part of the units that we sold in our prior private financings and were issued either under our warrant agreement with American Stock Transfer & Trust Company, as warrant agent, or pursuant to the terms of our 2004 Equity Incentive Plan. Each 5-year warrant is exercisable until June 17, 2009 and entitles the holder thereof to purchase one share of our common stock. In connection with our election to be regulated as a business development company, the exercise price per share for all of our 5-year warrants was reduced from $15.00 per share to $10.57 per share, the net asset value per share of our common stock on the date of determination, in accordance with the terms of the warrant agreement or the applicable warrant certificate. In addition, the warrant agreement, restricts the transfer of warrants outstanding thereunder to transactions involving the transfer of at least 4,000 shares (or securities convertible into or exchangeable for shares) of our common stock.

Registration Rights

Pursuant to the registration rights agreement we entered on March 2, 2006, we agreed to register for resale the 432,900 shares of common stock purchased by Farallon Capital Management, L.L.C. and its affiliated funds. Such shares are included in the registration statement of which this prospectus is a part. See “Selling Shareholders.” The registration rights agreement also permits the Farallon funds to include any shares of common stock they hold in future underwritten public offerings of our equity securities, subject to certain limitations.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors’ and officers’ liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. Our charter also provides that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our charter are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our charter. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. Our bylaws also provide that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our bylaws are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our bylaws.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

In addition, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. on terms similar to those afforded to our directors and officers under our charter and bylaws in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company.

We currently have in effect a directors' and officers' insurance policy covering our directors and officers and us for any acts and omissions committed, attempted or allegedly committed by any director or officer during the policy period. The policy is subject to customary exclusions.

Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire in 2006, 2007 and 2008, respectively. Beginning in 2005, upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter provides that, except as otherwise provided in the bylaws, the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect each director. Our bylaws currently provide that directors are elected by a plurality of the votes cast in the election of directors. Pursuant to our charter and bylaws, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless the bylaws are amended, the number of directors may never be less than one nor more than 12. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in the charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action may be taken only at an annual or special meeting of stockholders or by unanimous consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meeting of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 75% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least 75% of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by the stockholders entitled to cast a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as our current directors, as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors.

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

Control Share Acquisitions

The Maryland Control Share Acquisition Act (the "Control Share Act") provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be otherwise amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the Board of Directors determines that it would be in our best interests and if the staff of the SEC does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

Business Combinations

Under the Maryland Business Combination Act (the "Business Combination Act"), "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which such stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the 5-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the Board of Directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution exempting any business combination between us and any other person from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. In addition, our Board of Directors has adopted a resolution exempting any business combination with certain investment funds managed by JMP Asset Management LLC and certain investment funds managed by Farallon Capital Management, L.L.C. from the provisions of the Business Combination Act. We have agreed with such investment funds that we will not repeal or amend such resolution prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds. If these resolutions are repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

Regulatory Restrictions

Our wholly-owned subsidiary, Hercules Technology II, L.P., has obtained a small business investment company license. The Small Business Administration prohibits, without prior Small Business Administration approval, a “change of control” or transfers which would result in any person (or group of persons acting in concert) owning 10% or more of any class of capital stock of a small business investment company. A “change of control” is any event which would result in a transfer of the power, direct or indirect, to direct the management and policies of a small business investment company, whether through ownership, contractual arrangements or otherwise.

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SELLING SHAREHOLDERS

Below is information with respect to the number of shares of common stock owned by each of the shareholders. The common stock is being registered to permit public secondary trading of the shares of common stock. Selling holders, which term includes their transferees, pledgees or donees or their successors, may offer the shares of common stock for resale from time to time.

The following table sets forth the name of each selling holder and the following information as of May 8, 2007: the amount of common stock owned by each selling holder; the amount of common stock which may be offered for the account of such selling holder under this prospectus; and the amount of common stock to be owned by such security holder after completion of the offering.

The information included in the table under "Shares Beneficially Owned and Ownership Percentage After Offering" assumes that each stockholder below will elect to sell all of the shares set forth under "Shares Being Offered." The information regarding the identity of the selling stockholders and their affiliations, including their beneficial ownership of our shares of common stock, is based solely on information provided by or on behalf of the selling stockholders.

These assumptions have been made under the rules and regulations of the SEC and do not reflect any knowledge that we have with respect to the present intent of the persons listed as selling stockholders.

The address for each stockholder listed below is c/o Hercules Technology Growth Capital, Inc., 400 Hamilton Avenue, Suite 310 Palo Alto, CA 94301.

Name	Shares Beneficially Owned and Ownership Percentage Prior to the Offering(1)(3)		Shares that May Be Offered	Shares Beneficially Owned and Ownership Percentage After Offering(2)(3)	
	Shares	Percentage		Shares	Percentage
Robert P. Badavas	13,668	*	6,668	7,000	*
Allyn C. Woodward Jr.	29,016	*	20,000	9,016	*
Joseph W. Chow(4)	35,126	*	20,000	15,126	*
Entities affiliated with **Farallon Capital Management, L.L.C.** c/o Farallon Capital Management, L.L.C. One Maritime Plaza, Suite 1325 San Francisco, CA 94111	2,006,181	8.7%	432,900	1,573,281	6.8%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules and regulations of the SEC. Except as indicated in the footnotes to this table, each person named in the table has sole voting and investment power with respect to the shares set forth opposite that person's name.

(2) Assumes the sale of all shares eligible for sale in this prospectus and no other purchases or sales of our common stock. This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that we have with respect to the present intent of the persons listed as selling stockholders.

(3) Applicable percentage of ownership is based on 23,102,418 shares of our common stock outstanding on May 8, 2007.

(4) Includes 794 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock or warrants in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock or warrants and could impair our future ability to raise capital through the sale of our equity securities.

We have 23,102,418 shares of our common stock outstanding of which 735,696 are “restricted” securities under the meaning of Rule 144 promulgated under the Securities Act. Of these securities, 479,568 shares may be offered by the selling shareholders named in this prospectus. See “Selling Shareholders.” In addition, we have 393,664 warrants to purchase shares of our common stock outstanding as of March 31, 2007.

In general, under Rule 144 as currently in effect, if one year has elapsed since the date of acquisition of restricted securities from us or any of our affiliates, the holder of such restricted securities can sell such securities; provided that the number of securities sold by such person within any three-month period cannot exceed the greater of:

- 1% of the total number of securities then outstanding, or
- the average weekly trading volume of our securities during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 also are subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. If two years have elapsed since the date of acquisition of restricted securities from us or any of our affiliates and the holder is not one of our affiliates at any time during the three months preceding the proposed sale, such person can sell such securities in the public market under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements. No assurance can be given as to (1) the likelihood that an active market for our common stock will develop, (2) the liquidity of any such market, (3) the ability of our stockholders to sell our securities or (4) the prices that stockholders may obtain for any of our securities. No prediction can be made as to the effect, if any, that future sales of securities, or the availability of securities for future sale, will have on the market price prevailing from time to time. Sales of substantial amounts of our securities, or the perception that such sales could occur, may affect adversely prevailing market prices of the common stock.

PLAN OF DISTRIBUTION

We may offer, from time to time, up to 12,000,000 shares of our common stock. Also, the selling holders named in this prospectus may offer, from time to time, up to 479,568 shares of our common stock. See “Selling Shareholders.” The selling holders may sell the shares held for their own account or the shares may be sold by donees, transferees, pledgees or other successors in interest that receive such shares from the selling holders as a gift or other non-sale related transfer. We and the selling holders may sell the shares of our common stock through underwriters, broker-dealers or agents or through a combination of any such methods of sale. Shares of our common stock may also be sold “at-the-market” to or through a market maker or into an existing trading market for shares, on an exchange or otherwise. Any underwriter or agent involved in the offer and sale of the shares of our common stock will be named in the applicable prospectus supplement.

The distribution of the shares of our common stock may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering. We also may, from time to time, authorize dealers or agents to offer and sell these securities upon such terms and conditions as may be set forth in the applicable prospectus supplement.

In connection with the sale of the shares of our common stock, underwriters or agents may receive compensation from us or the selling holders or from purchasers of the shares of our common stock, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell shares of our common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of shares of our common stock may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us or the selling holders and any profit realized by them on the resale of shares of our common stock may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us or the selling holders will be described in the applicable prospectus supplement.

Any common stock sold pursuant to a prospectus supplement will be quoted on the Nasdaq Global Market, or another exchange on which the common stock is traded.

Under agreements into which we or the selling holders may enter, underwriters, dealers and agents who participate in the distribution of shares of our common stock may be entitled to indemnification by us or the selling holders against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us or the selling holders in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we or the selling holder will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase shares of our common stock from us or the selling holders pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us or the selling holders. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of shares of our common stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

The maximum commission or discount to be received by any member of the National Association of Securities Dealers, Inc. or independent broker-dealer will not be greater than 10% for the sale of any securities being registered and 0.5% for bona fide due diligence.

In order to comply with the securities laws of certain states, if applicable, shares of our common stock offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we rarely use brokers in the normal course of business. In those cases in which we do use a broker, we do not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm’s risk and skill in positioning blocks of securities. While we generally seek reasonably competitive execution costs, we may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided. For the years ended December 31, 2006, 2005 and 2004 we paid $12,100, $4,000 and $0 in brokerage commissions, respectively. For the three months ended March 31, 2007 we did not pay any brokerage commissions.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Securities we hold in connection with our investments are held under a custody agreement with Union Bank of California. The address of the custodian is 475 Sansome Street, 15th Floor, San Francisco, California 94111. We have also entered into a custody agreement with U.S. Bank National Association, which is located at One Federal Street, Third Floor, Boston, Massachusetts 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, will act as our transfer agent, dividend paying and reinvestment agent and registrar. The principal business address of the transfer agent is 59 Maiden Lane, New York, New York 10038.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters will be passed upon for underwriters, if any, by the counsel named in the prospectus supplement.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2006 and December 31, 2005 and for the years ended December 31, 2006 and 2005, and for the period from February 2, 2004 (commenced operations) to December 31, 2004 as set forth in their report. We have included our consolidated financial statements in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

AVAILABLE INFORMATION

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet website at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Hercules Technology Growth Capital, Inc.

We have audited the accompanying consolidated statements of assets and liabilities of Hercules Technology Growth Capital, Inc., including the consolidated schedules of investments, as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in net assets and cash flows for each of the two years in the period ended December 31, 2006 and for the period from February 2, 2004 (commencement of operations) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included correspondence with each portfolio company. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hercules Technology Growth Capital, Inc. at December 31, 2006 and 2005, the consolidated results of its operations, the changes in its net assets and its cash flows for each of the two years in the period ended December 31, 2006 and for the period from February 2, 2004 (commencement of operations) to December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hercules Technology Growth Capital, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
February 28, 2007

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2006	December 31, 2005
Assets		
Investments, at value (cost of $279,946,465 and $176,004,865, respectively)	$ 283,233,751	$ 176,673,226
Deferred loan origination revenue	(3,450,971)	(2,729,982)
Cash and cash equivalents	16,404,214	15,362,447
Interest receivable	2,906,831	1,479,375
Deferred tax asset	—	1,454,000
Other assets	2,048,384	1,408,813
Total assets	301,142,209	193,647,879
Liabilities		
Accounts payable	540,376	150,081
Income tax payable	—	1,709,000
Accrued liabilities	4,189,011	1,436,468
Short-term loans payable	41,000,000	76,000,000
Total liabilities	45,729,387	79,295,549
Net assets	$ 255,412,822	$ 114,352,330
Net assets consist of:		
Par value	$ 21,927	$ 9,802
Capital in excess of par value	257,234,729	114,524,833
Unrealized appreciation on investments	2,860,654	353,093
Accumulated realized gains (losses) on investments	(1,972,014)	481,694
Distributions in excess of investment income	(2,732,474)	(1,017,092)
Total net assets	$ 255,412,822	$ 114,352,330
Shares of common stock outstanding ($0.001 par value, 30,000,000 authorized)	21,927,034	9,801,965
Net asset value per share	$ 11.65	$ 11.67

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL., INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2006

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Acceleron Pharmaceuticals, Inc. (1.74%)*[(4)]	Biopharmaceuticals	Senior Debt Matures June 2009 Interest rate 10.25%	$ 4,069,607	$ 3,987,624	$ 3,987,624
		Preferred Stock Warrants		69,106	417,115
		Preferred Stock Warrants		34,996	34,393
Acceleron Pharmaceuticals, Inc. (0.44%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				5,091,726	5,550,244
Aveo Pharmaceuticals, Inc. (5.88%)[(4)]	Biopharmaceuticals	Senior Debt Matures September 2009 Interest rate 10.75%	$ 15,000,000	14,849,099	14,849,099
		Preferred Stock Warrants		144,056	115,212
		Preferred Stock Warrants		46,288	43,771
Total Aveo Pharmaceuticals, Inc.				15,039,443	15,008,082
Elixir Pharmaceuticals, Inc. (3.92%)	Biopharmaceuticals	Senior Debt Matures June 2010 Interest rate Prime + 2.45%	$ 10,000,000	9,857,610	9,857,610
		Preferred Stock Warrants		74,755	73,334
		Preferred Stock Warrants		74,755	73,334
Total Elixir Pharmaceuticals, Inc.				10,007,120	10,004,278
EpiCept Corporation (3.84%)	Biopharmaceuticals	Senior Debt Matures August 2009 Interest rate 11.70%	$ 10,000,000	9,312,750	9,312,750
		Common Stock Warrants		794,633	507,592
Total EpiCept Corporation				10,107,383	9,820,342
Guava Technologies, Inc. (2.26%)[(4)]	Biopharmaceuticals	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 5,266,485	5,193,710	5,193,710
		Revolving Line of Credit Matures December 2007 Interest rate Prime + 2.00%	$ 500,000	500,000	500,000
		Preferred Stock Warrants		105,399	83,940
Total Guava Technologies, Inc.				5,799,109	5,777,650
Labopharm USA, Inc. (2.58%)[(4)(5)]	Biopharmaceuticals	Senior Debt Matures July 2008 Interest rate 11.95%	$ 6,675,417	6,598,870	6,598,870
Total Labopharm USA, Inc.				6,598,870	6,598,870
Merrimack Pharmaceuticals, Inc. (2.61%)[(4)]	Biopharmaceuticals	Convertible Senior Debt Matures October 2008 Interest rate 11.15%	$ 6,043,382	5,967,550	6,254,550
		Preferred Stock Warrants		155,456	409,159
Total Merrimack Pharmaceuticals, Inc.				6,123,006	6,663,709
Paratek Pharmaceuticals, Inc. (2.62%)[(4)]	Biopharmaceuticals	Senior Debt Matures June 2008 Interest rate 11.10%	$ 6,651,586	6,586,705	6,586,705
		Preferred Stock Warrants		137,396	110,553
Total Paratek Pharmaceuticals, Inc.				6,724,101	6,697,258
Portola Pharmaceuticals, Inc. (4.41%) .	Biopharmaceuticals	Senior Debt Matures September 2010 Interest rate Prime + 1.75%	$ 11,250,000	11,145,804	11,145,804
		Preferred Stock Warrants		113,668	107,489
Total Portola Pharmaceuticals, Inc				11,259,472	11,253,293

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2006

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Quatrx Pharmaceuticals Company (7.05%)[(4)]	Biopharmaceuticals	Senior Debt Matures January 2010 Interest rate Prime + 3.00%	$ 18,000,000	$ 17,834,735	$ 17,834,735
		Preferred Stock Warrants		220,354	179,708
Total Quatrx Pharmaceuticals Company				18,055,089	18,014,443
Sirtris Pharmaceuticals, Inc. (3.91%)[(4)]	Biopharmaceuticals	Senior Debt Matures April 2011 Interest rate 10.60%	$ 10,000,000	9,924,495	9,924,495
		Preferred Stock Warrants		88,829	70,986
Total Sirtris Pharmaceuticals, Inc.				10,013,324	9,995,481
TransOral Pharmaceuticals, Inc. (3.92%)[(4)]	Biopharmaceuticals	Senior Debt Matures October 2009 Interest rate 10.69%	$ 10,000,000	9,921,976	9,921,976
		Preferred Stock Warrants		35,630	28,265
		Preferred Stock Warrants		51,067	50,548
Total TransOral Pharmaceuticals, Inc.				10,008,673	10,000,789
Total Biopharmaceuticals (45.18%)				114,827,316	115,384,439
Atrenta, Inc. (2.03%)[(4)]	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,929,298	4,929,298
Atrenta, Inc. (0.10%)		Preferred Stock Warrants		102,396	200,285
		Preferred Stock Warrants		33,760	65,719
		Preferred Stock		250,000	250,000
Total Atrenta, Inc.				5,315,454	5,445,302
Blurb, Inc. (0.10%)	Software	Senior Debt Matures December 2009 Interest rate 9.55%	$ 250,000	237,454	237,454
		Preferred Stock Warrants		12,904	12,653
Total Blurb, Inc.				250,358	250,107
Compete, Inc. (1.52%)[(4)]	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.50%	$ 3,884,338	3,839,045	3,839,045
		Preferred Stock Warrants		62,067	49,247
Total Compete, Inc.				3,901,112	3,888,292
Forescout Technologies, Inc. (0.78%)	Software	Senior Debt Matures August 2009 Interest rate 11.15%	$ 2,000,000	1,950,584	1,950,584
		Preferred Stock Warrants		55,593	50,800
Total Forescout Technologies, Inc.				2,006,177	2,001,384
GameLogic, Inc. (1.17%)[(4)]	Software	Senior Debt Matures December 2009 Interest rate Prime + 4.125%	$ 3,000,000	2,957,416	2,957,416
		Preferred Stock Warrants		52,604	41,860
Total GameLogic, Inc.				3,010,020	2,999,276
Gomez, Inc. (0.48%)[(4)]	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 1,212,506	1,201,811	1,201,811
		Preferred Stock Warrants		35,000	18,832
Total Gomez, Inc.				1,236,811	1,220,643

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2006

Portfolio Company	Industry	Type of Investment(1)(7)	Principal Amount	Cost(2)	Value(3)
HighRoads, Inc. (0.77%)(4)	Software	Senior Debt Matures February 2009 Interest rate 11.65%	$ 1,954,723	$ 1,923,844	$ 1,923,844
		Preferred Stock Warrants		44,466	35,484
Total HighRoads, Inc.				1,968,310	1,959,328
Intelliden, Inc. (1.17%)	Software	Senior Debt Matures February 2010 Interest rate 13.20%	$ 3,000,000	2,984,169	2,984,169
		Preferred Stock Warrants		17,542	16,688
Total Intelliden, Inc.				3,001,711	3,000,857
Inxight Software, Inc. (1.60%) (4)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 4,073,794	4,051,059	4,051,059
		Preferred Stock Warrants		55,963	29,800
Total Inxight Software, Inc.				4,107,022	4,080,859
Oatsystems, Inc. (2.36%)(4)	Software	Senior Debt Matures September 2009 Interest rate 11.00%	$ 6,000,000	5,973,007	5,973,007
		Preferred Stock Warrants		33,742	26,881
Total Oatsystems, Inc.				6,006,749	5,999,888
Proficiency, Inc. (1.43%)(5)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,951,815	3,548,185
		Preferred Stock Warrants		96,370	115,977
Total Proficiency, Inc.				4,048,185	3,664,162
Savvion, Inc. (1.58%)(4)	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.45%	$ 1,000,000	1,000,000	1,000,000
		Revolving Line of Credit Matures March 2007 Interest rate Prime + 2.00%	$ 3,000,000	2,991,311	2,991,311
		Preferred Stock Warrants		52,135	41,743
Total Savvion, Inc.				4,043,446	4,033,054
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants		39,339	29,667
Total Sportvision, Inc.				39,339	29,667
Talisma Corp. (0.74%)(4)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 1,873,774	1,858,802	1,858,802
		Preferred Stock Warrants		49,000	25,259
Total Talisma Corp.				1,907,802	1,884,061
Total Software (15.84%)				40,842,496	40,456,880
BabyUniverse, Inc. (1.90%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 5,000,000	4,728,980	4,728,980
		Common Stock Warrants		325,224	146,299
Total BabyUniverse, Inc.				5,054,204	4,875,279

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

December 31, 2006

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Market Force Information, Inc. (0.70%) [(4)]	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,777,064	$ 1,759,510	$ 1,759,510
		Preferred Stock Warrants		23,823	19,197
Total Market Force Information, Inc.				1,783,333	1,778,707
Wageworks, Inc. (5.89%)[(4)]	Consumer & Business Products	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 14,036,422	13,904,441	13,904,441
		Preferred Stock Warrants		251,964	1,140,998
Wageworks, Inc. (0.10%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				14,406,400	15,295,434
Total Consumer & Business Products (8.59%)				21,243,937	21,949,420
IKANO Communications, Inc. (0.03%)	Communications & Networking	Preferred Stock Warrants		45,460	33,391
		Preferred Stock Warrants		72,344	55,530
Total IKANO Communications, Inc.				117,804	88,921
Interwise, Inc. (0.83%)[(4)]	Communications & Networking	Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,094,999	1,869,542	1,869,542
		Preferred Stock Warrants		268,401	244,653
Total Interwise, Inc.				2,137,943	2,114,195
Pathfire, Inc. (1.84%)[(4)]	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 4,713,221	4,672,795	4,672,795
		Preferred Stock Warrants		63,276	16,918
Total Pathfire, Inc.				4,736,071	4,689,713
Ping Identity Corporation (1.05%)[(4)]	Communications & Networking	Senior Debt Matures June 2009 Interest rate 11.50%	$ 2,569,123	2,530,953	2,530,953
		Preferred Stock Warrants		51,801	160,500
Total Ping Identity Corporation				2,582,754	2,691,453
Rivulet Communications, Inc. (1.37%)[(4)]	Communications & Networking	Senior Debt Matures September 2009 Interest rate 10.60%	$ 3,500,000	3,459,966	3,459,966
		Preferred Stock Warrants		50,710	40,352
Rivulet Communications, Inc. (0.10%)		Preferred Stock		250,000	250,000
Total Rivulet Communications, Inc.				3,760,676	3,750,318
Simpler Networks Corp. (2.20%)[(4)]	Communications & Networking	Senior Debt Matures July 2009 Interest rate 11.75%	$ 5,000,000	4,886,659	4,886,659
		Preferred Stock Warrants		160,241	742,688
Simpler Networks Corp. (0.20%)		Preferred Stock		500,000	500,000
Total Simpler Networks Corp.				5,546,900	6,129,347
Total Communications & Networking (7.62%)				18,882,148	19,463,947

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HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2006

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Adiana, Inc. (0.53%)[(4)]	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 1,346,551	$ 1,312,938	$ 1,312,938
		Preferred Stock Warrants		67,225	52,427
Adiana, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				1,880,163	1,865,365
BARRX Medical, Inc. (0.59%)	Medical Devices & Equipment	Preferred Stock		1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
Gynesonics, Inc. (0.80%)	Medical Devices & Equipment	Senior Debt Matures October 2009 Interest rate 9.50%	$ 2,000,000	1,986,209	1,986,209
		Preferred Stock Warrants		17,552	54,735
Total Gynesonics, Inc.				2,003,761	2,040,944
Novasys Medical, Inc. (3.13%)[(4)]	Medical Devices & Equipment	Senior Debt Matures January 2010 Interest rate 9.70%	$ 8,000,000	8,000,000	8,000,000
Total Novasys Medical, Inc.				8,000,000	8,000,000
Optiscan Biomedical, Corp. (0.40%) [(4)]	Medical Devices & Equipment	Senior Debt Matures March 2008 Interest rate 15.00%	$ 1,006,259	967,314	967,314
		Preferred Stock Warrants		80,486	64,478
Optiscan Biomedical, Corp. (0.39%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,047,800	2,031,792
Power Medical Interventions, Inc. (0.01%)	Medical Devices & Equipment	Common Stock Warrants		20,687	30,200
Total Power Medical Interventions, Inc.				20,687	30,200
Xillix Technologies Corp. (1.53%)[(4)(5)(6)]	Medical Devices & Equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 3,975,834	3,775,493	3,775,493
		Common Stock Warrants		313,108	122,206
Total Xillix Technologies Corp.				4,088,601	3,897,699
Total Medical Devices & Equipment (7.58%)				19,541,012	19,366,000
Hedgestreet, Inc. (1.67%)[(4)]	Internet Consumer & Business Services	Senior Debt Matures March 2009 Interest rate 11.30%	$ 4,263,806	4,226,674	4,226,674
		Preferred Stock Warrants		54,956	44,836
Total Hedgestreet, Inc.				4,281,630	4,271,510
Invoke Solutions, Inc. (0.97%)[(4)]	Internet Consumer & Business Services	Senior Debt Matures December 2008 Interest rate 11.25%	$ 2,466,574	2,438,574	2,438,574
		Preferred Stock Warrants		43,826	35,741
Total Invoke Solutions, Inc.				2,482,400	2,474,315
RazorGator Interactive Group, Inc. (1.25%) [(4)]	Internet Consumer & Business Services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 2,637,626	2,633,276	2,633,276
		Preferred Stock Warrants		13,050	570,026
RazorGator Interactive Group, Inc. (0.67%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,646,326	4,911,480
Total Internet Consumer & Business Services (4.56%)				$ 10,410,356	$ 11,657,305

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2006

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Agami Systems, Inc. (2.75%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%	$ 7,000,000	$ 6,924,288	$ 6,924,288
		Preferred Stock Warrants		85,601	79,040
Total Agami Systems, Inc.				7,009,889	7,003,328
Cornice, Inc. (1.44%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 3,524,664	3,459,755	3,459,755
		Preferred Stock Warrants		101,597	80,181
		Preferred Stock Warrants		35,353	27,571
		Preferred Stock Warrants		135,403	106,862
Total Cornice, Inc.				3,732,108	3,674,369
Luminus Devices, Inc. (5.88%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 15,000,000	14,765,514	14,765,514
		Preferred Stock Warrants		183,290	161,106
		Preferred Stock Warrants		83,529	83,466
Total Luminus Devices, Inc.				15,032,333	15,010,086
NeoScale Systems, Inc. (1.17%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%	$ 3,000,000	2,978,373	2,978,373
		Preferred Stock Warrants		23,593	22,525
Total NeoScale Systems, Inc.				3,001,966	3,000,898
Sling Media, Inc. (0.56%)	Electronics & Computer Hardware	Preferred Stock Warrants		38,968	936,565
		Preferred Stock		500,000	500,000
Total Sling Media, Inc.				538,968	1,436,565
ViDeOnline Communications, Inc. (0.18%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures May 2009 Interest rate 15.00%	$ 461,158	461,158	461,158
		Preferred Stock Warrants		—	—
Total ViDeOnline Communications, Inc.				461,158	461,158
Total Electronics & Computer Hardware (11.98%)				29,776,422	30,586,404
Ageia Technologies, Inc. (2.76%)[(4)]	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 7,027,806	6,975,456	6,975,456
		Preferred Stock Warrants		99,190	73,604
Ageia Technologies, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				7,574,646	7,549,060
Cradle Technologies (0.02%)	Semiconductors	Preferred Stock Warrants		79,150	63,647
Total Cradle Technologies				79,150	63,647
iWatt Inc. (1.27%)[(4)]	Semiconductors	Senior Debt Matures September 2009 Interest rate Prime + 2.75%	$ 2,000,000	1,959,537	1,959,537
		Revolving Line of Credit Matures September 2007 Interest rate Prime + 1.75%	$ 1,250,000	1,250,000	1,250,000
		Preferred Stock Warrants		45,684	41,417
Total iWatt Inc.				3,255,221	3,250,954

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

December 31, 2006

Portfolio Company	Industry	Type of Investment(1)(7)	Principal Amount	Cost(2)	Value(3)
NEXX Systems, Inc. (1.96%)(4)	Semiconductors	Senior Debt Matures February 2010 Interest rate Prime + 2.75%	$ 4,000,000	$ 3,919,015	$ 3,919,015
		Revolving Line of Credit Matures December 2009 Interest rate Prime + 1.75%	$ 1,000,000	1,000,000	1,000,000
		Preferred Stock Warrants		83,116	83,938
Total NEXX Systems, Inc.				5,002,131	5,002,953
Total Semiconductors (6.21%)				15,911,148	15,866,614
Lilliputian Systems, Inc. (3.33%)(4)	Energy	Senior Debt Matures March 2010 Interest rate 9.75%	$ 8,500,000	8,463,170	8,463,170
		Preferred Stock Warrants		48,460	39,572
Total Lilliputian Systems, Inc.				8,511,630	8,502,742
Total Energy (3.33%)				8,511,630	8,502,742
Total Investments (110.89%)				$ 279,946,465	$ 283,233,751

* 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 appreciation totaled $4,919,518, $1,632,232 and $3,287,286, respectively.

(3) Except for warrants in three publicly traded companies, all investments are restricted at December 31, 2006 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup Facility. Citigroup has an equity participation right on loans collateralized under the Citigroup Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $377,000 at December 31, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2006.

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

(6) Debt is on non-accrual status at December 31, 2006, and is therefore considered non-income producing.

(7) All investments are less than 5% owned.

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2005

Portfolio Company	Industry	Type of Investment (1)(5)	Principal Amount	Cost(2)	Value(3)(4)
Acceleron Pharmaceuticals, Inc. (3.50%)*	Biopharmaceuticals	Senior Debt Matures June 2009 Interest rate 10.25%	$ 4,000,000	$ 3,932,539	$ 3,932,539
		Preferred Stock Warrants		69,106	68,054
Total Acceleron Pharmaceuticals, Inc.				4,001,645	4,000,593
Guava Technologies, Inc. (3.94%)	Biopharmaceuticals	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 4,500,000	4,397,111	4,397,111
		Preferred Stock Warrants		105,399	103,837
Total Guava Technologies, Inc.				4,502,510	4,500,948
Labopharm USA, Inc. (8.63%)(4)(6)	Biopharmaceuticals	Senior Debt Matures July 2008 Interest rate 11.95%	$ 9,837,901	9,869,420	9,869,420
Labopharm USA, Inc. (1.20%)		Common Stock		112,335	1,367,268
Total Labopharm USA, Inc.				9,981,755	11,236,688
Merrimack Pharmaceuticals, Inc. (7.89%)(4)	Biopharmaceuticals	Senior Debt Matures October 2008 Interest rate 11.15%	$ 9,000,000	8,878,668	8,878,668
		Preferred Stock Warrants		155,456	140,675
Total Merrimack Pharmaceuticals, Inc.				9,034,124	9,019,343
Omrix Biopharmaceuticals, Inc. (4.16%)	Biopharmaceuticals	Senior Debt Matures March 2008 Interest rate 11.45%	$ 4,709,994	4,701,782	4,701,782
		Common Stock Warrants		11,370	58,399
Total Omrix Biopharmaceuticals, Inc.				4,713,152	4,760,181
Paratek Pharmaceuticals, Inc. (8.76%)(4)	Biopharmaceuticals	Senior Debt Matures June 2008 Interest rate 10.6%	$ 10,000,000	9,889,320	9,889,320
		Preferred Stock Warrants		137,396	141,881
Total Paratek Pharmaceuticals, Inc.				10,026,716	10,031,201
Total Biopharmaceuticals (38.08%)				42,259,902	43,548,954
Atrenta, Inc. (4.38%)	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,869,095	4,869,095
		Preferred Stock Warrants		102,396	102,886
		Preferred Stock Warrants		33,760	33,760
Total Atrenta, Inc.				5,005,251	5,005,741
Concuity, Inc. (3.99%)	Software	Senior Debt Matures March 2008 Interest rate 9.95%	$ 4,570,498	4,567,873	4,567,873
		Preferred Stock Warrants		3,500	—
Total Concuity, Inc.				4,571,373	4,567,873
Gomez, Inc. (1.93%)(4)	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 2,197,436	2,175,075	2,175,075
		Preferred Stock Warrants		35,000	32,467
Total Gomez, Inc.				2,210,075	2,207,542

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HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2005

Portfolio Company	Industry	Type of Investment(1)(5)	Principal Amount	Cost(2)	Value(3)(4)
Inxight Software, Inc. (4.38%)(4)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 5,000,000	$ 4,956,279	$ 4,956,279
		Preferred Stock Warrants		55,963	46,735
Total Inxight Software, Inc.				5,012,242	5,003,014
Metreo, Inc. (1.11%)	Software	Senior Debt Matures November 2007 Interest rate 12.95%	$ 500,000	4,525,714	1,266,000
		Preferred Stock Warrants		50,000	—
Total Metreo, Inc.				4,575,714	1,266,000
Proficiency, Inc. (3.51%)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,917,802	3,917,802
		Preferred Stock Warrants		96,370	94,105
Total Proficiency, Inc.				4,014,172	4,011,907
Sportvision, Inc. (3.08%)(4)	Software	Senior Debt Matures June 2008 Interest rate 9.95%	$ 3,518,716	3,488,119	3,488,119
		Preferred Stock Warrants		39,339	38,523
Total Sportvision, Inc.				3,527,458	3,526,642
Talisma Corp. (2.99%)(4)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 3,410,120	3,378,814	3,378,814
		Preferred Stock Warrants		49,000	43,428
Total Talisma Corp.				3,427,814	3,422,242
Total Software (25.37%)				32,344,099	29,010,961
Wageworks, Inc. (17.12%)(4)	Consumer & Business Products	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 18,583,966	18,379,995	18,379,995
		Preferred Stock Warrants		251,964	1,197,735
Wageworks, Inc. (0.22%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				18,881,954	19,827,725
Total Consumer & Business Products (17.34%)				18,881,954	19,827,725
IKANO Communications, Inc. (14.44%)(4)	Communications & Networking	Senior Debt Matures December 2008 Interest rate 9.25%	$ 16,454,540	16,402,789	16,402,789
		Preferred Stock Warrants		45,460	43,710
		Preferred Stock Warrants		72,344	71,000
Total IKANO Communications, Inc.				16,520,593	16,517,499
Interwise, Inc. (2.46%)(4)	Communications & Networking	Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,809,653	2,809,653	2,809,653
Total Interwise, Inc.				2,809,653	2,809,653
Occam Networks, Inc. (2.79%)	Communications & Networking	Senior Debt Matures December 2007 Interest rate 11.95%	$ 2,559,827	2,540,021	2,540,021
		Preferred Stock Warrants		14,000	286,364
		Common Stock Warrants		17,000	368,935
Total Occam Networks, Inc.				2,571,021	3,195,320

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HERCULES TECHNOLOGY GROWTH CAPITAL., INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2005

Portfolio Company	Industry	Type of Investment[(1)(5)]	Principal Amount	Cost[(2)]	Value[(3)(4)]
Optovia Corporation (4.37%)	Communications & Networking	Senior Debt Matures September 2006 Interest rate Prime + 7.25%	$ 5,000,000	$ 5,000,000	$ 5,000,000
Total Optovia Corporation				5,000,000	5,000,000
Pathfire, Inc. (4.38%)	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 5,000,000	4,938,482	4,938,482
		Preferred Stock Warrants		63,276	64,144
Total Pathfire, Inc.				5,001,758	5,002,626
Total Communications & Networking (28.44%)				31,903,025	32,525,098
Adiana, Inc. (1.76%)[(4)]	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 2,000,000		
		Preferred Stock Warrants		1,943,979	1,943,979
		Preferred Stock		67,225	66,404
Adiana, Inc. (0.44%)				500,000	500,000
Total Adiana, Inc.				2,511,204	2,510,383
Optiscan Biomedical, Corp. (1.54%)[(4)]	Medical Devices & Equipment	Senior Convertible Term Loan Matures March 2008 Interest rate 15.00%	$ 1,753,164	1,683,063	1,683,063
		Preferred Stock Warrants		80,486	81,185
Optiscan Biomedical, Corp. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,763,549	2,764,248
Power Medical Interventions, Inc. (3.52%)	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate 10.71%	$ 4,000,000	3,969,515	3,969,515
		Common Stock Warrants		39,195	56,490
Total Power Medical Interventions, Inc.				4,008,710	4,026,005
Xillix Technologies Corp. (4.83%)[(6)]	Medical Devices & Equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 5,500,000	5,195,589	5,195,589
		Preferred Stock Warrants		313,108	325,601
Total Xillix Technologies Corp.				5,508,697	5,521,190
Total Medical Devices & Equipment (12.96%)				14,792,160	14,821,826
Affinity Express, Inc. (1.54%)[(4)]	Internet Consumer & Business	Senior Debt Matures November 2007 Interest rate 13.50%	$ 1,583,531	1,560,450	1,560,450
	Services	Common Stock Warrants		17,000	187,922
		Common Stock Warrants		15,000	12,995
Affinity Express, Inc. (0.22%)		Preferred Stock		250,000	250,000
Total Affinity Express, Inc.				1,842,450	2,011,367
Invoke Solutions, Inc. (1.31%)	Internet Consumer & Business	Senior Debt Matures December 2008 Interest rate 11.25%	$ 1,500,000	1,457,391	1,457,391
	Services	Preferred Stock Warrants		43,826	44,155
Total Invoke Solutions, Inc.				1,501,217	1,501,546

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL., INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

December 31, 2005

Portfolio Company	Industry	Type of Investment(1)(5)	Principal Amount	Cost(2)	Value(3)(4)
RazorGator Interactive Group, Inc. (3.64%) (4)	Internet Consumer & Business	Senior Debt Matures January 2008 Interest rate 9.95%	$ 4,104,553	$ 4,095,853	$ 4,095,853
	Services	Preferred Stock Warrants		13,050	64,833
RazorGator Interactive Group, Inc. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total RazorGator Interactive Group, Inc.				5,108,903	5,160,686
Total Internet Consumer & Business Service (7.58%)				8,452,570	8,673,599
Cornice Inc. (11.24%)(4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 5,000,000	4,915,455	4,915,455
		Revolving Line of Credit Matures November 2006 Interest rate Prime + 3.00%	$ 7,834,131	7,663,375	7,663,375
		Preferred Stock Warrants		101,597	99,336
		Preferred Stock Warrants		35,353	34,230
		Preferred Stock Warrants		135,403	132,390
Total Cornice, Inc.				12,851,183	12,844,786
Sling Media, Inc. (4.29%)(4)	Electronics & Computer Hardware	Senior Debt Matures January 2009 Interest rate 10.25%	$ 4,000,000	3,965,029	3,965,029
		Preferred Stock Warrants		38,968	945,365
Total Sling Media, Inc.				4,003,997	4,910,394
Total Electronics & Computer Hardware (15.53%)				16,855,180	17,755,180
Ageia Technologies (7.00%)(4)	Semiconductor	Senior Debt Matures August 2008 Interest rate 10.25%	$ 8,000,000	7,914,586	7,914,586
		Preferred Stock Warrants		99,190	93,518
Ageia Technologies		Preferred Stock		500,000	500,000
Total Ageia Technologies				8,513,776	8,508,104
Cradle Technologies (1.75%)	Semiconductors	Senior Debt Matures December 2008 Interest rate Prime + 4.70%	$ 2,000,000	1,923,049	1,923,049
		Preferred Stock Warrants		79,150	78,730
Total Cradle Technologies				2,002,199	2,001,779
Total Semiconductors (9.20%)				10,515,975	10,509,883
Total Investments (154.50%)				$ 176,004,865	$ 176,673,226

* Value as a percent of net assets
(1) All debt investments are income producing. Preferred and common stock and all warrants are non-income producing.
(2) Tax cost at December 31, 2005 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled $4,035,789, $3,367,428 and $668,361, respectively, at December 31, 2005.
(3) Except for common stock held in Labopharm Biopharmaceuticals, all investments are restricted at December 31, 2005 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup Facility. (see Note 5) Citigroup has an equity participation right on warrants collateralized under the Citigroup Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $342,000 at December 31, 2005 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2005.
(5) All investments are less than 5% owned.
(6) Non-U.S. company or the company's principal place of business is outside of the United States.

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Investment income:			
Interest	$ 26,278,090	$ 9,791,214	$ 214,100
Fees	3,230,366	875,429	—
Total investment income	29,508,456	10,666,643	214,100
Operating expenses:			
Interest	5,770,485	1,800,536	—
Loan fees	809,907	1,098,507	—
Employee compensation:			
Compensation and benefits	5,778,862	3,705,784	1,164,504
Stock-based compensation	617,600	252,000	680,000
Total employee compensation	6,396,462	3,957,784	1,844,504
General and administrative	5,408,785	2,285,038	411,418
Total operating expenses	18,385,639	9,141,865	2,255,922
Net investment income (loss) before provision for income taxes and investment gains and losses	11,122,817	1,524,778	(2,041,822)
Provision for income taxes	643,088	255,000	—
Net investment income (loss)	10,479,729	1,269,778	(2,041,822)
Net realized gain (loss) on investments	(1,603,692)	481,694	—
Net increase in unrealized appreciation on investments	2,507,561	353,093	—
Net realized and unrealized gain	903,869	834,787	—
Net increase (decrease) in net assets resulting from operations	$ 11,383,598	$ 2,104,565	$ (2,041,822)
Net investment income (loss) before provision for income taxes and investment gains and losses per common share:			
Basic	$ 0.83	$ 0.22	$ (1.72)
Diluted	$ 0.82	$ 0.22	$ (1.58)
Change in net assets per common share:			
Basic	$ 0.85	$ 0.30	$ (1.72)
Diluted	$ 0.84	$ 0.30	$ (1.58)
Weighted average shares outstanding:			
Basic	13,352,000	6,939,000	1,187,000
Diluted	13,527,000	7,016,000	1,293,000

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Common Stock		Preferred Stock						
	Shares	Par Value	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains (Losses) on Investments	Distributions in Excess of Investment Income	Net Assets
Balance at February 2, 2004 (commencement of operations)	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —
Net decrease in net assets resulting from operations	—	—	—	—	—	—	—	(2,041,822)	(2,041,822)
Issuance of convertible preferred stock, net of placement fees	—	—	600	1	2,574,999	—	—	—	2,575,600
Issuance of common stock, net of offering costs	1,809,270	1,809	—	—	23,863,146	—	—	—	23,864,955
Conversion of preferred stock to common stock	250,000	250	(600)	(1)	(249)	—	—	—	(600)
Stock-based compensation	—	—	—	—	680,000	—	—	—	680,000
Balance at December 31, 2004	2,059,270	2,059	—	—	27,117,896	—	—	(2,041,822)	25,078,133
Net increase in net assets resulting from operations	—	—	—	—	—	353,093	481,694	1,269,778	2,104,565
Issuance of common shares, net of offering costs	268,134	268	—	—	3,870,542	—	—	—	3,870,810
Issuance of shares in lieu of 5 year warrants	298,598	299	—	—	(299)	—	—	—	—
Issuance of shares on exercise of 1 year warrants	1,175,963	1,176	—	—	12,428,744	—	—	—	12,429,920
Issuance of common shares in IPO, net of offering costs	6,000,000	6,000	—	—	70,855,950	—	—	—	70,861,950
Dividends declared	—	—	—	—	—	—	—	(245,048)	(245,048)
Stock-based compensation	—	—	—	—	252,000	—	—	—	252,000
Balance at December 31, 2005	9,801,965	9,802	—	—	114,524,833	353,093	481,694	(1,017,092)	114,352,330
Net increase in net assets resulting from operations	—	—	—	—	—	2,507,561	(1,603,692)	10,479,729	11,383,598
Issuance of common shares	456,234	456	—	—	5,288,457	—	—	—	5,288,913
Issuance of common shares in Rights Offering, net of offering costs	3,411,992	3,412	—	—	33,825,908	—	—	—	33,829,320
Issuance of common shares in Public Offerings, net of offering costs	8,200,000	8,200	—	—	104,171,213	—	—	—	104,179,413
Issuance of common stock under dividend reinvestment plan	56,843	57	—	—	723,218	—	—	—	723,275
Dividends declared	—	—	—	—	(1,719,107)	—	—	(13,242,520)	(14,961,627)
Conversion to RIC and other tax items	—	—	—	—	(197,393)	—	(850,016)	1,047,409	—
Stock-based compensation	—	—	—	—	617,600	—	—	—	617,600
Balance at December 31, 2006	21,927,034	$ 21,927	—	$ —	$257,234,729	$ 2,860,654	$ (1,972,014)	$ (2,732,474)	$255,412,822

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 11,383,598	$ 2,104,565	$ (2,041,822)
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Purchase of investments	(195,988,389)	(177,834,136)	(16,700,000)
Principal payments received on investments	87,538,833	18,822,828	—
Proceeds from sale of investments	4,587,979	531,458	
Net unrealized appreciation on investments	(2,507,561)	(353,093)	—
Net unrealized appreciation on investments due to lender	34,334	(342,297)	—
Net realized depreciation on investments	1,603,692	(481,694)	—
Accretion of loan discounts	(1,795,079)	(358,611)	—
Accretion of loan exit fees	(597,192)	(350,944)	—
Depreciation	65,185	23,605	7,533
Stock-based compensation	617,600	252,000	680,000
Common stock issued in lieu of Director compensation	288,913	—	—
Amortization of deferred loan origination revenue	(2,355,734)	(790,169)	—
Change in operating assets and liabilities:			
Interest receivable	(830,264)	(1,047,529)	(80,902)
Prepaid expenses and other current assets	806,430	(1,289,652)	(23,442)
Income tax receivable	(34,184)	—	—
Deferred tax asset	1,454,000	(1,454,000)	—
Accounts payable	390,295	148,102	(2,481)
Income tax payable	(1,709,000)	1,709,000	—
Accrued liabilities	2,718,209	1,283,908	157,020
Deferred loan origination revenue	3,076,723	3,277,238	285,232
Net cash used in operating activities	(91,251,612)	(156,149,421)	(17,718,862)
Cash flows from investing activities:			
Purchases of capital equipment	(817,006)	(66,047)	(40,264)
Other long-term assets	(659,996)	(18,046)	(2,500)
Net cash provided by (used in) investing activities	(1,477,002)	(84,093)	(42,764)
Cash flows from financing activities:			
Proceeds from issuance of convertible preferred stock, net	—	—	2,575,000
Proceeds from issuance of common stock, net	143,008,733	87,162,680	23,864,955
Dividends paid	(14,238,352)	(245,048)	—
Borrowings of credit facilities	50,000,000	76,000,000	—
Repayments of credit facilities	(85,000,000)	—	—
Net cash provided by financing activities	93,770,381	162,917,632	26,439,955
Net increase in cash	1,041,767	(148,707,981)	8,678,329
Cash and cash equivalents at beginning of period	15,362,447	8,678,329	—
Cash and cash equivalents at end of period	$ 16,404,214	$(140,029,652)	$ 8,678,329
Supplemental Disclosure:			
Interest paid	$ 5,660,596	$ 1,704,243	$ —
Income taxes paid	$ 933,071	$ —	$ —
Stock issued in lieu of cash dividends	$ 723,275	$ —	$ —

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Hercules Technology Growth Capital, Inc. (the “Company”) is a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts, Boulder, Colorado, Columbus, Ohio and Chicago, Illinois areas. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003. The Company commenced operations on February 2, 2004 and commenced investment activities in September 2004.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, (the “Code”). In conjunction with the filing of our December 31, 2006 tax return, we intend to elect to be treated as a regulated investment company, or “RIC”, under Subchapter M of the Code effective as of January 1, 2006. The Company expects to continue to qualify and to elect to be treated for tax purposes as a RIC.

In January 2005, the Company formed Hercules Technology II, L.P. (“HTII”) and Hercules Technology SBIC Management, LLC (HTM). On September 27, 2006, HTII became licensed as a Small Business Investment Company (“SBIC”). HTII is able to borrow funds from the Small Business Administration (the “SBA”) against eligible investments and additional contributions to regulatory capital. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HTII and HTM is the general partner.

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a securitized credit facility with Citigroup Global Markets Realty Corp. (see Note 4).

In December 2006, we established Hydra Management LLC and Hydra Management Co. Inc., a general partner and investment management group, respectively, should we determine in the future to pursue a relationship with an externally managed fund.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments.

Summary of Significant Accounting Policies

Use of Estimates

The accompanying consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, and actual results could differ from those estimates.

Valuation of Investments

Value is defined in Section 2(a)(41) of the 1940 Act, as (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. Because the Company invests primarily in structured mezzanine debt investments

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(“debt”) and equity growth capital (“equity”) of privately-held technology-related and life-science companies backed by leading venture capital and private equity firms, the Company values substantially all of its investments at fair value, as determined in good faith by the Board of Directors in accordance with established valuation policies and consistently applied procedures and the recommendations of the Valuation Committee of the Board of Directors. At December 31, 2006, approximately 94% of the Company’s total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors.

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Fair value is the amount for which an investment could be exchanged in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Due to the inherent uncertainty in the valuation of debt and equity investments that do not have a readily available market value, the fair value established in good faith by the Board of Directors may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

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

At each reporting date, privately held debt and equity 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 that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company’s valuation of the debt and equity securities. An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower’s ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, unrealized appreciation is recorded when the investment has appreciated in value. 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. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer’s earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors. 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.

As required by the 1940 Act, the Company classifies its investments by level of control. “Control Investments” are defined in the 1940 Act as investments in those companies that the Company is deemed to “Control.” Generally, under the 1940 Act, the Company is deemed to “Control” a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. “Affiliate Investments” are investments in those companies that are “Affiliated Companies” of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an “Affiliate” of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. “Non-Control/Non-Affiliate Investments” are those investments that are neither Control Investments nor Affiliate Investments. At December 31, 2006 and 2005, all of the Company’s investments were in Non-Control/Non-Affiliate companies.

Security transactions are recorded on the trade-date basis.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Recognition

Interest income is recorded on the accrual basis and is recognized 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, the Company will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. However, Hercules may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of December 31, 2006, the Company had one loan on non-accrual status with a fair value of approximately $3.8 million. No loans were on non-accrual status as of December 31, 2005.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. These fees are reflected as adjustments to the loan yield in accordance with Statement of Financial Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring loans and Initial Direct Costs of Leases* ("FAS 91"). The Company had approximately $3.5 million and $2.7 million of unamortized fees at December 31, 2006 and 2005, respectively, and approximately $1.0 million and $351,000 in exit fees receivable at December 31, 2006 and 2005, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in 2006, 2005 or 2004.

Financing costs

Debt financing costs are fees and other direct incremental costs incurred in obtaining debt financing and are recognized as prepaid expenses or accrued liabilities in the case of back end fees, and are amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. At December 31, 2006 and 2005, the Company had prepaid debt financing costs of approximately $187,000 and $537,000, net of accumulated amortization. In addition, at December 31, 2005, the Company had accrued debt financings costs of approximately $387,000. The were no accrued debt financing costs at December 31, 2006.

Cash Equivalents

The Company considers money market funds and other highly liquid short-term investments with a maturity of less than 90 days to be cash equivalents.

Depreciation and Amortization

Furniture and equipment are depreciated on a straight-line basis over an estimated useful life of five years. Software and computer equipment are amortized over two and three years, respectively.

Stock Based Compensation

The Company follows Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("FAS 123R"), to account for stock options granted. Under FAS 123R, compensation expense

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

associated with stock based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

Earnings per share

Basic earnings per share is computed by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed by dividing such net income by the sum of weighted average number of shares outstanding for the period and the dilutive effect of potential shares that could occur upon exercise of warrants and common stock options.

Income Taxes

We operate to qualify to be taxed as a RIC under the Internal Revenue Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine “taxable income.” We have distributed and currently intend to distribute sufficient dividends to eliminate taxable income. Therefore, no provision has been recorded for Federal income taxes for operations in 2006.

Dividends

Dividends and distributions to common stockholders are approved by the Board of Directors on a quarterly basis and the dividend payable is recorded on the ex-dividend date.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash dividend, then our stockholders whom have not ‘opted out’ of our dividend reinvestment plan will have their cash dividend automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. During 2006, the Company issued 56,843 shares of common stock to shareholders in connection with the dividend reinvestment plan.

Segments

The Company lends to and invests in portfolio companies in various sectors of technology-related and life-sciences sectors. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment. All segment disclosures are included in or can be derived from the Company’s consolidated financial statements.

Reclassifications

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

Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 provides guidance for how uncertain tax

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing The Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157,*Fair Value Measurements* ("FAS 157"). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006, the Company does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

2. Investments

Investments consist of securities issued by privately- and publicly-held companies consisting of senior debt, subordinated debt, warrants and preferred equity securities. Our investments are identified in the accompanying consolidated schedule of investments. Our debt securities are payable in installments with final maturities generally from 2 to 7 years and are generally collateralized by all assets of the borrower.

A summary of the composition of the Company's investment portfolio as of December 31, 2005 and 2006 at fair value is shown as follows:

($ in millions)	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio	December 31, 2005 Investments at Fair Value	December 31, 2005 Percentage of Total Portfolio
Senior debt with warrants	$ 273.2	96.5%	$ 168.4	95.3%
Subordinated debt	1.9	0.7%	3.4	1.9%
Preferred stock	8.1	2.8%	3.5	2.0%
Common stock	—	0.0%	1.4	0.8%
	$ 283.2	100.0%	$ 176.7	100.0%

A summary of the Company's investment portfolio, at value, by geographic location is as follows:

($ in millions)	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio	December 31, 2005 Investments at Fair Value	December 31, 2005 Percentage of Total Portfolio
United States	$ 269.0	95.0%	$ 155.9	88.2%
Canada	10.5	3.7%	16.8	9.5%
Israel	3.7	1.3%	4.0	2.3%
	$ 283.2	100.0%	$ 176.7	100.0%

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table shows the fair value of our portfolio by industry sector as of December 31, 2005 and 2006 (excluding unearned income):

($ in millions)	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio	December 31, 2005 Investments at Fair Value	December 31, 2005 Percentage of Total Portfolio
Biopharmaceuticals	$ 115.4	40.7%	$ 43.6	24.7%
Software	40.5	14.3%	29.0	16.4%
Electronics & computer hardware	30.6	10.8%	17.8	10.1%
Consumer & business products	22.0	7.8%	19.8	11.2%
Communications & networking	19.5	6.9%	32.5	18.4%
Medical devices & equipment	19.4	6.9%	14.8	8.4%
Semiconductors	15.9	5.6%	10.5	5.9%
Internet consumer & business services	11.7	4.1%	8.7	4.9%
Energy	8.2	2.9%	—	0.0%
	$ 283.2	100.0%	$ 176.7	100.0%

During the periods ended December 31, 2006 and 2005, the Company made investments in debt securities totaling $193.0 million and $175.3 million, respectively, and made investments in equity securities of approximately $3.0 million and $2.5 million, respectively. In addition, the Company exercised an equity participation right with one portfolio company and converted $1.0 million of debt to equity in 2006 and exercised an equity participation right with one portfolio company and converted $1.0 million of debt to equity in 2005. No single portfolio investment represents more than 10% of the fair value of the investments as of December 31, 2006 and 2005.

3. Credit Facility

On April 12, 2005, the Company entered into a bridge loan credit facility (the “Bridge Loan Credit Facility” or the “Loan”) with Alcmene Funding, L.L.C. (“Alcmene”), a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of the Company. The Loan was subsequently amended on August 1, 2005 and March 6, 2006. The Loan was originally a $25 million senior secured term loan, allowing for up to an additional $25 million of discretionary supplemental senior secured loans. On August 1, 2005, the Company amended the Loan with an agreement extending the term of the Bridge Loan Credit Facility to April 12, 2006. The amendment eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. On March 6, 2006, the Company entered into an agreement to repay $10.0 million of the $25.0 million outstanding under its Bridge Loan Credit Facility. The Company also extended the maturity of the remaining $15.0 million to June 30, 2006 and decreased the interest rate from 13.5% to 10.86% per annum. On May 10, 2006, the Company repaid the $15.0 million outstanding under the Bridge Loan Credit Facility and paid a $500,000 loan fee due on maturity plus all accrued and unpaid interest through the date of repayment. At December 31, 2006, the Bridge Loan Credit Facility is no longer outstanding.

4. Securitization Agreement

On August 1, 2005, the Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a $100 million securitized credit facility (the “Citigroup Facility”) with Citigroup Global Markets Realty Corp. (“Citigroup”). Interest on borrowings under the Citigroup Facility are paid monthly and are charged at one-month

LIBOR plus a spread of 1.65%. The Company paid a loan origination fee equal to 0.25% of the Citigroup Facility. On March 6, 2006, the Company amended the Citigroup Facility with an agreement that increased the borrowing capacity under the facility to $125.0 million, increased the eligible capacity for loans by geographic region and allows for an interest rate of LIBOR plus 2.5% on amounts borrowed in excess of $100.0 million. The Company paid a restructuring fee of $150,000 that was expensed ratably through initial maturity on July 31, 2006. On December 6, 2006, the Company amended the Citigroup Facility with an agreement that increased the borrowing capacity under the facility to $150.0 million. This additional increase expires March 31, 2007 unless extended to a later date.

The Company's ability to make draws on the Citigroup Facility was to expire on July 31, 2006, however, it was extended for an additional 364-day period with the lenders' consent on July 28, 2006. Prior to its July 31, 2007 expiration date, the Citigroup Facility may be extended for an additional 364-day period with the lenders' consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January 2008. The Company paid an extension fee equal to 0.25% of the Citigroup Facility borrowing capacity which will be expensed ratably through maturity.

The Citigroup Facility is collateralized by loans and warrants from the Company's portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citigroup Facility. Pursuant to the warrant participation agreement, the Company 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Citigroup Facility is terminated until the Maximum Participation Limit has been reached. During the year ended December 31, 2006, the Company reduced its realized gain by approximately $221,000 for Citigroup's participation in the gain on sale of an equity security and recorded an additional liability and reduced its unrealized gains by a net amount of approximately $35,000 for Citigroup's participation. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $377,000 at December 31, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2006. Since inception of the agreement, the Company has paid Citigroup approximately $281,000 under the warrant participation agreement thereby reducing its realized gains.

At December 31, 2006, the Company, through its special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately $164.9 million to Hercules Funding Trust I and had drawn $41.0 million under the Citigroup Facility. Transfers of loans have not met the requirements of FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Citigroup Facility for the years ended 2006 and 2005 was approximately $70.6 and $2.3 million, respectively, and the average interest rates were approximately 6.74% and 6.42%, respectively.

5. Income Taxes

Through December 31, 2005 the Company was taxed under Subchapter C of the Internal Revenue Code (the "Code"). An election will be made to be treated as a regulated investment company ("RIC") under Subchapter M of the Code with the filing of the 2006 federal income tax return. The election will be effective as of January 1, 2006. Provided the Company continues to qualify as a RIC and for RIC tax treatment, its income generally will not be subject to federal income or excise tax to the extent it timely makes the requisite distributions to stockholders.

To qualify for RIC tax treatment, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. 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 in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. During the year ended December 31, 2006, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to return of capital distributions as follows:

	2006
Distributions in excess of net investment income	$ 2,766,516
Accumulated realized losses	$ (850,016)
Additional paid-in capital	$ (1,916,500)

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The tax character of distributions paid for the year ended December 31, 2006 was as follows:

	2006
Ordinary income[(a)]	$ 13,242,520
Return of capital	1,719,107
Distributions on a Tax Basis	$ 14,961,627

(a) Ordinary income is reported on form 1099-DIV as non-qualified.

For federal income tax purposes, the cost of investments owned at December 31, 2006 was approximately $283 million.

At December 31, 2006, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company's Statement of Assets and Liabilities by temporary book/tax differences primarily arising from the treatment of loan related yield enhancements.

	2006
Accumulated Capital Losses	$ (89,117)
Other Temporary Difference	(1,593,341)
Unrealized Appreciation/(Depreciation)	(161,376)
Components of Distributable Earnings at December, 31, 2006	$ (1,843,834)

At December 31, 2006, the Company had a capital loss carryover of $89,117, which is available to offset future capital gains through December 31, 2014.

At December 31, 2005, the Company had a deferred tax asset of approximately $1,454,000 which was adjusted through operations during the first quarter of 2006. Upon the determination that Hercules would qualify as a regulated investment company, any remaining deferred tax asset was reversed. The Company elected to recognize all of its net built-in gains at the time of the conversion to a RIC and paid tax on the built-in gain with the filing of its 2005 tax return. In making this election, the portfolio was marked to market at the time of the RIC election and the Company paid approximately $294,000 in Federal and state tax on the resulting taxable gain. In addition, upon completion of the 2005 tax returns, the Company recorded an additional tax benefit of approximately $345,000.

For the years prior to January 1, 2006, the benefit from (provision for) taxes on earnings was as follows (in thousands):

	Years Ended December 31, 2005	2004
Federal:		
Current	$ 1,365.0	$ —
Deferred	(1,266.0)	—
	99.0	—
State:		
Current	344.0	—
Deferred	(188.0)	—
	156.0	—
Foreign withholding tax	—	—
Total benefit from (provision for) income taxes	$ 255.0	$ —

Deferred tax assets at December 31,2005 and 2004 are related to the following (in thousands):

	Years Ended December 31, 2005	2004
Net operating loss carryforwards	$ —	$ 535.0
Capitalized assets	2.0	5.0
Expenses not currently deductible	1,452.0	246.0
Gross deferred tax asset	1,454.0	786.0
Valuation allowance	—	(786.0)
Net deferred tax asset	$ 1,454.0	$ —

For the years prior to January 1, 2006, a reconciliation of the statutory U.S. federal income tax rate to the Company’s effective rate is as follows:

	Years Ended December 31, 2005	2004
Tax at federal statutory rate	35.0%	35.0%
State, net of federal benefit	5.7	5.8
Other Items	3.4	—
Change in valuation allowance	(33.3)	(40.8)
Total	10.8%	— %

As of December 31, 2005, the Company had no net operating loss carryforwards.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Shareholders' Equity

The Company is authorized to issue 30,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

In January 2005 the Company notified its shareholders of its intent to elect to be regulated as a BDC. In conjunction with the Company's decision to elect to be regulated as a BDC, approximately 55% of the 5 Year Warrants were subject to mandatory cancellation under the terms of the Warrant Agreement with the warrant holder receiving one share of common stock for every two warrants cancelled and the exercise price of all warrants was adjusted to the then current net asset value of the common stock, subject to certain adjustments described in the Warrant Agreement. In addition, the 1 Year Warrants became subject to expiration immediately prior to the Company's election to become a BDC, unless exercised. Concurrent with the announcement of the BDC election, the Company reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57. On February 22, 2005, the Company cancelled 47% of all outstanding 5 Year Warrants and issued 298,598 shares of common stock to holders of warrants upon exercise. In addition, the majority of shareholders owning 1 Year Warrants exercised them, and purchased 1,175,963 of common shares at $10.57 per share, for total consideration to the Company of $12,429,920. All unexercised 1 Year Warrants were then cancelled. The outstanding 5 Year Warrants will expire in June 2009.

A summary of activity in the 1 Year and 5 Year Warrants initially attached to units issued for each of the three periods ended December 31, 2006 is as follows:

	One-Year Warrants	Five-Year Warrants
Warrants outstanding at February 2, 2004	—	—
Warrants issued in June 2004	1,029,635	1,029,635
Warrants outstanding at December 31, 2004	1,029,635	1,029,635
Warrants issued in January 2005	134,067	134,067
Warrants cancelled in February 2005	(83,334)	(547,030)
Warrants exercised in 2005	(1,080,368)	—
Warrants outstanding at December 31, 2005 and 2006	—	616,672

On March 7, 2006, the Company issued 432,900 shares of common stock for approximately $5.0 million in a private placement. The shares of common stock are subject to a registration rights agreement between the Company and the purchasers. The shares were registered pursuant to a registration statement that was declared effective on June 7, 2006.

During 2006, the Board of Directors elected to receive approximately $288,000 of their compensation in the form of common stock. The Company issued 23,334 shares to the directors based on the closing prices of the common stock on the specified election dates.

On April 21, 2006, the Company raised approximately $33.8 million, net of issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at $10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering.

On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of its common stock.

On December 12, 2006, the Company raised approximately $74.1 million, net of estimated issuance costs, in a public offering of 5.7 million shares of its common stock.

Common stock subject to future issuance is as follows:

	2006	2005
Stock options and warrants	1,937,564	1,393,987
Warrants issued in June 2004	616,672	616,672
Common stock reserved	2,554,236	2,010,659

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted an equity incentive plan (the “2004 Plan”) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 7,000,000 shares of common stock. Unless terminated earlier by the Company’s Board of Directors, the 2004 Plan will terminate on June 9, 2014, and no additional awards may be made under the 2004 Plan after that date.

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the “2006 Plan”) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company’s Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission (“SEC”) to allow options to be issued under the 2006 Plan which was approved on February 15, 2007. No shares were issued under the 2006 Plan as of December 31, 2006.

In 2004, each employee stock option to purchase two shares of common stock was accompanied by a warrant to purchase one share of common stock within one year and a warrant to purchase one share of common stock within five years. Both options and warrants had an exercise price of $15.00 per share on date of grant. On January 14, 2005, the Company notified all shareholders of its intent to elect to be regulated as a BDC and reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57 but did not reduce the strike price of the options (see Note 6). The unexercised one-year warrants expired and 55% of the five-year warrants were cancelled immediately prior to the Company’s election to become a BDC.

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A summary of common stock options and warrant activity under the Company's 2004 Plan for each of the three periods ended December 31, 2006 is as follows:

	Common Stock Options	One-Year Warrants	Five-Year Warrants
Outstanding at February 2, 2004 (commencement of operations)	—	—	—
Granted	273,436	106,718	106,718
Exercised	—	—	—
Cancelled	—	—	—
Outstanding at December 31, 2004	273,436	106,718	106,718
Granted	1,270,000	—	—
Exercised	—	(95,595)	—
Cancelled	(206,000)	(11,123)	(50,167)
Outstanding at December 31, 2005	1,337,436	—	56,551
Granted	663,500	—	—
Exercised	—	—	—
Cancelled	(119,923)	—	—
Outstanding at December 31, 2006	1,881,013	—	56,551
Weighted-average exercise price at December 31, 2006	$ 12.86	—	$ 10.57

All of the options granted in 2004 are 100% vested on the date of grant, except for options granted to directors to acquire 30,000 shares which were cancelled in 2005 and options to acquire 16,000 shares granted to employees in December 2004. Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At December 31, 2006 options for approximately 676,000 shares were exercisable at a weighted average exercise price of approximately $13.46 per share with a weighted average exercise term of 4.5 years. The outstanding five year warrants have an expected life of five years.

The Company determined that the fair value of options and warrants granted during the years ended December 31, 2006 and 2005 was approximately $843,000 and $1.4 million, respectively. During the years ended December 31, 2006 and 2005, approximately $618,000 and $252,000 of share-based cost was expensed, respectively. As of December 31, 2006, there was $1.4 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.0 years. The fair value of options granted in 2006 and 2005 was based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the three periods ended December 31, 2006:

	2006	2005	2004
Expected Volatility	24%	25%	0%
Expected Dividends	8%	8%	0%
Expected term (in years)	4.5	4.5	5
Risk-free rate	4.53-5.05%	3.88-4.06%	3.90%

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Earnings per Share

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

	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Net increase (decrease) in net assets resulting from operations	$ 11,383,598	$ 2,104,565	$ (2,041,822)
Weighted average common shares outstanding	13,352,000	6,939,000	1,187,000
Change net assets per common share—basic	$ 0.85	$ 0.30	$ (1.72)
Net increase (decrease) in net assets resulting from operations	$ 11,383,598	$ 2,104,565	$ (2,041,822)
Weighted average common shares outstanding	13,352,000	6,939,000	1,187,000
Dilutive effect of warrants and stock options	175,000	77,000	106,000
Weighted average common shares outstanding, assuming dilution	13,527,000	7,016,000	1,293,000
Change net assets per common share—assuming dilution	$ 0.84	$ 0.30	$ (1.58)

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of warrants. The Company has included approximately 1,286,000 outstanding warrants and stock options in the calculation of diluted net income per share that are exercisable at a price lower than HTGC, Inc.'s annual average trading price for the 2006 earnings per share presented. Common share equivalents excluded from this calculation could be dilutive in the future. Options for approximately 1,268,000, 1,337,000 and 273,000 shares of common stock have been excluded for the periods ended December, 2006, 2005 and 2004, respectively.

9. Related-Party Transactions

In January 2005, the CEO, the President, and four employees purchased 40,000, 13,500, and 8,567 units for $1,200,000, $405,000 and $257,010, respectively. On January 26, 2005, JMP Group, LLC also purchased 72,000 units for $2,008,800, which is net of an underwriting discount of $151,200 as compensation. Each unit consisted of two shares of our common stock, a 1 Year Warrant and a 5 Year Warrant.

On June 8, 2005, the Company entered into an Underwriting Agreement with JMP Securities LLC pursuant to which JMP Securities LLC served as the lead underwriter in the Company's initial public offering completed on June 9, 2005. The Company paid JMP Securities LLC a fee of approximately $3.8 million in connection with their services as the lead underwriter.

In conjunction with the Company's Rights offering completed on April 21, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $700,000 as co-manager of the offering.

In conjunction with the Company's public offering completed on December 7, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $1.2 million as co-manager of the offering.

10. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the

Company's portfolio companies. The balance of unused commitments to extend credit at December 31, 2006 totaled approximately $55.5 million. Since this commitment may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately $380,000, $221,000 and $102,000 during the years ended December 31, 2006, 2005 and 2004, respectively.

Future commitments under the credit facility and operating leases were as follows at December 31, 2006.

	Payments due by period (dollars in thousands)				
Contractual Obligations(1)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Borrowings(2)	$41,000	$41,000	$ —	$ —	$ —
Operating Lease Obligations	3,268	482	1,374	986	426
Total	$44,268	$41,482	$ 1,374	$ 986	$ 426

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

(2) Borrowings under our Citigroup Credit Facility are listed based on the contractual maturity of the credit facility. Actual repayments could differ significantly due to prepayments by our existing portfolio companies, modifications of our current agreements with our existing portfolio companies and modification of the credit facility. See Note 4.

11. Indemnification

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

12. Concentrations of Credit Risk

The Company's customers are primarily small and medium sized companies in the biopharmaceutical, communications and networking, consumer and business products, electronics and computers, medical device, semiconductor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

The largest portfolio companies vary from year to year as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies. For the years ended December 31, 2006 and 2005, the Company's ten largest portfolio companies represented approximately 43.4% and approximately 58.7% of the total fair value of its investments. The Company had four investments that represent 5% or more of the fair value of its investments at December 31, 2006. At December 31, 2006 and 2005, the Company had eleven and seven equity investments, respectively, and each represents 5% or more of the total fair value of equity investments.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Financial Highlights

Following is a schedule of financial highlights for year ended December 31, 2006, 2005 and for the period from February 2, 2004 (commencement of operations) to December 31, 2004:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Per share data:			
Net asset value at beginning of period	$ 11.67	$ 12.18	$ 13.19[4]
Net investment income (loss)	0.78	0.18	(0.99)
Net realized gain (loss) on investments	(0.12)	0.07	—
Net unrealized appreciation on investments	0.19	0.05	—
Total from investment operations	0.85	0.30	(0.99)
Net increase/(decrease) in net assets from capital share transactions	0.28	(0.82)	(0.35)[5]
Distributions from ordinary income	(1.06)	(0.03)	—
Return of capital distributions	(0.14)	—	—
Stock-based compensation expense included in investment income[1]	0.05	0.04	0.33
Net asset value at end of period	$ 11.65	$ 11.67	$ 12.18
Ratios and supplemental data:			
Per share market value at end of period	$ 14.25	11.99	$ — [6]
Total return	28.86%[2]	-7.58%[3]	N/A
Shares outstanding at end of period	21,927,034	9,801,965	2,059,270
Weighted average number of common shares outstanding	13,352,000	6,939,000	1,187,327
Net assets at end of period	$255,412,822	$114,352,330	$ 25,078,133
Ratio of operating expense to average net assets	13.11%	11.57%	8.81%[7]
Ratio of net investment income (loss) before provision for income tax expense and investment gains and losses	7.93%	1.93%	7.95%[7]
Average debt outstanding	$ 77,795,000	$ 20,284,932	$ —
Weighted average debt per common share	$ 5.83	$ 2.92	$ —
Portfolio turnover	1.50%	0.60%	0.00%

(1) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to FAS 123R, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(2) The total return for the period ended December 31, 2006 equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

(3) The total return for the period ended December 31, 2005 is for a shareholder who owned common shares throughout the period, and received one additional common share for every two 5 Year Warrants cancelled. Shareholders who purchased common shares on January 26, 2005, exercised 1 Year Warrants, or purchased common shares in the initial public offering will have a different total return. The Company completed its initial public offering on June 11, 2005; prior to that date shares were issued in private placements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(4) On June 29, 2004, the Company completed its sale of common stock in a private placement at $15.00 per share ($13.19 per share net of offering costs).
(5) Immediately after the sale of common stock in June 2004, 600 convertible preferred shares were converted into 125,000 units.
(6) The Company completed the initial public offering of its common stock in June 2005, therefore, no market value data is presented as of December 31, 2004.
(7) Not annualized.

14. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the eight quarters ended December 31, 2006. 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 further quarter.

	Quarter Ended			
	3/31/06	6/30/06	9/30/06	12/31/06
Total investment income	$ 6,487,133	$ 6,787,911	$ 7,544,032	$ 8,689,380
Net investment income (loss) before provision for income tax expense	2,045,885	2,467,508	3,117,155	3,492,269
Net investment income (loss)	2,504,996	3,366,372	1,572,639	3,939,591
Net investment income per common share (basic)	$ 0.25	$ 0.26	$ 0.12	$ 0.23

	Quarter Ended			
	3/31/05	6/30/05	9/30/05	12/31/05
Total investment income	$ 753,973	$ 1,912,824	$ 3,659,998	$ 4,339,848
Net investment income (loss) before provision for income tax expense	32,370	(333,597)	884,834	941,171
Net investment income (loss)	32,370	709,795	1,561,924	(199,524)
Net investment income per common share (basic)	$ 0.01	$ 0.14	$ 0.16	$ (0.02)

15. Subsequent Events

On January 3, 2007, in connection with the December 12, 2006 common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 840,000 shares of our common stock for additional gross proceeds to the company of approximately $11 million.

On February 7, 2007, the Board of Directors announced a dividend of $0.30 per share to shareholders of record as of February 19, 2007 and payable on March 19, 2007.

During February 2007, Farallon Capital Management, L.L.C. and its related affiliates and Manuel Henriquez, the Company’s CEO, exercised warrants to purchase 132,480 and 75,075 shares of the Company’s common stock. The exercise price of the warrants was $10.57 per share resulting in net proceeds to the company of approximately $2.2 million.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Investments, at value (cost of $338,325,156 and $279,946,465, respectively)	$ 342,483,418	$ 283,233,751
Deferred loan origination revenue	(4,312,934)	(3,450,971)
Cash and cash equivalents	41,488,328	16,404,214
Interest receivable	3,976,516	2,906,831
Other assets	2,636,706	2,048,384
Total assets	386,272,034	301,142,209
Liabilities		
Accounts payable	1,115,721	540,376
Accrued liabilities	2,545,573	4,189,011
Short-term loans payable	113,000,000	41,000,000
Total liabilities	116,661,294	45,729,387
Net assets	$ 269,610,740	$ 255,412,822
Net assets consist of:		
Par value	$ 23,091	$ 21,927
Capital in excess of par value	271,996,278	257,234,729
Unrealized appreciation on investments	3,676,707	2,860,654
Accumulated realized gains (losses) on investments	(1,682,312)	(1,972,014)
Distributions in excess of investment income	(4,403,024)	(2,732,474)
Total net assets	$ 269,610,740	$ 255,412,822
Shares of common stock outstanding ($0.001 par value, 60,000,000 authorized)	23,090,751	21,927,034
Net asset value per share	$ 11.68	$ 11.65

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(unaudited)

Portfolio Company	Industry	Type of Investment (1)(6)	Principal Amount	Cost(2)	Value(3)
Acceleron Pharmaceuticals, Inc. (1.57%)*(4)	Drug Discovery	Senior Debt Matures June 2009 Interest rate 10.25%	$ 3,868,591	$ 3,793,731	$ 3,793,731
		Preferred Stock Warrants		69,106	413,349
		Preferred Stock Warrants		34,996	32,709
Acceleron Pharmaceuticals, Inc. (0.41%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				4,897,833	5,350,901
Aveo Pharmaceuticals, Inc. (5.57%)(4)	Drug Discovery	Senior Debt Matures September 2009 Interest rate 10.75%	$ 15,000,000	14,863,247	14,863,247
		Preferred Stock Warrants		144,056	107,840
		Preferred Stock Warrants		46,288	41,439
Total Aveo Pharmaceuticals, Inc.				15,053,591	15,012,526
Elixir Pharmaceuticals, Inc. (3.71%)(4)	Drug Discovery	Senior Debt Matures June 2010 Interest rate Prime + 2.45%	$ 10,000,000	9,868,289	9,868,289
		Preferred Stock Warrants		149,510	139,244
Total Elixir Pharmaceuticals, Inc.				10,017,799	10,007,533
EpiCept Corporation (3.75%)(4)	Drug Discovery	Senior Debt Matures August 2009 Interest rate 11.70%	$ 10,000,000	9,377,181	9,377,181
		Common Stock Warrants		794,633	740,783
Total EpiCept Corporation				10,171,814	10,117,964
Memory Pharmaceuticals Corp. (2.13%)	Drug Discovery	Senior Debt Matures February 2011 Interest rate 11.45%	$ 6,000,000	4,966,633	4,966,633
		Common Stock Warrants		1,057,399	786,899
Total Memory Pharmaceuticals Corp.				6,024,032	5,753,532
Merrimack Pharmaceuticals, Inc. (2.28%)(4)	Drug Discovery	Convertible Senior Debt Matures October 2008 Interest rate 11.15%	$ 5,514,385	5,449,928	5,736,928
		Preferred Stock Warrants		155,456	398,921
Total Merrimack Pharmaceuticals, Inc.				5,605,384	6,135,849
Paratek Pharmaceuticals, Inc. (2.12%)(4)	Drug Discovery	Senior Debt Matures June 2008 Interest rate 11.10%	$ 5,675,635	5,622,203	5,622,203
		Preferred Stock Warrants		137,396	101,151
Total Paratek Pharmaceuticals, Inc.				5,759,599	5,723,354
Portola Pharmaceuticals, Inc. (5.57%)(4)	Drug Discovery	Senior Debt Matures September 2010 Interest rate Prime + 1.75%	$ 15,000,000	14,865,809	14,865,809
		Preferred Stock Warrants		151,557	139,614
Total Portola Pharmaceuticals, Inc.				15,017,366	15,005,423

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment [1][6]	Principal Amount	Cost[2]	Value[3]
Sirtris Pharmaceuticals, Inc. (3.80%)[4]	Drug Discovery	Senior Debt			
		Matures April 2011			
		Interest rate 10.60%	$ 10,000,000	$ 9,928,937	$ 9,928,937
		Preferred Stock Warrants		88,829	316,536
Sirtris Pharmaceuticals, Inc. (0.19%)		Preferred Stock		500,000	500,000
Total Sirtris Pharmaceuticals, Inc.				10,517,766	10,745,473
Total Drug Discovery (31.10%)				83,065,184	83,852,555
IKANO Communications, Inc. (8.38%)[4]	Communications & Networking	Senior Debt			
		Matures March 2011			
		Interest rate 11.00%	$ 22,500,000	22,500,000	22,500,000
		Preferred Stock Warrants		45,460	30,260
		Preferred Stock Warrants		72,344	50,900
Total IKANO Communications, Inc.				22,617,804	22,581,160
Interwise, Inc. (0.72%)[4]	Communications & Networking	Senior Debt			
		Matures August 2008			
		Interest rate 17.50%	$ 1,894,705	1,701,456	1,701,456
		Preferred Stock Warrants		268,401	237,599
Total Interwise, Inc.				1,969,857	1,939,055
Pathfire, Inc. (1.74%)[4]	Communications & Networking	Senior Debt			
		Matures December 2008			
		Interest rate Prime + 3.65%	$ 4,713,221	4,678,068	4,678,068
		Preferred Stock Warrants		63,276	13,390
Total Pathfire, Inc.				4,741,344	4,691,458
Ping Identity Corporation (0.92%)[4]	Communications & Networking	Senior Debt			
		Matures June 2009			
		Interest rate 11.50%	$ 2,343,556	2,309,476	2,309,476
		Preferred Stock Warrants		51,801	157,848
Total Ping Identity Corporation				2,361,277	2,467,324
Rivulet Communications, Inc. (1.30%)[4]	Communications & Networking	Senior Debt			
		Matures September 2009			
		Interest rate 10.60%	$ 3,500,000	3,463,969	3,463,969
		Preferred Stock Warrants		50,710	37,876
Rivulet Communications, Inc. (0.09%)		Preferred Stock		250,000	250,000
Total Rivulet Communications, Inc.				3,764,679	3,751,845
Simpler Networks Corp. (1.98%)[4]	Communications & Networking	Senior Debt			
		Matures July 2009			
		Interest rate 11.75%	$ 4,707,907	4,606,291	4,606,291
		Preferred Stock Warrants		160,241	733,919
Simpler Networks Corp. (0.19%)		Preferred Stock		500,000	500,000
Total Simpler Networks Corp.				5,266,532	5,840,210

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment [1][6]	Principal Amount	Cost[2]	Value[3]
Wireless Channels, Inc. (4.63%)	Communications & Networking	Senior Debt			
		Matures April 2010			
		Interest rate 9.25%	$ 2,500,000	$ 2,348,971	$ 2,348,971
		Subordinated Debt			
		Matures April 2010			
		Interest rate Prime + 4.25%	$ 10,000,000	10,000,000	10,000,000
		Preferred Stock Warrants		155,139	158,872
Total Wireless Channels, Inc.				12,504,110	12,507,843
Total Communications & Networking (19.95%)				53,225,603	53,778,895
Atrenta, Inc. (1.82%)[4]	Software	Senior Debt			
		Matures June 2009			
		Interest rate 11.50%	$ 4,707,075	4,643,687	4,643,687
		Preferred Stock Warrants		102,396	194,647
		Preferred Stock Warrants		33,760	63,869
Atrenta, Inc. (0.09%)		Preferred Stock		250,000	250,000
Total Atrenta, Inc.				5,029,843	5,152,203
Blurb, Inc. (0.09%)	Software	Senior Debt			
		Matures December 2009			
		Interest rate 9.55%	$ 250,000	238,530	238,530
		Preferred Stock Warrants		12,904	12,034
Total Blurb, Inc.				251,434	250,564
Compete, Inc. (1.31%)[4]	Software	Senior Debt			
		Matures March 2009			
		Interest rate Prime + 3.50%	$ 3,530,663	3,490,402	3,490,402
		Preferred Stock Warrants		62,067	46,064
Total Compete, Inc.				3,552,469	3,536,466
Forescout Technologies, Inc. (1.11%)[4]	Software	Senior Debt			
		Matures August 2009			
		Interest rate 11.15%	$ 2,500,000	2,455,217	2,455,217
		Revolving Line of Credit			
		Matures August 2007			
		Interest rate Prime + 1.49%	$ 500,000	500,000	500,000
		Preferred Stock Warrants		55,593	48,020
Total Forescout Technologies, Inc.				3,010,810	3,003,237
GameLogic, Inc. (1.11%)[4]	Software	Senior Debt			
		Matures December 2009			
		Interest rate Prime + 4.125%	$ 3,000,000	2,961,173	2,961,173
		Preferred Stock Warrants		52,604	39,291
Total GameLogic, Inc.				3,013,777	3,000,464
Gomez, Inc. (0.35%)[4]	Software	Senior Debt			
		Matures December 2007			
		Interest rate 12.25%	$ 946,303	938,525	938,525
		Preferred Stock Warrants		35,000	14,466
Total Gomez, Inc.				973,525	952,991
HighRoads, Inc. (0.65%)[4]	Software	Senior Debt			
		Matures February 2009			
		Interest rate 11.65%	$ 1,751,086	1,723,912	1,723,912
		Preferred Stock Warrants		44,466	33,159
Total HighRoads, Inc.				1,768,378	1,757,071

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment [1][6]	Principal Amount	Cost[2]	Value[3]
Intelliden, Inc. (1.11%)	Software	Senior Debt			
		Matures February 2010			
		Interest rate 13.20%	$ 3,000,000	$ 2,985,453	$ 2,985,453
		Preferred Stock Warrants		17,542	15,796
Total Intelliden, Inc.				3,002,995	3,001,249
Inxight Software, Inc. (1.39%) [4]	Software	Senior Debt			
		Matures February 2008			
		Interest rate 10.00%	$ 3,747,308	3,729,819	3,729,819
		Preferred Stock Warrants		55,963	24,430
Total Inxight Software, Inc.				3,785,782	3,754,249
Oatsystems, Inc. (2.17%) [4]	Software	Senior Debt			
		Matures September 2009			
		Interest rate 11.00%	$ 5,826,735	5,771,694	5,771,694
		Preferred Stock Warrants		67,484	50,437
Total Oatsystems, Inc.				5,839,178	5,822,131
Proficiency, Inc. (1.51%) [5]	Software	Senior Debt			
		Matures July 2008			
		Interest rate 12.00%	$ 4,000,000	3,960,318	3,960,318
		Preferred Stock Warrants		96,370	106,725
Total Proficiency, Inc.				4,056,688	4,067,043
PSS Systems, Inc. (0.13%)	Software	Senior Debt			
		Matures March 2010			
		Interest rate 10.74%	$ 350,000	300,217	300,217
		Preferred Stock Warrants		51,205	53,257
Total PSS Systems, Inc.				351,422	353,474
Savvion, Inc. (1.84%) [4]	Software	Senior Debt			
		Matures March 2009			
		Interest rate Prime + 3.45%	$ 1,899,414	1,899,414	1,899,414
		Revolving Line of Credit			
		Matures March 2007			
		Interest rate Prime + 2.00%	$ 3,000,000	3,000,000	3,000,000
		Preferred Stock Warrants		52,135	39,070
Total Savvion, Inc.				4,951,549	4,938,484
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants		39,339	26,992
Total Sportvision, Inc.				39,339	26,992
Talisma Corp. (0.55%) [4]	Software	Subordinated Debt			
		Matures December 2007			
		Interest rate 11.25%	$ 1,461,961	1,451,072	1,451,072
		Preferred Stock Warrants		49,000	19,430
Total Talisma Corp.				1,500,072	1,470,502
Total Software (15.24%)				41,127,261	41,087,120
Agami Systems, Inc. (2.60%) [4]	Electronics & Computer Hardware	Senior Debt			
		Matures August 2009			
		Interest rate 11.00%	$ 7,000,000	6,931,616	6,931,616
		Preferred Stock Warrants		85,601	74,782
Total Agami Systems, Inc.				7,017,217	7,006,398

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment (1)(6)	Principal Amount	Cost(2)	Value(3)
Cornice, Inc. (0.99%)(4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 2,736,819	$ 2,680,376	$ 2,680,376
		Preferred Stock Warrants		101,597	—
		Preferred Stock Warrants		35,353	—
		Preferred Stock Warrants		135,403	—
Total Cornice, Inc.				2,952,729	2,680,376
Luminus Devices, Inc. (5.41%) (4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 14,558,264	14,346,470	14,346,470
		Preferred Stock Warrants		183,290	141,418
		Preferred Stock Warrants		83,529	79,349
Total Luminus Devices, Inc.				14,613,289	14,567,237
NeoScale Systems, Inc. (1.11%)	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%	$ 3,000,000	2,980,339	2,980,339
		Preferred Stock Warrants		23,593	21,329
Total NeoScale Systems, Inc.				3,003,932	3,001,668
Sling Media, Inc. (0.53%)	Electronics & Computer Hardware	Preferred Stock Warrants		38,968	933,910
		Preferred Stock		500,000	500,000
Total Sling Media, Inc.				538,968	1,433,910
ViDeOnline Communications, Inc. (0.11%) (4)	Electronics & Computer Hardware	Preferred Stock Warrants		—	296,474
Total ViDeOnline Communications, Inc.				—	296,474
Total Electronics & Computer Hardware (10.75%)				28,126,135	28,986,063
Quatrx Pharmaceuticals Company (6.55%) (4)	Specialty Pharmaceuticals	Senior Debt Matures January 2010 Interest rate Prime + 3.00%	$ 17,635,698	17,484,205	17,484,205
		Preferred Stock Warrants		220,354	167,782
Total Quatrx Pharmaceuticals Company				17,704,559	17,651,987
Aegerion Pharmaceuticals, Inc. (3.71%)	Specialty Pharmaceuticals	Senior Debt Matures August 2010 Interest rate Prime + 2.50%	$ 10,000,000	9,931,806	9,931,806
		Preferred Stock Warrants		69,207	70,795
Total Aegerion Pharmaceuticals, Inc.				10,001,013	10,002,601
Total Specialty Pharmaceuticals (10.26%)				27,705,572	27,654,588
BabyUniverse, Inc. (1.88%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 5,000,000	4,756,082	4,756,082
		Common Stock Warrants		325,224	308,431
Total BabyUniverse, Inc.				5,081,306	5,064,513
Market Force Information, Inc. (0.66%) (4)	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,660,375	1,644,701	1,644,701
		Preferred Stock Warrants		23,823	143,058
Market Force Information, Inc. (0.19%)		Preferred Stock		500,000	500,000
Total Market Force Information, Inc.				2,168,524	2,287,759

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment [1][6]	Principal Amount	Cost[2]	Value[3]
Wageworks, Inc. (5.13%)[4]	Consumer & Business Products	Senior Debt			
		Matures November 2008			
		Interest rate Prime + 4.00%	$ 12,811,228	$ 12,697,244	$ 12,697,244
		Preferred Stock Warrants		251,964	1,123,874
Wageworks, Inc. (0.09%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				13,199,203	14,071,113
Total Consumer & Business Products (7.95%)				20,449,033	21,423,385
Ageia Technologies, Inc. (2.44%)[4]	Semiconductors	Senior Debt			
		Matures August 2008			
		Interest rate 10.25%	$ 6,519,688	6,475,603	6,475,603
		Convertible Debt		43,316	43,316
		Preferred Stock Warrants		99,190	67,663
Ageia Technologies, Inc. (0.19%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				7,118,109	7,086,582
Cradle Technologies (0.02%)	Semiconductors	Preferred Stock Warrants		79,150	59,303
Total Cradle Technologies				79,150	59,303
iWatt Inc. (1.50%)[4]	Semiconductors	Senior Debt			
		Matures September 2009			
		Interest rate Prime + 2.75%	$ 2,000,000	1,963,453	1,963,453
		Revolving Line of Credit			
		Matures September 2007			
		Interest rate Prime + 1.75%	$ 2,035,000	2,035,000	2,035,000
		Preferred Stock Warrants		45,684	39,180
Total iWatt Inc.				4,044,137	4,037,633
NEXX Systems, Inc. (2.60%) [4]	Semiconductors	Senior Debt			
		Matures February 2010			
		Interest rate Prime + 2.75%	$ 5,000,000	4,925,409	4,925,409
		Revolving Line of Credit			
		Matures December 2009			
		Interest rate Prime + 1.75%	$ 2,000,000	2,000,000	2,000,000
		Preferred Stock Warrants		83,116	79,800
Total NEXX Systems, Inc.				7,008,525	7,005,209
Total Semiconductors (6.75%)				18,249,921	18,188,727
Labopharm USA, Inc. (2.09%)[4][5]	Drug Delivery	Senior Debt			
		Matures July 2008			
		Interest rate 11.95%	$ 5,701,506	5,638,468	5,638,468
Total Labopharm USA, Inc.				5,638,468	5,638,468
TransOral Pharmaceuticals, Inc. (3.60%) [4]	Drug Delivery	Senior Debt			
		Matures October 2009			
		Interest rate 10.69%	$ 9,470,464	9,399,755	9,399,755
		Preferred Stock Warrants		35,630	122,134
		Preferred Stock Warrants		51,067	191,549
TransOral Pharmaceuticals, Inc. (0.19%)		Preferred Stock		500,000	500,000
Total TransOral Pharmaceuticals, Inc.				9,986,452	10,213,438
Total Drug Delivery (5.88%)				15,624,920	15,851,906

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment (1)(6)	Principal Amount	Cost(2)	Value(3)
BARRX Medical, Inc. (0.56%)	Therapeutic				
		Preferred Stock		$ 1,500,000	$ 1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
Gynesonics, Inc. (0.76%)(4)	Therapeutic	Senior Debt			
		Matures October 2009			
		Interest rate 9.50%	$ 2,000,000	1,987,462	1,987,462
		Preferred Stock Warrants		17,552	53,842
Gynesonics, Inc. (0.09%)		Preferred Stock		250,000	250,000
Total Gynesonics, Inc.				2,255,014	2,291,304
Novasys Medical, Inc. (2.96%)(4)	Therapeutic	Senior Debt			
		Matures January 2010			
		Interest rate 9.70%	$ 8,000,000	8,000,000	8,000,000
Total Novasys Medical, Inc.				8,000,000	8,000,000
Power Medical Interventions, Inc. (0.01%)	Therapeutic				
		Common Stock Warrants		20,687	28,786
Total Power Medical Interventions, Inc.				20,687	28,786
Total Therapeutic (4.38%)				11,775,701	11,820,090
Hedgestreet, Inc. (1.41%)(4)	Internet Consumer & Business Services	Senior Debt			
		Matures March 2009			
		Interest rate 11.30%	$ 3,802,555	3,769,878	3,769,878
		Preferred Stock Warrants		54,956	41,866
Total Hedgestreet, Inc.				3,824,834	3,811,744
Invoke Solutions, Inc. (0.82%)(4)	Internet Consumer & Business Services	Senior Debt			
		Matures December 2008			
		Interest rate 11.25%	$ 2,187,234	2,162,886	2,162,886
		Preferred Stock Warrants		43,826	33,322
Total Invoke Solutions, Inc.				2,206,712	2,196,208
RazorGator Interactive Group, Inc. (1.11%) (4)	Internet Consumer & Business Services	Senior Debt			
		Matures January 2008			
		Interest rate 9.95%	$ 2,396,133	2,392,871	2,392,871
		Preferred Stock Warrants		13,050	561,742
		Preferred Stock Warrants		28,478	26,161
RazorGator Interactive Group, Inc. (0.63%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,434,399	4,688,952
Total Internet Consumer & Business Services (3.97%)				9,465,945	10,696,904
Lilliputian Systems, Inc. (3.15%)(4)	Energy	Senior Debt	$ 8,500,000		
		Matures March 2010			
		Interest rate 9.75%		8,466,078	8,466,078
		Preferred Stock Warrants		48,460	36,946
Total Lilliputian Systems, Inc.				8,514,538	8,503,024
Total Energy (3.15%)				8,514,538	8,503,024

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2007
(Continued)

Portfolio Company	Industry	Type of Investment [1][6]	Principal Amount	Cost[2]	Value[3]
Active Response Group, Inc. (2.41%)	Information Services	Senior Debt	$ 6,500,000		
		Matures March 2012			
		Interest rate Libor + 6.55%		$ 6,454,684	$ 6,454,684
		Common Stock Warrants		46,084	47,178
Total Active Response Group, Inc.				6,500,768	6,501,862
Buzznet, Inc. (0.09%)	Information Services	Senior Debt			
		Matures March 2010			
		Interest rate 10.25%	$ 250,000	241,626	241,626
		Preferred Stock Warrants		8,613	8,843
Total Buzznet, Inc.				250,239	250,469
Solutionary, Inc. (0.04%)	Information Services	Preferred Stock Warrants		93,827	96,055
Total Solutionary, Inc.				93,827	96,055
Wallop Technologies, Inc. (0.09%)	Information Services	Senior Debt			
		Matures March 2010			
		Interest rate 10.00%	$ 237,207	229,942	229,942
		Preferred Stock Warrants		7,473	7,650
Total Wallop Technologies, Inc.				237,415	237,592
Total Information Services (2.63%)				7,082,249	7,085,978
Optiscan Biomedical, Corp. (0.31%)[4]	Diagnostic	Senior Debt			
		Matures March 2008			
		Interest rate 15.00%	$ 815,291	784,135	784,135
		Preferred Stock Warrants		80,486	59,548
Optiscan Biomedical, Corp. (0.37%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				1,864,621	1,843,683
Xillix Technologies Corp. (1.41%)[4][5]	Diagnostic	Senior Debt			
		Matures December 2008			
		Interest rate 12.40%	$ 3,975,834	3,801,585	3,801,585
		Common Stock Warrants		313,108	-
Total Xillix Technologies Corp.				4,114,693	3,801,585
Total Diagnostic (2.09%)				5,979,314	5,645,268
Guava Technologies, Inc. (1.80%)[4]	Biotechnology Tools	Senior Debt			
		Matures July 2009			
		Interest rate Prime + 3.25%	$ 4,847,134	4,781,887	4,781,887
		Preferred Stock Warrants		105,399	78,193
Total Guava Technologies, Inc.				4,887,286	4,860,080
NuGEN Technologies, Inc. (0.02%)	Biotechnology Tools	Preferred Stock Warrants		44,837	45,902
Total NuGEN Technologies, Inc.				44,837	45,902
Total Biotechnology Tools (1.82%)				4,932,123	4,905,982
Waterfront Media Inc. (1.11%)	Media/Content/ Info	Senior Debt			
		Matures December 2010			
		Interest rate Prime + 3.00%	$ 1,000,000	941,994	941,994
		Revolving Line of Credit			
		Matures March 2008			
		Interest rate Prime + 1.25%	$ 2,000,000	2,000,000	2,000,000
		Preferred Stock Warrants		59,663	60,939
Total Waterfront Media Inc.				3,001,657	3,002,933
Total Media/Content/Info (1.11%)				3,001,657	3,002,933
Total Investments (127.03%)				$ 338,325,156	$ 342,483,418

* 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 appreciation totaled $5,745,612, $1,587,350 and $4,158,262, respectively.
(3) Except for warrants in four publicly traded companies, all investments are restricted at March 31, 2007 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup Facility. Citigroup has an equity participation right on loans collateralized under the Citigroup Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $432,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at March 31, 2007.
(5) Non-U.S. company or the company's principal place of business is outside the United States.
(6) All investments are less than 5% owned.

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
Acceleron Pharmaceuticals, Inc. (1.74%)*(4)	Biopharmaceuticals	Senior Debt			
		Matures June 2009			
		Interest rate 10.25%	$ 4,069,607	$ 3,987,624	$ 3,987,624
		Preferred Stock Warrants		69,106	417,115
		Preferred Stock Warrants		34,996	34,393
Acceleron Pharmaceuticals, Inc. (0.44%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				5,091,726	5,550,244
Aveo Pharmaceuticals, Inc. (5.88%)(4)	Biopharmaceuticals	Senior Debt			
		Matures September 2009			
		Interest rate 10.75%	$ 15,000,000	14,849,099	14,849,099
		Preferred Stock Warrants		144,056	115,212
		Preferred Stock Warrants		46,288	43,771
Total Aveo Pharmaceuticals, Inc.				15,039,443	15,008,082
Elixir Pharmaceuticals, Inc. (3.92%)	Biopharmaceuticals	Senior Debt			
		Matures June 2010			
		Interest rate Prime + 2.45%	$ 10,000,000	9,857,610	9,857,610
		Preferred Stock Warrants		74,755	73,334
		Preferred Stock Warrants		74,755	73,334
Total Elixir Pharmaceuticals, Inc.				10,007,120	10,004,278
EpiCept Corporation (3.84%)	Biopharmaceuticals	Senior Debt			
		Matures August 2009			
		Interest rate 11.70%	$ 10,000,000	9,312,750	9,312,750
		Common Stock Warrants		794,633	507,592
Total EpiCept Corporation				10,107,383	9,820,342
Guava Technologies, Inc. (2.26%)(4)	Biopharmaceuticals	Senior Debt			
		Matures July 2009			
		Interest rate Prime + 3.25%	$ 5,266,485	5,193,710	5,193,710
		Revolving Line of Credit			
		Matures December 2007			
		Interest rate Prime + 2.00%	$ 500,000	500,000	500,000
		Preferred Stock Warrants		105,399	83,940
Total Guava Technologies, Inc.				5,799,109	5,777,650
Labopharm USA, Inc. (2.58%)(4)(5)	Biopharmaceuticals	Senior Debt			
		Matures July 2008			
		Interest rate 11.95%	$ 6,675,417	6,598,870	6,598,870
Total Labopharm USA, Inc.				6,598,870	6,598,870
Merrimack Pharmaceuticals, Inc. (2.61%)(4)	Biopharmaceuticals	Convertible Senior Debt			
		Matures October 2008			
		Interest rate 11.15%	$ 6,043,382	5,967,550	6,254,550
		Preferred Stock Warrants		155,456	409,159
Total Merrimack Pharmaceuticals, Inc.				6,123,006	6,663,709
Paratek Pharmaceuticals, Inc. (2.62%)(4)	Biopharmaceuticals	Senior Debt			
		Matures June 2008			
		Interest rate 11.10%	$ 6,651,586	6,586,705	6,586,705
		Preferred Stock Warrants		137,396	110,553
Total Paratek Pharmaceuticals, Inc.				6,724,101	6,697,258

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
Portola Pharmaceuticals, Inc. (4.41%)	Biopharmaceuticals	Senior Debt Matures September 2010 Interest rate Prime + 1.75%	$ 11,250,000	$ 11,145,804	$ 11,145,804
		Preferred Stock Warrants		113,668	107,489
Total Portola Pharmaceuticals, Inc				11,259,472	11,253,293
Quatrx Pharmaceuticals Company (7.05%)(4)	Biopharmaceuticals	Senior Debt Matures January 2010 Interest rate Prime + 3.00%	$ 18,000,000	17,834,735	17,834,735
		Preferred Stock Warrants		220,354	179,708
Total Quatrx Pharmaceuticals Company				18,055,089	18,014,443
Sirtris Pharmaceuticals, Inc. (3.91%)(4)	Biopharmaceuticals	Senior Debt Matures April 2011 Interest rate 10.60%	$ 10,000,000	9,924,495	9,924,495
		Preferred Stock Warrants		88,829	70,986
Total Sirtris Pharmaceuticals, Inc.				10,013,324	9,995,481
TransOral Pharmaceuticals, Inc. (3.92%)(4)	Biopharmaceuticals	Senior Debt Matures October 2009 Interest rate 10.69%	$ 10,000,000	9,921,976	9,921,976
		Preferred Stock Warrants		35,630	28,265
		Preferred Stock Warrants		51,067	50,548
Total TransOral Pharmaceuticals, Inc.				10,008,673	10,000,789
Total Biopharmaceuticals (45.18%)				114,827,316	115,384,439
Atrenta, Inc. (2.03%)(4)	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,929,298	4,929,298
		Preferred Stock Warrants		102,396	200,285
		Preferred Stock Warrants		33,760	65,719
Atrenta, Inc. (0.10%)		Preferred Stock		250,000	250,000
Total Atrenta, Inc.				5,315,454	5,445,302
Blurb, Inc. (0.10%)	Software	Senior Debt Matures December 2009 Interest rate 9.55%	$ 250,000	237,454	237,454
		Preferred Stock Warrants		12,904	12,653
Total Blurb, Inc.				250,358	250,107
Compete, Inc. (1.52%)(4)	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.50%	$ 3,884,338	3,839,045	3,839,045
		Preferred Stock Warrants		62,067	49,247
Total Compete, Inc.				3,901,112	3,888,292
Forescout Technologies, Inc. (0.78%)	Software	Senior Debt Matures August 2009 Interest rate 11.15%	$ 2,000,000	1,950,584	1,950,584
		Preferred Stock Warrants		55,593	50,800
Total Forescout Technologies, Inc.				2,006,177	2,001,384

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
GameLogic, Inc. (1.17%)(4)	Software	Senior Debt Matures December 2009 Interest rate Prime + 4.125%	$ 3,000,000	$ 2,957,416	$ 2,957,416
		Preferred Stock Warrants		52,604	41,860
Total GameLogic, Inc.				3,010,020	2,999,276
Gomez, Inc. (0.48%)(4)	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 1,212,506	1,201,811	1,201,811
		Preferred Stock Warrants		35,000	18,832
Total Gomez, Inc.				1,236,811	1,220,643
HighRoads, Inc. (0.77%)(4)	Software	Senior Debt Matures February 2009 Interest rate 11.65%	$ 1,954,723	1,923,844	1,923,844
		Preferred Stock Warrants		44,466	35,484
Total HighRoads, Inc.				1,968,310	1,959,328
Intelliden, Inc. (1.17%)	Software	Senior Debt Matures February 2010 Interest rate 13.20%	$ 3,000,000	2,984,169	2,984,169
		Preferred Stock Warrants		17,542	16,688
Total Intelliden, Inc.				3,001,711	3,000,857
Inxight Software, Inc. (1.60%) (4)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 4,073,794	4,051,059	4,051,059
		Preferred Stock Warrants		55,963	29,800
Total Inxight Software, Inc.				4,107,022	4,080,859
Oatsystems, Inc. (2.36%)(4)	Software	Senior Debt Matures September 2009 Interest rate 11.00%	$ 6,000,000	5,973,007	5,973,007
		Preferred Stock Warrants		33,742	26,881
Total Oatsystems, Inc.				6,006,749	5,999,888
Proficiency, Inc. (1.43%)(5)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,951,815	3,548,185
		Preferred Stock Warrants		96,370	115,977
Total Proficiency, Inc.				4,048,185	3,664,162
Savvion, Inc. (1.58%)(4)	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.45%	$ 1,000,000	1,000,000	1,000,000
		Revolving Line of Credit Matures March 2007 Interest rate Prime + 2.00%	$ 3,000,000	2,991,311	2,991,311
		Preferred Stock Warrants		52,135	41,743
Total Savvion, Inc.				4,043,446	4,033,054
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants		39,339	29,667
Total Sportvision, Inc.				39,339	29,667

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
Talisma Corp. (0.74%)(4)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 1,873,774	$ 1,858,802	$ 1,858,802
		Preferred Stock Warrants		49,000	25,259
Total Talisma Corp.				1,907,802	1,884,061
Total Software (15.84%)				40,842,496	40,456,880
BabyUniverse, Inc. (1.90%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 5,000,000	4,728,980	4,728,980
		Common Stock Warrants		325,224	146,299
Total BabyUniverse, Inc.				5,054,204	4,875,279
Market Force Information, Inc. (0.70%) (4)	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,777,064	1,759,510	1,759,510
		Preferred Stock Warrants		23,823	19,197
Total Market Force Information, Inc.				1,783,333	1,778,707
Wageworks, Inc. (5.89%)(4)	Consumer & Business Products	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 14,036,422	13,904,441	13,904,441
		Preferred Stock Warrants		251,964	1,140,998
Wageworks, Inc. (0.10%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				14,406,400	15,295,434
Total Consumer & Business Products (8.59%)				21,243,937	21,949,420
IKANO Communications, Inc. (0.03%)	Communications & Networking	Preferred Stock Warrants		45,460	33,391
		Preferred Stock Warrants		72,344	55,530
Total IKANO Communications, Inc.				117,804	88,921
Interwise, Inc. (0.83%)(4)	Communications & Networking	Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,094,999	1,869,542	1,869,542
		Preferred Stock Warrants		268,401	244,653
Total Interwise, Inc.				2,137,943	2,114,195
Pathfire, Inc. (1.84%)(4)	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 4,713,221	4,672,795	4,672,795
		Preferred Stock Warrants		63,276	16,918
Total Pathfire, Inc.				4,736,071	4,689,713
Ping Identity Corporation (1.05%)(4)	Communications & Networking	Senior Debt Matures June 2009 Interest rate 11.50%	$ 2,569,123	2,530,953	2,530,953
		Preferred Stock Warrants		51,801	160,500
Total Ping Identity Corporation				2,582,754	2,691,453

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
Rivulet Communications, Inc. (1.37%)(4)	Communications & Networking	Senior Debt			
		Matures September 2009			
		Interest rate 10.60%	$ 3,500,000	$ 3,459,966	$ 3,459,966
		Preferred Stock Warrants		50,710	40,352
Rivulet Communications, Inc. (0.10%)		Preferred Stock		250,000	250,000
Total Rivulet Communications, Inc.				3,760,676	3,750,318
Simpler Networks Corp. (2.20%)(4)	Communications & Networking	Senior Debt			
		Matures July 2009			
		Interest rate 11.75%	$ 5,000,000	4,886,659	4,886,659
		Preferred Stock Warrants		160,241	742,688
Simpler Networks Corp. (0.20%)		Preferred Stock		500,000	500,000
Total Simpler Networks Corp.				5,546,900	6,129,347
Total Communications & Networking (7.62%)				18,882,148	19,463,947
Adiana, Inc. (0.53%)(4)	Medical Devices & Equipment	Senior Debt			
		Matures June 2008			
		Interest rate Prime + 6.00%	$ 1,346,551	1,312,938	1,312,938
		Preferred Stock Warrants		67,225	52,427
Adiana, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				1,880,163	1,865,365
BARRX Medical, Inc. (0.59%)	Medical Devices & Equipment	Preferred Stock		1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
Gynesonics, Inc. (0.80%)	Medical Devices & Equipment	Senior Debt			
		Matures October 2009			
		Interest rate 9.50%	$ 2,000,000	1,986,209	1,986,209
		Preferred Stock Warrants		17,552	54,735
Total Gynesonics, Inc.				2,003,761	2,040,944
Novasys Medical, Inc. (3.13%)(4)	Medical Devices & Equipment	Senior Debt			
		Matures January 2010			
		Interest rate 9.70%	$ 8,000,000	8,000,000	8,000,000
Total Novasys Medical, Inc.				8,000,000	8,000,000
Optiscan Biomedical, Corp. (0.40%)(4)	Medical Devices & Equipment	Senior Debt			
		Matures March 2008			
		Interest rate 15.00%	$ 1,006,259	967,314	967,314
		Preferred Stock Warrants		80,486	64,478
Optiscan Biomedical, Corp. (0.39%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,047,800	2,031,792
Power Medical Interventions, Inc. (0.01%)	Medical Devices & Equipment	Common Stock Warrants		20,687	30,200
Total Power Medical Interventions, Inc.				20,687	30,200

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost (2)	Value (3)
Xillix Technologies Corp. (1.53%) (4)(5)(6)	Medical Devices & Equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 3,975,834	$ 3,775,493	$ 3,775,493
		Common Stock Warrants		313,108	122,206
Total Xillix Technologies Corp.				4,088,601	3,897,699
Total Medical Devices & Equipment (7.58%)				19,541,012	19,366,000
Hedgestreet, Inc. (1.67%) (4)	Internet Consumer & Business Services	Senior Debt Matures March 2009 Interest rate 11.30%	$ 4,263,806	4,226,674	4,226,674
		Preferred Stock Warrants		54,956	44,836
Total Hedgestreet, Inc.				4,281,630	4,271,510
Invoke Solutions, Inc. (0.97%) (4)	Internet Consumer & Business Services	Senior Debt Matures December 2008 Interest rate 11.25%	$ 2,466,574	2,438,574	2,438,574
		Preferred Stock Warrants		43,826	35,741
Total Invoke Solutions, Inc.				2,482,400	2,474,315
RazorGator Interactive Group, Inc. (1.25%) (4)	Internet Consumer & Business Services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 2,637,626	2,633,276	2,633,276
		Preferred Stock Warrants		13,050	570,026
RazorGator Interactive Group, Inc. (0.67%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,646,326	4,911,480
Total Internet Consumer & Business Services (4.56%)				10,410,356	11,657,305
Agami Systems, Inc. (2.75%) (4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%	$ 7,000,000	6,924,288	6,924,288
		Preferred Stock Warrants		85,601	79,040
Total Agami Systems, Inc.				7,009,889	7,003,328
Cornice, Inc. (1.44%) (4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 3,524,664	3,459,755	3,459,755
		Preferred Stock Warrants		101,597	80,181
		Preferred Stock Warrants		35,353	27,571
		Preferred Stock Warrants		135,403	106,862
Total Cornice, Inc.				3,732,108	3,674,369

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
Luminus Devices, Inc. (5.88%) (4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 15,000,000	$ 14,765,514	$ 14,765,514
		Preferred Stock Warrants		183,290	161,106
		Preferred Stock Warrants		83,529	83,466
Total Luminus Devices, Inc.				15,032,333	15,010,086
NeoScale Systems, Inc. (1.17%)(4)	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%	$ 3,000,000	2,978,373	2,978,373
		Preferred Stock Warrants		23,593	22,525
Total NeoScale Systems, Inc.				3,001,966	3,000,898
Sling Media, Inc. (0.56%)	Electronics & Computer	Preferred Stock Warrants		38,968	936,565
	Hardware	Preferred Stock		500,000	500,000
Total Sling Media, Inc.				538,968	1,436,565
ViDeOnline Communications, Inc. (0.18%) (4)	Electronics & Computer Hardware	Senior Debt Matures May 2009 Interest rate 15.00%	$ 461,158	461,158	461,158
		Preferred Stock Warrants		—	—
Total ViDeOnline Communications, Inc.				461,158	461,158
Total Electronics & Computer Hardware (11.98%)				29,776,422	30,586,404
Ageia Technologies, Inc. (2.76%)(4)	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 7,027,806	6,975,456	6,975,456
		Preferred Stock Warrants		99,190	73,604
Ageia Technologies, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				7,574,646	7,549,060
Cradle Technologies (0.02%)	Semiconductors	Preferred Stock Warrants		79,150	63,647
Total Cradle Technologies				79,150	63,647
iWatt Inc. (1.27%)(4)	Semiconductors	Senior Debt Matures September 2009 Interest rate Prime + 2.75%	$ 2,000,000	1,959,537	1,959,537
		Revolving Line of Credit Matures September 2007 Interest rate Prime + 1.75%	$ 1,250,000	1,250,000	1,250,000
		Preferred Stock Warrants		45,684	41,417
Total iWatt Inc.				3,255,221	3,250,954

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2006
(Continued)

Portfolio Company	Industry	Type of Investment (1)(7)	Principal Amount	Cost(2)	Value(3)
NEXX Systems, Inc. (1.96%)(4)	Semiconductors	Senior Debt Matures February 2010 Interest rate Prime + 2.75%	$ 4,000,000	3,919,015	3,919,015
		Revolving Line of Credit Matures December 2009 Interest rate Prime + 1.75%	$ 1,000,000	1,000,000	1,000,000
		Preferred Stock Warrants		83,116	83,938
Total NEXX Systems, Inc.				5,002,131	5,002,953
Total Semiconductors (6.21%)				15,911,148	15,866,614
Lilliputian Systems, Inc. (3.33%)(4)	Energy	Senior Debt Matures March 2010 Interest rate 9.75%	$ 8,500,000	$ 8,463,170	$ 8,463,170
		Preferred Stock Warrants		48,460	39,572
Total Lilliputian Systems, Inc.				8,511,630	8,502,742
Total Energy (3.33%)				8,511,630	8,502,742
Total Investments (110.89%)				$ 279,946,465	$ 283,233,751

* 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 appreciation totaled $4,919,518, $1,632,232 and $3,287,286, respectively.

(3) Except for warrants in three publicly traded companies, all investments are restricted at December 31, 2006 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup Facility. Citigroup has an equity participation right on loans collateralized under the Citigroup Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $377,000 at December 31, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2006.

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

(6) Debt is on non-accrual status at December 31, 2006, and is therefore considered non-income producing.

(7) All investments are less than 5% owned.

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Investment income:		
Interest	$ 9,035,989	$ 5,634,539
Fees	642,957	852,594
Total investment income	9,678,946	6,487,133
Operating expenses:		
Interest	685,965	1,676,982
Loan fees	266,108	250,793
Compensation and benefits	1,939,561	1,205,081
General and administrative	1,308,235	1,185,392
Stock-based compensation	253,750	123,000
Total operating expenses	4,453,619	4,441,248
Net investment income before provision for income taxes and investment gains and losses	5,225,327	2,045,885
Provision for income taxes	—	1,760,000
Net investment income	5,225,327	285,885
Net realized gain (loss) on investments	289,702	(1,740,370)
Net increase in unrealized appreciation on investments	816,053	3,959,481
Net realized and unrealized gain	1,105,755	2,219,111
Net increase in net assets resulting from operations	$ 6,331,082	$ 2,504,996
Net investment income before provision for income taxes and investment gains and losses per common share:		
Basic	$ 0.23	$ 0.21
Diluted	$ 0.23	$ 0.21
Change in net assets per common share:		
Basic	$ 0.28	$ 0.25
Diluted	$ 0.27	$ 0.25
Weighted average shares outstanding		
Basic	22,871,000	9,912,595
Diluted	23,120,000	9,958,861

See notes to consolidated financial statements (unaudited).

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(unaudited)

	Common Stock						
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains(Losses) on Investments	Distributions in Excess of Investment Income	Net Assets
Balance at December 31, 2005	9,801,965	$ 9,802	$ 114,524,833	$ —	$ —	$ (182,305)	114,352,330
Net increase in net assets resulting from operations	—	—	—	674,089	1,545,022	285,885	2,504,996
Issuance of common stock	432,900	433	4,999,567	—	—	—	5,000,000
Dividends declared	—	—	—	—	—	(2,940,591)	(2,940,591)
Stock-based compensation	—	—	123,000	—	—	—	123,000
Balance at March 31, 2006	10,234,865	$ 10,235	$ 119,647,400	$ 674,089	$ 1,545,022	$ (2,837,011)	$ 119,039,735
Balance at December 31, 2006	21,927,034	$ 21,927	$ 257,234,729	$ 2,860,654	$ (1,972,014)	$ (2,732,474)	$ 255,412,822
							—
Net increase net assets resulting from operations	—	—	—	816,053	289,702	5,225,327	6,331,082
Issuance of common stock	11,667	12	166,243	—	—	—	166,255
Issuance of common stock in public offering overallotment exercise	840,000	840	10,851,687				10,852,527
Issuance of common stock from warrant exercises	256,128	256	2,707,017				2,707,273
Issuance of common stock under dividend reinvestment plan	55,922	56	782,852	—	—	—	782,908
Dividends declared	—	—	—	—	—	(6,895,877)	(6,895,877)
Stock-based compensation	—	—	253,750	—	—	—	253,750
Balance at March 31, 2007	23,090,751	23,091	271,996,278	3,676,707	(1,682,312)	(4,403,024)	269,610,740

See notes to consolidated financial statements (unaudited).

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 6,331,082	$ 2,504,996
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(80,230,522)	(33,000,000)
Principal payments received on investments	21,897,727	33,921,115
Proceeds from sale of investments	873,002	1,691,638
Net unrealized appreciation on investments	(870,977)	(4,118,896)
Net unrealized appreciation on investments due to lender	54,924	159,415
Net realized appreciation on investments	(289,702)	1,740,370
Warrant values for loans not funded	(138,664)	—
Accretion of loan discounts	(474,455)	(425,074)
Accretion of loan exit fees	(283,482)	(163,819)
Depreciation	47,400	9,598
Stock-based compensation	253,750	123,000
Common stock issued in lieu of Director compensation	166,255	—
Amortization of deferred loan origination revenue	(661,699)	(608,172)
Change in operating assets and liabilities:		
Interest receivable	(786,203)	(115,507)
Prepaid expenses and other current assets	(751,012)	145,107
Income tax receivable	29,294	—
Deferred tax asset	—	1,273,000
Accounts payable	575,345	432,022
Income tax payable	—	(1,288,000)
Accrued liabilities	(1,714,437)	1,000,926
Deferred loan origination revenue	1,523,662	853,850
Net cash provided by (used in) operating activities	(54,448,712)	4,135,569
Cash flows from investing activities:		
Purchases of capital equipment	(87,481)	(2,944)
Other long-term assets	173,476	—
Net cash provided by (used in) investing activities	85,995	(2,944)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	13,559,800	5,000,000
Dividends paid	(6,112,969)	(2,940,591)
Borrowings of credit facilities	87,000,000	10,000,000
Repayments of credit facilities	(15,000,000)	—
Net cash provided by financing activities	79,446,831	12,059,409
Net increase in cash	25,084,114	16,192,034
Cash and cash equivalents at beginning of period	16,404,214	15,362,447
Cash and cash equivalents at end of period	$ 41,488,328	$ 31,554,481
Supplemental Disclosure:		
Interest paid	$ 387,031	$ 1,410,121
Income taxes paid	$ —	$ 1,775,000
Stock issued in lieu of cash dividends	$ 782,908	$ —

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Hercules Technology Growth Capital, Inc. (the "Company") is a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts, Boulder, Colorado, Chicago, Illinois and Columbus, Ohio areas. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003. The Company commenced operations on February 2, 2004 and commenced investment activities in September 2004.

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

In January 2005, the Company formed Hercules Technology II, L.P. ("HT II") and Hercules Technology SBIC Management, LLC (HTM). On September 27, 2006, HTII became licensed as a Small Business Investment Company ("SBIC"). HTII is able to borrow funds from the Small Business Administration (the "SBA") against eligible investments and additional contributions to regulatory capital. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HTII and HTM is the general partner.

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a securitized credit facility with Citigroup Global Markets Realty Corp. (see Note 4).

In December 2006, The Company established Hydra Management LLC and Hydra Management Co. Inc., a general partner and investment management group, respectively, should it determine in the future to pursue a relationship with an externally managed fund.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments, apart from the reclassification described in Note 2, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period, have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2006. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Reclassification

Certain prior period information has been reclassified to conform to current year presentation. When the Company exits an investment and realizes a gain or loss, the Company makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, that the Company previously recorded to reflect the appreciated or depreciated value of the investment. The Company recorded a reversal of $3.3 million from unrealized depreciation and recorded a realized loss of $3.3 million for the nine months ended September 30, 2006. During the fourth quarter of 2005, the Company recorded an unrealized depreciation of approximately $3.3 million in one portfolio company. As disclosed in Footnote 16 — Subsequent Events to the financial statements filed on Form 10-K for the year ended December 31, 2005, the assets of the portfolio company were sold in January 2006, and a realized loss was incurred. The difference between the unrealized depreciation as recorded in 2005 and the actual realized loss was not material. The Company did not reverse the loss from an unrealized depreciation to a realized loss in the first quarter of 2006, instead only recording the reversal in the third quarter of 2006. The accompanying comparative consolidated financial statements for the first quarter reflect the reversal with the previously recorded net unrealized appreciation of approximately $674,000 resulting in an unrealized appreciation of $3.3 million and the previously realized gain of $1.5 million resulting in a net realized loss of $1.7 million. This reversal does not affect the reported Net Investment Income, Net Income, Earnings per Share, Net Asset Value or Net Asset Value per Share for the first quarter of 2006.

3. Valuation of Investments

Value is defined in Section 2(a)(41) of the 1940 Act, as (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. Because the Company invests primarily in structured mezzanine debt investments (“debt”) and equity growth capital (“equity”) of privately-held technology-related and life-science companies backed by leading venture capital and private equity firms, the Company values substantially all of its investments at fair value, as determined in good faith by the Board of Directors in accordance with established valuation policies and consistently applied procedures and the recommendations of the Valuation Committee of the Board of Directors. At March 31, 2007, approximately 89% of the Company’s total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors.

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Fair value is the amount for which an investment could be exchanged in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Due to the inherent uncertainty in the valuation of debt and equity investments that do not have a readily available market value, the fair value established in good faith by the Board of Directors may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

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

At each reporting date, privately held debt and equity 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 that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company’s valuation of the debt and equity securities. An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower's ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, an unrealized appreciation is recorded when the investment has appreciated in value. 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. The Board of Directors estimated the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer's earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors. 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.

As required by the 1940 Act, the Company classifies its investments by level of control. "Control Investments" are defined in the 1940 Act as investments in those companies that the Company is deemed to "Control". Generally, under 1940 Act, the Company is deemed to "Control" a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. "Affiliate Investments" are investments in those companies that are "Affiliated Companies" of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an "Affiliate" of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. "Non-Control/Non-Affiliate Investments" are those investments that are neither Control Investments nor Affiliate Investments. At March 31, 2007 and December 31, 2006, all of the Company's investments were in Non-Control/Non-Affiliate companies.

Security transactions are recorded on the trade-date basis.

A summary of the composition of the Company's investment portfolio as of March 31, 2007 and December 31, 2006 at fair value is shown as follows:

($ in millions)	March 31, 2007		December 31, 2006	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior debt with warrants	$ 321.8	94.0%	$ 273.2	96.5%
Subordinated debt	11.4	3.3%	1.9	0.7%
Preferred stock	9.3	2.7%	8.1	2.8%
	$ 342.5	100.0%	$ 283.2	100.0%

A Summary of the Company's investment portfolio, at value, by geographic location is as follows:

($ in millions)	March 31, 2007		December 31, 2006	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 329.0	96.1%	$ 269.0	95.0%
Canada	9.4	2.7%	10.5	3.7%
Israel	4.1	1.2%	3.7	1.3%
	$ 342.5	100.0%	$ 283.2	100.0%

The following table shows the fair value of our portfolio by industry sector at March 31, 2007 and December 31, 2006 (excluding unearned income):

($ in millions)	March 31, 2007 Investments at Fair Value	March 31, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
Drug discovery	$ 83.9	24.5%	$ 75.0	26.5%
Communications & networking	53.8	15.7%	19.5	6.9%
Software	41.1	12.0%	40.4	14.3%
Electronics & computer hardware	29.0	8.5%	30.6	10.8%
Specialty pharmaceuticals	27.6	8.1%	18.0	6.4%
Consumer & business products	21.4	6.3%	21.9	7.7%
Semiconductors	18.2	5.3%	15.9	5.6%
Drug delivery	15.9	4.6%	16.6	5.9%
Therapeutic	11.8	3.4%	13.4	4.7%
Internet consumer & business services	10.7	3.1%	11.7	4.1%
Energy	8.5	2.5%	8.5	3.0%
Information services	7.1	2.1%	—	0.0%
Diagnostic	5.6	1.6%	5.9	2.1%
Biotechnology tools	4.9	1.4%	5.8	2.0%
Media/content/info	3.0	0.9%	—	0.0%
	$ 342.5	100.0%	$ 283.2	100.0%

During the three-month period ended March 31, 2007, the Company made investments in debt securities totaling $78.4 million and made investments in equity securities of approximately $1.8 million.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. Original discount fees are reflected as adjustment to the loan yield. The Company had approximately $4.3 million and $3.5 million of unamortized fees at March 31, 2007 and December 31, 2006, respectively, and approximately $1.3 million and $1.0 million in exit fees receivable at March 31, 2007 and December 31, 2006, respectively.

4. Securitization Agreement

On August 1, 2005, the Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a $100 million securitized credit facility (the "Citigroup Facility") with Citigroup Global Markets Realty Corp. ("Citigroup"). Interest on borrowings under the Citigroup Facility are paid monthly and were charged at one-month LIBOR plus a spread of 1.65%. The Company paid a loan origination fee equal to 0.25% of the Citigroup Facility. On March 6, 2006, the Company amended the Citigroup facility with an agreement that increased the borrowing capacity under the facility to $125.0 million, increased the eligible loans and increased the eligible capacity for loans by geographic region and allowed for an interest rate of LIBOR plus 2.5% on amounts borrowed in excess of $100.0 million. The company paid a reconstructing fee of $150,000 that was expensed ratably through initial maturity on July 31, 2006. On December 6, 2006, the Company amended the Citigroup Facility with an agreement that increased the borrowing capacity under the facility to $150.0 million. On March 30, 2007, this increase was extended to the Facility expiration date, July 31, 2007, and the interest on all borrowings was reduced to LIBOR plus a spread of 1.20%. See Note 13 — Subsequent Events.

The Company's ability to make draws on the Citigroup Facility was to expire on July 31, 2006, however, it was extended for an additional 364-day period with the lender's consent on July 28, 2006. Prior to its July 31, 2007 expiration date, the Citigroup Facility may be extended for an additional 364-day period with the lenders' consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January 2008. The Company paid an extension fee equal to 0.25% of the Citigroup Facility borrowing capacity which will be expensed ratably through maturity.

The Citigroup Facility is collateralized by loans from the Company's portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citigroup facility. Pursuant to the warrant participation agreement, the Company 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the "Maximum Participation Limit"). The Obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. During the three months ended March 31, 2007, the Company reduced its realized gain by approximately $16,000 for Citigroup's participation in the gain on sale of an equity security and recorded an additional liability and reduced its unrealized gains by approximately $55,000 for Citigroup's participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $432,000 at March 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at March 31, 2007. Since inception of the agreement, the Company has paid Citigroup approximately $292,000 under the warrant participation agreement thereby reducing its realized gains.

At March 31, 2007, the Company, through its special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately $244.3 million to Hercules Funding Trust I and had drawn $113.0 million under the Citigroup Facility. Transfers of loans have not met the requirements of Statement of Financial Accounting Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investment and the related liability recorded in borrowings. The average debt outstanding under the Citigroup Facility for the quarter ended March 31, 2007 and the year ended 2006 was approximately $38.2 and $70.6 million, respectively, and the average interest rates were approximately 6.96% and 6.74% respectively.

At March 31, 2007 and December 31, 2006, the Company had the following debt:

	March 31, 2007		December 31, 2006	
($ in thousands)	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Citigroup Facility	$ 150,000	$ 113,000	$ 150,000	$ 41,000
Total	$ 150,000	$ 113,000	$ 150,000	$ 41,000

5. Income taxes

The Company intends to continue to operate so as to qualify to be taxed as a RIC under the Code and, as such, the Company would not be subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required, among other requirements, to distribute at least 90% of its annual investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company's earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company's dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company's stockholders. On March 19, 2007, the Company paid a dividend of $0.30 per share.

For the fiscal year ended December 31, 2006 a portion of the distributions to the Company's shareholders was deemed a return of capital. For the quarter ended March 31, 2007, the Company declared a distribution of $0.30 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company determined the tax attributes of its distributions year-to-date as of March 31, 2007, 80.1% would be from ordinary income and 19.9% would be a return of capital for stockholders, however there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2007 distributions to shareholders will actually be.

As of March 31, 2006, as a C corporation, the Company accrued income tax expense on a quarterly basis. Income tax expense recorded during the first quarter of 2006 was approximately $1.8 million.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As required, we have adopted FIN 48 as of January 1, 2007. We conducted a review of all open tax year's income recognition and expense deduction filing positions and income tax returns filed (federal and state) for determination of any uncertain tax positions that may require recognition of a tax liability. This review encompassed an analysis of all book/tax difference adjustments as well as the timing of income and expense recognition for all tax years still open under the statute of limitations. As a result, we determined that it is more likely than not that each tax position taken on a previously filed return or to be taken on current tax returns will be sustained on examination based on the technical merits of the positions and therefore, no recognition of a tax liability on an uncertain tax position for FIN 48 purposes is anticipated.

6. Stockholders' Equity

The Company is authorized to issue 60,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

In January 2005 the Company notified its shareholders of its intent to elect to be regulated as a BDC. In conjunction with the Company's decision to elect to be regulated as a BDC, approximately 55% of the 5 Year Warrants were subject to mandatory cancellation under the terms of the Warrant Agreement with the warrant holder receiving one share of common stock for every two warrants cancelled and the exercise price of all warrants was adjusted to the then current net asset value of the common stock, subject to certain adjustments described in the Warrant Agreement. In addition, the 1 Year Warrants became subject to expiration immediately prior to the Company's election to become a BDC, unless exercised. Concurrent with the announcement of the BDC election, the Company reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57. On February 22, 2005, the Company cancelled 47% of all outstanding 5 Year Warrants and issued 298,598 shares of common stock to holders of warrants upon exercise. In addition, the majority of shareholders owning 1 Year Warrants exercised them, and purchased 1,175,963 of common shares at $10.57 per share, for total consideration to the Company of $12,429,920. All unexercised 1 Year Warrants were then cancelled. The outstanding 5 Year Warrants will expire in June 2009.

A summary of activity in the 5 Year Warrants initially attached to units issued for the three months ended March 31, 2007 is as follows:

	Five-Year Warrants
Warrants outstanding at December 31, 2006	616,672
Warrants issued	—
Warrants cancelled	—
Warrants exercised	(223,008)
Warrants outstanding at March 31, 2007	393,664

The Company received net proceeds of approximately $2.7 million from the exercise of the 5-Year Warrants in the period ended March 31, 2007.

On March 7, 2006, the Company issued 432,900 shares of common stock for approximately $5.0 million in private placement. The shares of common stock are subject to a registration rights agreement between the Company and the purchasers. The shares were registered pursuant to a registration statement that was declared effective on June 7, 2006.

On April 21, 2006, the Company raised approximately $33.8 million, net of issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at $10.55 per share which was equivalent to 95% of the volume weighted average prices of shares traded during the ten days immediately prior to the expiration date of the offering.

On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of its common stock.

On December 12, 2006, the Company raised approximately $74.1 million, net of estimated issuance costs, in a public offering of 5.7 million shares of its common stock.

On January 3, 2007, in connection with the December 12, 2006 common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 840,000 shares of common stock for additional net proceeds of approximately $10.9 million.

7. Earnings per Share

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

	Three months ended March 31, 2007	Three months ended March 31, 2006
Net increase (decrease) in net assets resulting from operations	$ 6,331,082	$ 2,504,996
Weighted average common shares outstanding	22,871,000	9,912,595
Change net assets per common share - basic	$ 0.28	$ 0.25
Net increase (decrease) in net assets resulting from operations	$ 6,331,082	$ 2,504,996
Weighted average common shares outstanding	22,871,000	9,912,595
Dilutive effect of warrants and stock options	249,000	46,266
Weighted average common shares outstanding, assuming dilution	23,120,000	9,958,861
Change net assets per common share - assuming dilution	$ 0.27	$ 0.25

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of options and warrants. The Company has included approximately 2,173,000 and 673,223 outstanding warrants and stock options in the calculation of diluted net income per share that are exercisable at a price lower than the Company's quarterly average trading price for the earnings per share presented for the three months ended March 31, 2007 and 2006, respectively. Common share equivalents excluded from this calculation could be dilutive in the future. Options for approximately 988,000 and 1,341,000 shares of common stock have been excluded for the three months ended March 31, 2007 and 2006, respectively.

8. Related-Party Transactions

In conjunction with the Company's rights offering completed on April 21, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $700,000 as co-manager of the offering.

In conjunction with the Company's public offering completed on December 7, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $1.2 million as co-manager of the offering.

During February 2007, Farallon Capital Management, L.L.C and its related affiliates and Manuel Henriquez, the Company's CEO, exercised warrants to purchase 132,480 and 75,075 shares of the Company's common stock, respectively. The exercise price of the warrants was $10.57 per share resulting in net proceeds to the company of approximately $2.2 million.

9. Equity Incentive Plan

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

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the "2006 Plan") for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company's Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission ("SEC") to allow options to be issued under the 2006 Plan which was approved on February 15, 2007. No shares were issued under the 2006 Plan as of March 31, 2007.

In 2004, each employee stock option to purchase two shares of common stock was accompanied by a warrant to purchase one share of common stock within one year and a warrant to purchase one share of common stock within five years. Both options and warrants had an exercise price of $15.00 per share on date of grant. On January 14, 2005, the Company notified all shareholders of its intent to elect to be regulated as a BDC and reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57 but did not reduce the strike price of the options (see Note 7). The unexercised one-year warrants expired and 55% of the five-year warrants were cancelled immediately prior to the Company's election to become a BDC.

A summary of common stock options and warrant activity under the Company's 2004 Plan for the three months ended March 31 is as follows:

	Common Stock Options	Five-Year Warrants
Outstanding at December 31, 2006	1,881,013	56,551
Granted	863,000	—
Exercised	—	(33,120)
Cancelled	—	—
Outstanding at March 31, 2007	2,744,013	23,431
Weighted-average exercise price at March 31, 2007	$ 13.23	$ 10.57

All of the options granted in 2004 are 100% vested on the date of grant, except for options granted to directors to acquire 30,000 shares which were cancelled in 2005 and options to acquire 16,000 shares granted to employees in December 2004. Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At March 31, 2007 options for approximately 841,000 shares were exercisable at a weighted average exercise price of approximately $13.50 per share with a weighted average exercise term of 4.5 years. The outstanding five year warrants have an expected life of five years.

The Company determined that the fair value of options granted during the three month periods ended March 31, 2007 and 2006 was approximately $1.3 million and approximately $4,000, respectively. During the three month periods ended March 31, 2007 and 2006, approximately $254,000 and $123,000 of share-based cost was expensed, respectively. As of March 31, 2007, there was $2.4 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.0 years. The fair value of options granted in 2007 and 2006 was based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the three month periods ended March 31, 2007:

	2007	2006
Expected Volatility	24%	24%
Expected Dividends	8%	8%
Expected term (in years)	4.5	4.5
Risk-free rate	4.47 - 4.88%	4.80%

10. Financial Highlights

Following is a schedule of financial highlights for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Per share data:		
Net asset value at beginning of period	$ 11.65	$ 11.67
Net investment income	0.23	0.03
Net realized gain on investments	0.01	0.15
Net unrealized appreciation on investments	0.04	0.07
Total from investment operations	0.28	0.25
Net increase/(decrease) in net assets from capital share transactions	0.04	—
Distributions from ordinary income	(0.30)	(0.30)
Stock-based compensation expense included in investment income[1]	0.01	0.01
Net asset value at end of period	$ 11.68	$ 11.63
Ratios and supplemental data:		
Per share market value at end of period	$ 13.70	11.35
Total return[2]	-1.74%	-2.84%
Shares outstanding at end of period	23,090,751	10,234,865
Weighted average number of common shares outstanding	22,871,000	9,912,595
Net assets at end of period	$269,610,740	$119,039,735
Ratio of operating expense to average net assets (annualized)	6.70%	15.39%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets (annualized)	7.87%	7.09%
Average debt outstanding	$ 38,211,000	$ 82,666,667
Weighted average debt per common share	$ 1.67	$ 8.34
Portfolio turnover	0.29%	0.66%

(1) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to Financial Accounting Standards No. 123R, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(2) The total return equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

11. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the Company's portfolio companies. The balance of unused commitments to extend credit at March 31, 2007 totaled approximately $74.7 million. Since this commitment may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various date through December 2013. Total rent expense amounted to approximately $151,000 and $60,000 during the three-month periods ended March 31, 2007 and 2006, respectively.

The following table shows our contractual obligations as of March 31, 2007:

	Payments due by period (dollars in thousands)				
Contractual Obligations[1]	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Borrowings[2][3]	$ 113,000	$ 113,000	$ —	$ —	$ —
Operating Lease Obligations	3,132	457	1,384	993	298
Total	$ 116,132	$ 113,457	$ 1,384	$ 993	$ 298

(1) Excludes commitments to extend credit to our portfolio companies.
(2) Borrowings under our Citigroup Credit Facility are listed based on the contractual maturity of the credit facility. Actual repayments could differ significantly due to prepayments by our existing portfolio companies, modifications of our current agreements with our existing portfolio companies and modification of the credit facility.
(3) We also have a warrant participation agreement with Citigroup. See Note 4.

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

12. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 ("FAS 157"), "Fair Value Measurements." Among other requirements, FAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. FAS 157 is effective for the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of FAS 157 on its financial position and results of operations. As of March 31, 2007, the Company does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

13. Subsequent Events

On April 5, 2007, Hercules and its subsidiary, Hercules Technology II, L.P., received an exemptive order from the Securities and Exchange Commission allowing Hercules to exclude debt securities issued by its subsidiary, Hercules Technology II, L.P. from the asset coverage requirements applicable to Hercules. Hercules Technology Growth Capital, Inc. is the sole limited partner of Hercules Technology II, L.P.

Through its subsidiary, Hercules Technology II, L.P., Hercules Technology Growth Capital, Inc. intends to seek up to $124.0 million in leverage in various tranches over the next two years if it satisfies certain regulatory requirements, which is the maximum amount currently available under regulations of the SBA. Hercules Technology II, L.P. is currently approved to draw up to $50.0 million and on April 26, 2007, it borrowed $12.0 million under the SBA program.

On May 1, 2007 the Board of Directors declared a dividend of $0.30 per share for the first quarter, payable on June 18, 2007 to shareholders of record as of May 16, 2007.

On May 2, 2007, the Company amended the Citigroup Facility to extend the expiration date to May 1, 2008, increased the borrowing capacity under the facility to $250 million and included Deutsche Bank Securities Inc. as a participant along with Citigroup Markets Realty Corp. The credit facility is a one year facility and is renewable on May 1, 2008 with an interest rate of LIBOR plus a spread of 1.20%.

On May 3, 2007, Novadaq Pharmaceuticals, a publicly traded Canadian corporation, acquired certain assets of Xillix Technologies for cash and common stock. Of the purchase price, Hercules will receive approximately CDN $810,000 and approximately 225,000 shares of Novadaq Pharmaceuticals’ common stock.

HERCULES
TECHNOLOGY GROWTH CAPITAL

PART C—OTHER INFORMATION

Item 25. Financial Statements and Exhibits

1. *Financial Statements*

The following financial statements of Hercules Technology Growth Capital, Inc. (the "Company" or the "Registrant") are included in this registration statement in "Part A—Information Required in a Prospectus":

AUDITED FINANCIAL STATEMENTS

UNAUDITED FINANCIAL STATEMENTS

2. *Exhibits*

Exhibit Number	Description
a.1	Articles of Amendment and Restatement. (2)
a.2	Articles of Amendment. (12)
b	Amended and Restated Bylaws. (2)
d	Specimen certificate of the Company's common stock, par value $.001 per share. (3)
e	Form of Dividend Reinvestment Plan. (4)
f.1	Credit Agreement dated as of April 12, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C. (2)
f.2	Pledge and Security Agreement dated as of April 12, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C. (2)
f.3	First Amendment to Credit and Pledge Security Agreement dated August 1, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding L.L.C. (5)
f.4	Loan Sale Agreement between Hercules Funding LLC and Hercules Technology Growth Capital, Inc. dated as of August 1, 2005. (5)

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Exhibit Number	Description
f.5	Sale and Servicing Agreement among Hercules Funding Trust I, Hercules Funding LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association and Lyon Financial Services, Inc. dated as of August 1, 2005. (5)
f.6	Indenture between Hercules Funding Trust I and U.S. Bank National Association dated as of August 1, 2005. (5)
f.7	Note Purchase Agreement among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc. and Citigroup Global Markets Realty Corp. dated as of August 1, 2005. (5)
f.8	Second Amendment to Credit and Pledge and Security Agreement by and among Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C., as lender and administrative agent for the lenders, dated March 6, 2006. (6)
f.9	First Omnibus Amendment by and among Hercules Funding Trust I, Hercules Funding I, LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association, Lyon Financial Services, Inc. and Citigroup Global Markets Realty Corp. dated March 6 2006. (6)
f.10	Intercreditor Agreement among Hercules Technology Growth Capital, Inc., Alcmene Funding, L.L.C. and Citigroup Global Markets Realty Corp. dated as of March 6, 2006. (6)
f.11	Warrant Participation Agreement between the Company and Citigroup Global Markets Realty Corp. dated as of August 1, 2005. (7)
f.12	Second Amendment to Warrant Participation Agreement dated as of October 16, 2006. (7)
f.13	Third Amendment to Sale and Servicing Agreement among Hercules Funding Trust I, Hercules Funding LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association and Lyon Financial Services, Inc., dated as of July 28, 2006. (8)
f.14	Second Omnibus Amendment by and among Hercules Funding Trust I, Hercules Funding I, LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association, Lyon Financial Services, Inc. and Citigroup Global Markets Realty Corp. dated December 6, 2006. (9)
f.15	Fifth Amendment to Sale and Servicing Agreement between the Company and Citigroup Global Markets Realty Corp. dated March 30, 2007. (13)
f.16	Amended and Restated Sale and Servicing Agreement by and among Hercules Funding Trust I, Hercules Funding I LLC, the Company, U.S. Bank National Association, Lyon Financial Services, Inc., Citigroup Global Markets Inc., and Deutsche Bank AG dated as of May 2, 2007. (14)
f.17*	Fourth Amendment to the Warrant Participation Agreement dated as of May 2, 2007.
f.18*	Amended and Restated Note Purchase Agreement by and among the Company, Hercules Funding Trust I, Hercules Funding I LLC, and Citigroup Global Markets, Inc. dated as of May 2, 2007.
h.1*	Form of Underwriting Agreement.
i.1	Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan (2006 Amendment and Restatement). (11)
i.2	Form of Incentive Stock Option Award under the 2004 Equity Incentive Plan. (2)
i.3	Form of Nonstatutory Stock Option Award under the 2004 Equity Incentive Plan. (2)
j	Form of Custody Agreement between the Company and Union Bank of California. (2)
k.1	Form of Registrar Transfer Agency and Service Agreement between the Company and American Stock Transfer & Trust Company. (2)

Exhibit Number	Description
k.2	Warrant Agreement dated June 22, 2004 between the Company and American Stock Transfer & Trust Company, as warrant agent. (1)
k.3	Side Letter dated February 2, 2004 between the Company and Jolson Merchant Partners Group LLC (now known as JMP Group LLC). (1)
k.4	Registration Rights Agreement dated June 22, 2004 between the Company and JMP Securities LLC. (1)
k.5	Letter Agreement dated February 22, 2005 between the Company and JMP Asset Management LLC. (2)
k.6	Letter Agreement dated February 22, 2005 between the Company and Farallon Capital Management, L.L.C. (2)
k.7	Subscription Agreement among Hercules Technology Growth Capital, Inc. and the subscribers named therein dated March 2, 2006. (6)
k.8	Registration Rights Agreement among Hercules Technology Growth Capital, Inc. and the purchasers named therein dated March 2, 2006. (6)
k.9	Lease Agreement dated June 13, 2006 between the Company and 400 Hamilton Associates. (10)
l*	Opinion of Sutherland Asbill & Brennan LLP.
n.1*	Consent of Ernst & Young LLP.
n.2*	Consent of Sutherland Asbill & Brennan LLP (included in Exhibit l).
n.3**	Report of Independent Registered Public Accounting Firm
n.4**	Consent of VentureOne.
p	Subscription Agreement dated February 2, 2004 between the Company and the subscribers named therein. (2)
r	Code of Ethics. (2)

* Filed herewith.
** Previously filed.
(1) Previously filed as part of the Registration Statement on Form N-2 of the Company, as filed on February 22, 2005.
(2) Previously filed as part of Pre-Effective Amendment No. 1, as filed on May 17, 2005 (File No. *333-122950*) to the Registration Statement on Form N-2 of the Company.
(3) Previously filed as part of Pre-Effective Amendment No. 2, as filed on June 8, 2005 (File No. *333-122950*) to the Registration Statement on Form N-2 of the Company.
(4) Previously filed as part of Post-Effective Amendment No. 1, as filed on June 10, 2005 (File No. *333-122950*) to the Registration Statement on Form N-2 of the Company.
(5) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 5, 2005.
(6) Previously filed as part of Post-Effective Amendment No. 3, as filed on March 9, 2006 (File No. *333-126604*) to the Registration Statement on Form N-2 of the Company.
(7) Previously filed as part of the Pre-Effective Amendment No. 1, as filed on October 17, 2006 (File No. *333-136918)* to the Registration Statement on Form N-2 of the Company.
(8) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on July 28, 2006.
(9) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on December 6, 2006.
(10) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 1, 2006.
(11) Previously filed as part of the Definitive Proxy Statement of the Company, as filed on May 1, 2006.
(12) Previously filed as part of the Current Report on Form 8-K of the Company, as filed March 9, 2007.
(13) Previously filed as part of the Current Report on Form 8-K of the Company, as filed April 3, 2007.
(14) Previously filed as part of the Current Report on Form 8-K of the Company, as filed May 5, 2007.

Item 26. Marketing Arrangements

The information contained under the heading "Plan of Distribution" of the prospectus is incorporated herein by reference, and any information concerning any underwriters will be contained in any prospectus supplement, if any, accompanying this prospectus.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses payable by us in connection with the offering (excluding placement fees):

	Amount
SEC registration fee	$ 5,088
NASD filing fee	$ 17,055
Nasdaq listing fee	$ 45,000
Accounting fees and expenses	$ 100,000
Legal fees and expenses	$ 250,000
Printing expenses	$ 100,000
Miscellaneous	$ 57,857
Total	$ 575,000

The amounts set forth above, except for the SEC fees, are in each case estimated.

Item 28. Persons Controlled by or Under Common Control

Hercules Technology SBIC Management, LLC is a wholly-owned subsidiary of the Company. Hercules Technology SBIC Management, LLC is the general partner of Hercules Technology II, L.P. and the Company owns substantially all of the limited partnership interests in Hercules Technology II, L.P. Hercules Funding I LLC, a Delaware limited liability company, is a wholly-owned subsidiary of the Company. Hercules Funding I LLC holds all the ownership interests of Hercules Funding Trust I, a Delaware statutory trust. Hydra Management LLC is a wholly owned subsidiary formed in Delaware, and Hydra Management Co., Inc., a Delaware corporation is a wholly owned subsidiary. Accordingly, the Company may be deemed to control, directly or indirectly, the following entities:

Name	Jurisdiction of Organization
Hercules Technology SBIC Management, LLC	Delaware
Hercules Technology II, L.P.	Delaware
Hercules Funding I LLC	Delaware
Hercules Funding Trust I	Delaware
Hydra Management LLC	Delaware
Hydra Management Co., Inc.	Delaware

Item 29. Number of Holder of Securities

The following table sets forth the approximate number of record holders of the Company's common stock as of April 5, 2007:

Title of Class	Number of Record Holders
Common stock, par value $.001 per share	6,898
Warrants to purchase shares of common stock	23

Item 30. Indemnification

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant's charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

The Registrant's charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate itself to indemnify any present or former director or officer or any individual who, while a director or officer of the Registrant and at its request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and, under certain circumstances and provided certain conditions have been met, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant's bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer of the Registrant and at its request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and, under certain circumstances and provided certain conditions have been met, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and, under certain circumstances and provided certain conditions have been met, advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant's employees or agents or any employees or agents of its predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Additionally, the Registrant will not indemnify any person with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in the best interests of the Registrant.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant's charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described above, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

In addition, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. on terms similar to those afforded to our directors and officers under our charter and bylaws in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company.

The Company carries liability insurance for the benefit of its directors and officers (other than with respect to claims resulting from the willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office) on a claims-made basis of up to $3,000,000, subject to a $250,000 retention and the other terms thereof.

The Company has agreed to indemnify the underwriters against specified liabilities for actions taken in their capacities as such, including liabilities under the Securities Act of 1933, as amended.

Item 31. Business and Other Connections of Investment Advisor

Not applicable.

Item 32. Location of Accounts and Records

The Company maintains at its principal office physical possession of each account, book or other document required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

We hereby undertake:

(1) to suspend the offering of shares until the prospectus is amended if (i) subsequent to the effective date of this registration statement, the net asset value declines more than ten percent from the net asset value as of the effective date of this registration statement, or (ii) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus;

(2) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(3) that, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial *bona fide* offering thereof;

(4) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(5) that, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the Registrant is subject to Rule 430C [17 CFR 230.430C]: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act of 1933 [17 CFR 230.497(b), (c), (d) or (e)] as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act of 1933 [17 CFR 230.430A], shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) that for the purpose of determining liability of the Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of securities: The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act of 1933 [17 CFR 230.497];

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act of 1933 [17 CFR 230.482] relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(7) for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective; and

(8) for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(9) to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, and State of California, on the 15th day of May, 2007.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

/S/ MANUEL A. HENRIQUEZ

Manuel A. Henriquez
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/S/ MANUEL A. HENRIQUEZ **Manuel A. Henriquez**	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	May 15, 2007
/S/ DAVID M. LUND **David M. Lund**	Chief Financial Officer (principal financial and accounting officer)	May 15, 2007
* **Allyn C. Woodward, Jr.**	Director	May 15, 2007
* **Joseph W. Chow**	Director	May 15, 2007
* **Robert P. Badavas**	Director	May 15, 2007

* Signed by Manuel A. Henriquez as attorney-in-fact.

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EXHIBIT INDEX

Exhibit Number	
f.17	Fourth Amendment to the Warrant Participation Agreement dated as of May 2, 2007.
f.18	Amended and Restated Note Purchase Agreement by and among the Company, Hercules Funding Trust I, Hercules Funding I LLC, and Citigroup Global Markets, Inc. dated as of May 2, 2007.
h.1	Form of Underwriting Agreement
l	Opinion of Sutherland Asbill & Brennan LLP
n.1	Consent of Ernst & Young LLP
n.2	Consent of Sutherland Asbill & Brennan LLP (included in Exhibit l)
n.3*	Report of Independent Registered Public Accounting Firm
n.4*	Consent of VentureOne

* Previously filed.

Exhibit f.17

EXECUTION COPY

AMENDED AND RESTATED

NOTE PURCHASE AGREEMENT

among

HERCULES FUNDING TRUST I,
as Issuer

HERCULES FUNDING I LLC,
as Depositor

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.,
as Originator

THE FINANCIAL INSTITUTIONS PARTY HERETO,
as the Conduit Purchasers,

THE FINANCIAL INSTITUTIONS PARTY HERETO,
as the Committed Purchasers,

and

CITIGROUP GLOBAL MARKETS REALTY CORP.
as the Administrative Agent,

Dated as of May 2, 2007

ASSET BACKED NOTES

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AMENDED AND RESTATED NOTE PURCHASE AGREEMENT

AMENDED AND RESTATED NOTE PURCHASE AGREEMENT dated as of May 2, 2007 (as amended, supplemented and otherwise modified from time to time, the "Note Purchase Agreement"), among Hercules Funding Trust I (together with any successors and assigns in such capacity, the "Issuer"), Hercules Funding I LLC (together with any successors and assigns in such capacity, the "Depositor"), Hercules Technology Growth Capital, Inc. ("Hercules"), the persons from time to time party hereto as conduit purchasers (collectively, the "Conduit Purchasers"), the financial institutions from time to time party hereto as committed purchasers (collectively, the "Committed Purchasers"), and Citigroup Global Markets Realty Corp. ("Citigroup"), in its capacity as administrative agent (together with any successors and assigns in such capacity, the "Administrative Agent") for each Purchaser (as defined herein), amending and restating the note purchase agreement dated August 1, 2005 between the Issuer, the Depositor, Hercules and Citigroup.

PRELIMINARY STATEMENTS

WHEREAS, contemporaneously with the execution and delivery of this Note Purchase Agreement, the Issuer, the Depositor, Hercules, Citigroup, as a noteholder and as administrative agent, U.S. Bank National Association, as the indenture trustee (together with any successors and assigns in such capacity, the "Indenture Trustee"), as the paying agent (together with any successors and assigns in such capacity, the "Paying Agent") and as the collateral custodian (together with any successors and assigns in such capacity, the "Collateral Custodian"), Deutsche Bank AG, New York Branch, as a noteholder and Lyon Financial Services, Inc. d/b/a U.S. Bank Portfolio Services, as the backup servicer (together with any successors and assigns in such capacity, the "Backup Servicer") are entering into the Amended and Restated Sale and Servicing Agreement, dated as of the date hereof (as further amended, restated or modified from time to time, the "Sale and Servicing Agreement");

WHEREAS, each Committed Purchaser and Conduit Purchaser has appointed Citigroup as the Administrative Agent to act on its behalf under this Note Purchase Agreement, and the other Basic Documents; and

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereof, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Certain Defined Terms. Capitalized terms used herein without definition shall have the meanings set forth in the Indenture and the Sale and Servicing Agreement (as defined below). Additionally, the following terms shall have the following meanings:

"Amendment Date" means May 2, 2007.

"Closing Date" means August 1, 2005.

"Commercial Paper Note" means a promissory note of a Conduit Purchaser (or, if applicable, of a commercial paper conduit through which such Conduit Purchaser funds its investments).

"Commitment" means, for each Committed Purchaser, such Committed Purchaser's obligation to make Borrowings to the Issuer hereunder, in an aggregate amount not exceeding the amount set forth opposite such Committed Purchaser's name on Schedule II hereto.

"Commitment Fees" shall have the meanings provided in each Fee Letter.

"Committed Purchaser" means each of the Persons identified on Schedule II hereto as a "Committed Purchaser".

"Conduit Purchaser" means each of the Persons identified on Schedule II hereto as a "Conduit Purchaser".

"Confidential Information" means all marketing information, financial information, terms sheets and other information concerning the transactions contemplated thereby, prepared by any Purchaser or its Affiliates.

"DB Cost of Funds" means, for any Borrowing or portion thereof, a rate per annum equal to the rate per annum calculated by the DB Managing Agent (or its related Conduit Purchaser) to reflect the cost of funding the related Borrowing or such portion, taking into account the weighted daily average interest rate payable in respect of its Commercial Paper Notes during such period (determined in the case of discount Commercial Paper Notes by converting the discount to an interest bearing equivalent rate per annum), applicable placement fees and commissions, and such other costs and expenses as the DB Managing Agent (or its related Conduit Purchaser) in good faith deems appropriate.

"DB Fee Letter" means the fee letter dated as of the date hereof between Hercules and Deutsche Bank AG, New York Branch, as amended, supplemented, modified restated or replaced from time to time.

"DB Managing Agent" means Deutsche Bank AG, New York Branch.

"DB Ownership Group" shall have the meaning set forth in Schedule II hereto.

"Extension Request" shall have the meaning set forth in Section 2.03.

"Extension Period" shall have the meaning set forth in Section 2.03.

"Governmental Actions" means any and all consents, approvals, permits, orders, authorizations, waivers, exceptions, variances, exemptions or licenses of, or registrations, declarations or filings with, any Governmental Authority required under any Governmental Rules.

"Governmental Rules" means any and all laws, statutes, codes, rules, regulations, ordinances, orders, writs, decrees and injunctions, of any Governmental Authority and any and all legally binding conditions, standards, prohibitions, requirements and judgments of any Governmental Authority.

"Group Noteholder" means each Noteholder identified on Schedule II hereto as a "Group Noteholder" with respect to an Ownership Group, together with such Noteholder's successors and assigns.

"Indemnified Party" means any Purchaser, the Administrative Agent, the DB Managing Agent and any of their respective officers, directors, employees, agents, representatives, assignees and Affiliates and any Person who controls any Purchaser or the Administrative Agent or any of their respective Affiliates within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act.

"LIBOR Margin" shall have the meaning set forth in Schedule III hereto.

"Nonutilization Fee" shall have the meaning set forth in Schedule III hereto.

"Ownership Group" means, in the case of any Group Noteholder, the group consisting of such Group Noteholder (which for the DB Ownership Group shall be the DB Managing Agent) and one or more related Conduit Purchasers (except with respect to the Citigroup Group Noteholder) and one or more related Committed Purchasers.

"Pro Rata Share" means, as of any date of determination with respect to any Ownership Group, a fraction, the numerator of which is the sum of the Commitments of such Ownership Group's Committed Purchasers at such time and the denominator of which is the sum of the Commitments of all Committed Purchasers in all Ownership Groups at such time.

"Purchasers" means each Conduit Purchaser and each Committed Purchaser.

"Required Opinions" means one reliance letter from Pepper Hamilton LLP regarding four opinions, one security interest opinion from Pepper Hamilton LLP, one reliance letter from Nixon Peabody LLP, one reliance letter from Lyon Financial Services, Inc., d/b/a U.S. Bank Portfolio Services, three bring-down letters or opinions from Winston & Strawn LLP and one bring-down letter or opinion from Venable LLP, all dated as of the Amendment Date and addressed to each Group Noteholder and in form and substance acceptable to each Group Noteholder.

SECTION 1.02. Other Definitional Provisions.

(a) All terms defined in this Note Purchase Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(b) As used herein and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in Section 1.01, and accounting terms partially defined in Section 1.01 to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms herein are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained herein shall control.

(c) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Note Purchase Agreement shall refer to this Note Purchase Agreement as a whole and not to any particular provision of this Note Purchase Agreement; and Section, subsection, Schedule and Exhibit references contained in this Note Purchase Agreement are references to Sections, subsections, and Exhibits in or to this Note Purchase Agreement unless otherwise specified.

ARTICLE II

ADVANCES OF BORROWINGS

SECTION 2.01. Purchase of Notes. Subject to the terms and conditions set forth in this Note Purchase Agreement and the other Basic Documents, (i) the Issuer agrees to sell, transfer and deliver to each Group Noteholder and (ii) each Group Noteholder agrees to purchase on behalf of the Purchasers in its Ownership Group from the Issuer, on the Amendment Date, a Note in a face amount set forth opposite such Group Noteholder's name on Schedule II.

SECTION 2.02. Requests for Advances of Borrowings. (a) At any time during the Revolving Period, no later than 12:00 p.m. New York time at least two Business Days prior to a proposed Borrowing Date, and subject to the terms and conditions hereof and in accordance with the other Basic Documents, the Servicer on behalf of the Issuer may deliver a Borrowing Notice to each Group Noteholder and the Administrative Agent requesting the related Conduit Purchaser (or in the case of the Citigroup Group Noteholder, the Committed Purchaser) to advance additional Borrowings in an amount up to each Conduit Purchaser's (or in the case of the Citigroup Group Noteholder, the Committed Purchaser's) Pro Rata Share of the Availability as of the proposed Borrowing Date. Subject to the foregoing, prior to June 30, 2007, all permitted Borrowings shall be funded by the DB Ownership Group until the Note Principal Balance of the Note held by Purchasers in the DB Ownership Group equals 40% of the Note Principal Balance of all Notes. If on June 30, 2007 the Note Principal Balance of the Note held in the DB Ownership Group is less than 40% of the Note Principal Balance of all Notes, Citigroup shall sell at par to either the Committed Purchaser or the Conduit Purchaser in the DB Ownership Group (as selected by the DB Managing Agent) a portion of the Note Principal Balance held by Citigroup in an amount equal to the amount that would cause the Note Principal Balance of the Notes held by Purchasers in the DB Ownership Group to equal 40% of the Note Principal Balance of all Notes. Beginning June 30, 2007, the Purchasers in each Ownership Group shall fund their Pro Rata Percentage of each requested permitted Borrowing in an amount not to exceed the Pro Rata Share of its Ownership Group of the Availability as of the proposed Borrowing Date. In addition, in connection with such Borrowing Notice the Servicer on behalf of the Issuer shall deliver to or cause the delivery to each Group Noteholder and the Administrative Agent of (i) a Borrowing Base Certificate in the form attached as Exhibit F to the Sale and Servicing Agreement, (ii) if any Purchased Assets will be acquired by the Issuer under the Sale and Servicing Agreement with the proceeds of the applicable Borrowing, a copy of the executed LSA Assignment delivered pursuant to the Loan Sale Agreement and a copy of the executed S&SA Assignment delivered pursuant to the Sale and Servicing Agreement, together, in each case, with the related Loan Schedule and (iii) such additional information as may be reasonably requested by any Group Noteholder or the Administrative Agent on behalf of the Purchasers.

(b) On the related Borrowing Date, each Conduit Purchaser may in its discretion (or in the case of the Citigroup Group Noteholder, the Committed Purchaser shall) advance the Borrowing requested in the Borrowing Notice, subject to the terms and conditions and in reliance upon the covenants, representations and warranties set forth herein and in the other Basic Documents. The amount of any Borrowing shall be at least equal to $1,000,000 and shall be in an amount equal to each Conduit Purchaser's (or in the case of the Citigroup Group Noteholder, the Committed Purchaser's) Pro Rata Share of the Borrowing.

(c) In the event that a Conduit Purchaser elects not to make any advance on a Borrowing, its related Committed Purchaser shall make such advance in an amount equal to the related Ownership Group's Pro Rata Share of the Borrowing.

(d) No Purchaser shall be responsible for any failure by any Purchaser in a different Ownership Group to fund a Borrowing nor shall the Commitment of any Committed Purchaser be increased or decreased as a result of any such failure.

SECTION 2.03. Extension of the Amortization Date. (a) The Amortization Date may be extended for an additional 364 day period upon the mutual agreement of all parties hereto. In the event that the Issuer desires to extend the Amortization Date pursuant to the terms of this Section 2.03, it shall request that the Amortization Date be extended by sending prior written notice of such request (the "Extension Request") to the Administrative Agent at any time during the period commencing on the date that is sixty (60) days prior to the then current Amortization Date and ending on the date which is forty-five (45) days prior to the then current Amortization Date (the "Extension Period"). The Administrative Agent shall promptly forward such Extension Request to each Purchaser. Each Purchaser and each Group Noteholder, on behalf of its Ownership Group, shall respond to such Extension Request within thirty (30) days of receipt by the Administrative Agent of such Extension Request. The failure of such Purchaser to respond or to agree to extend in writing within the applicable time shall be deemed to be a decision by such Purchaser not to extend. Upon receipt by the Administrative Agent of the written consent of each Purchaser to the applicable Extension Request, the Amortization Date shall be extended to the date indicated in such Extension Request. Notwithstanding the foregoing, nothing contained in this Section 2.03 shall obligate any of the Purchasers to extend the Amortization Date unless it shall desire to do so in its sole discretion.

(b) The Issuer shall pay to the Group Noteholders, in connection with each extension of the Amortization Date, the Renewal Fee, which shall be payable to each Group Noteholder pro rata based on the Commitment of the related Committed Purchaser.

ARTICLE III

CLOSING DATE BORROWINGS; BORROWING DATES

SECTION 3.01. Borrowing Dates.

(a) Subject to the conditions and terms set forth herein and in Section 2.06 (in the case of a Borrowing made on the Closing Date) and Section 2.07 (in the case of all Borrowings) of the Sale and Servicing Agreement with respect to the Closing Date and each Borrowing Date, each Purchaser's providing advances of Borrowings shall be subject to the satisfaction, as of the Closing Date, the Amendment Date or any Borrowing Date, as applicable, of each of the following additional conditions:

(i) Each document required to be provided pursuant toSection 2.02 hereof shall have been provided to each Purchaser;

(ii) Each condition set forth in Section 2.06, Section 2.07 and Section 2.10 of the Sale and Servicing Agreement, as applicable, (other than any condition therein requiring the conditions set forth in this Section 3.01 to be satisfied) shall have been satisfied;

(iii) Each of the representations and warranties of the Issuer, the Servicer, the Originator and the Depositor made in the Basic Documents shall be true and correct as of such date (except to the extent they expressly relate to an earlier or later time);

(iv) The Issuer, the Servicer, the Originator and the Depositor shall be in compliance with all of their respective covenants contained in the Basic Documents and the Notes;

(v) No Event of Default shall have occurred and be continuing;

(vi) The Required Opinions shall have been delivered to each Group Noteholder; and

(vii) Any fees due and owing pursuant to the DB Fee Letter shall have been paid.

(b) Each Group Noteholder on behalf of the Purchasers in its Ownership Group shall determine in its reasonable discretion whether each of the above conditions have been met and its determination shall be binding on the parties hereto.

(c) The price paid by each Purchaser on such Closing Date, Amendment Date or Borrowing Date for the Note Principal Balance advanced or purchased on such Closing Date, Amendment Date or Borrowing Date, respectively, shall be equal to the amount of such Note Principal Balance, and shall be remitted not later than 5:00 p.m. New York City time on the Closing Date, Amendment Date or Borrowing Date, as applicable, by wire transfer of immediately available funds to or at the direction of the Originator on behalf of the Issuer.

(d) Each Group Noteholder shall record on the schedule attached to its related Notes, the date and amount of any Note Principal Balance purchased by any member of its Ownership Group; provided, that failure to make such recordation on such schedule or any error in such schedule shall not adversely affect the Purchasers' rights with respect to its Note Principal Balance and its right to receive interest payments in respect of the Note Principal Balance actually held. Absent manifest error, the Note Principal Balance of the Notes as set forth in the applicable Group Noteholder's records shall be binding upon the parties hereto, notwithstanding any notation or record made or kept by any other party hereto.

ARTICLE IV

CONDITIONS PRECEDENT

SECTION 4.01. Closing Subject to Conditions Precedent. The closing of the Basic Documents on the Closing Date was subject to the satisfaction at the time of the closing of the following conditions (any or all of which may be waived by Citigroup, as initial noteholder):

(a) Performance by the Issuer, the Depositor, the Servicer and the Originator. All the terms, covenants, agreements and conditions of the Basic Documents to be complied with and performed by the Issuer, the Depositor, the Servicer and the Originator on or before the Closing Date shall have been complied with and performed in all material respects.

(b) Representations and Warranties. Each of the representations and warranties of the Issuer, the Depositor, the Servicer and the Originator made in the Basic Documents shall be true and correct in all material respects as of the Closing Date (except to the extent they expressly relate to an earlier or later time).

(c) Officer's Certificate. Citigroup, as initial noteholder, shall have received in form and substance reasonably satisfactory to Citigroup, as initial noteholder, an Officer's Certificate from the Originator, the Depositor and the Servicer and a certificate of a Responsible Officer of the Issuer, dated the Closing Date, certifying to the satisfaction of the conditions set forth in the preceding paragraphs (a) and (b).

(d) Opinions of Counsel to the Issuer, the Originator, the Servicer and the Depositor. Counsel to the Issuer, the Originator, the Servicer and the Depositor shall have delivered to Citigroup, as initial noteholder, opinions, dated as of the Closing Date and reasonably satisfactory in form and substance to Citigroup, as initial noteholder, and its counsel.

(e) Opinions of Counsel to the Indenture Trustee. Counsel to the Indenture Trustee shall have delivered to Citigroup, as initial noteholder, a favorable opinion, dated as of the Closing Date and reasonably satisfactory in form and substance to Citigroup, as initial noteholder, and its counsel.

(f) Opinions of Counsel to the Owner Trustee. Delaware counsel to the Owner Trustee of the Issuer shall have delivered to Citigroup, as initial noteholder, favorable opinions regarding the formation, existence and standing of the Issuer and of the Issuer's execution, authorization and delivery of each of the Basic Documents to which it is a party and such other matters as Citigroup, as initial noteholder, may reasonably request, dated as of the Closing Date and reasonably satisfactory in form and substance to Citigroup, as initial noteholder, and its counsel.

(g) Filings and Recordations. On or prior to the Closing Date and, if a Borrowing will be consummated in connection with any transfer, on or prior to the applicable Transfer Date, Citigroup, as initial noteholder, and each Purchaser shall have received evidence reasonably satisfactory to it of (i) the completion of all recordings, registrations, and filings as may be necessary or, in the reasonable opinion of Citigroup, as initial noteholder, desirable to perfect or evidence the assignment by the Originator to the Depositor of the Originator's ownership interest in the Assigned Assets including, without limitation, the Transferred Loans conveyed pursuant to the Loan Sale Agreement and the proceeds thereof, (ii) the completion of all recordings, registrations and filings as may be necessary or, in the reasonable opinion of Citigroup, as initial noteholder, desirable to perfect or evidence the assignment by the Depositor to the Issuer of the Depositor's ownership interest in the Purchased Assets including, without limitation, the Transferred Loans conveyed pursuant to the Sale and Servicing Agreement and the proceeds thereof, and (iii) the completion of all recordings, registrations, and filings as may be necessary or, in the reasonable opinion of Citigroup, as initial noteholder, desirable to perfect or evidence the grant of a first priority perfected security interest in the Issuer's ownership interest in the Collateral, including, without limitation, the Transferred Loans and the proceeds thereof, in favor of the Indenture Trustee, subject to no Liens prior to the Lien of the Indenture.

(h) Documents. Citigroup, as initial noteholder, shall have received a duly executed counterpart of each of the Basic Documents, in form acceptable to Citigroup, as initial noteholder, the Notes and each and every document or certification delivered by any party in connection with any of the Basic Documents or the Notes, and each such document shall be in full force and effect.

(i) Actions or Proceedings. No action, suit, proceeding or investigation by or before any Governmental Authority shall have been instituted to restrain or prohibit the consummation of, or to invalidate, any of the transactions contemplated by the Basic Documents, the Notes and the documents related thereto in any material respect.

(j) Approvals and Consents. All Governmental Actions of all Governmental Authorities required with respect to the transactions contemplated by the Basic Documents, the Notes and the documents related thereto shall have been obtained or made.

(k) Accounts. Citigroup, as initial noteholder, shall have received evidence reasonably satisfactory to it that each Trust Account has each been established in accordance with the terms of the Sale and Servicing Agreement.

(l) Other Documents. The Issuer, the Originator, the Depositor and the Servicer shall have furnished to Citigroup, as initial noteholder, such other opinions, information, certificates and documents as Citigroup, as initial noteholder, may reasonably request.

(m) Proceedings in Contemplation of Sale of Notes. All actions and proceedings undertaken by the Issuer, the Originator, the Depositor and the Servicer in connection with the issuance and sale of the Notes as herein contemplated shall be satisfactory in all respects to Citigroup, as initial noteholder, and its counsel.

(n) Financial Covenants. The Originator shall be in compliance with the financial covenants set forth in Section 7.01 of the Sale and Servicing Agreement.

If any condition specified in this Section 4.01 shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by Citigroup, as initial noteholder, by notice to the Originator at any time at or prior to the Closing Date, and no Purchaser nor Citigroup, as initial noteholder, shall incur liability as a result of such termination.

SECTION 4.02. Amendment Subject to Conditions Precedent. The effectiveness of this Agreement is subject to the satisfaction of the following conditions (any or all of which may be waived by each Group Noteholder for its Ownership Group) on behalf of the related Purchasers as of the Amendment Date:

(i) The delivery of executed signature pages hereto;

(ii) The delivery of executed signature pages to the Amended and Restated Sale and Servicing Agreement dated as of the date hereof by all parties thereto;

(iii) The delivery of executed signature pages to the Fourth Amendment to the Warrant Participation Agreement dated as of the date hereof by all parties thereto;

(iv) The delivery of executed signature pages to the First Amendment to Joinder in Intercreditor and Concentration Account Administration Agreement dated as of the date hereof by all parties thereto;

(v) The delivery of all executed signature pages to the Second Amended and Restated Warrant Pledge and Security Agreement dated as of the date hereof by all parties thereto;

(vi) The delivery of executed signature pages to the First Supplemental Indenture dated as of the date hereof by all parties thereto;

(vii) The delivery of executed signature pages to the First Amendment to Securities Account Control Agreement dated as of the date hereof by all parties thereto;

(viii) The delivery of executed signature pages to the First Amendment to Loan Sale Agreement dated as of the date hereof by all parties thereto; and

(ix) Notes in the names of each Group Noteholder shall have been executed and delivered to each Group Noteholder.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE ISSUER AND THE DEPOSITOR

SECTION 5.01. Representations and Warranties. The Issuer and the Depositor jointly and severally made, as of the Closing Date, and make, as of the Amendment Date and each Borrowing Date, the following representations and warranties to each Purchaser, and as of the Closing Date, the Amendment Date and each Borrowing Date, the Purchasers shall be deemed to have relied on such representations and warranties in providing advances of Borrowings on each Borrowing Date:

(a) The Issuer has been duly organized and is validly existing and in good standing as a statutory trust under the laws of the State of Delaware, with requisite trust power and authority to own its properties and to transact the business in which it is now engaged, and is duly qualified to do business and is in good standing (or is exempt from such requirements) in each State of the United States where the nature of its business requires it to be so qualified and the failure to be so qualified and in good standing would reasonably be expected to have a material adverse effect on the Issuer or any adverse effect on the interests of any Purchaser or the Administrative Agent.

(b) The issuance, sale, assignment and conveyance of the Notes and the advance of any Borrowings, the performance of the Issuer's obligations under each Basic Document to which it is a party and the consummation of the transactions therein contemplated will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (other than any Lien created by the Basic Documents), charge or encumbrance upon any of the property or assets of the Issuer or any of its Affiliates pursuant to the terms of, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it or any of its Affiliates is bound or to which any of its property or assets is subject, nor will such action result in any violation of the provisions of its organizational documents or any Governmental Rule applicable to the Issuer, in each case which could reasonably be expected to have a material adverse effect on the transactions contemplated therein.

(c) No Governmental Action which has not been obtained is required by or with respect to the Issuer in connection with the execution and delivery to each Group Noteholder of the Notes. No Governmental Action which has not been obtained is required by or with respect to the Issuer in connection with the execution and delivery of any of the Basic Documents to which the Issuer is a party or the consummation by the Issuer of the transactions contemplated thereby except for any requirements under state securities or "blue sky" laws in connection with any transfer of the Notes.

(d) The Issuer possesses all material licenses, certificates, authorities or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by it, and has not received any notice of proceedings relating to the revocation or modification of any such license, certificate, authority or permit which, singly or in the aggregate, would reasonably be expected to materially and adversely affect its condition, financial or otherwise, or its earnings, business affairs or business prospects.

(e) Each of the Basic Documents to which the Issuer is a party has been duly authorized, executed and delivered by the Issuer and is a valid and legally binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity.

(f) The execution, delivery and performance by the Issuer of each of its obligations under each of the Basic Documents to which it is a party will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any agreement or instrument to which the Issuer is a party or by which the Issuer is bound or to which any of its properties are subject or of any statute, order or regulation applicable to the Issuer of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Issuer or any of its properties, in each case which could reasonably be expected to have a material adverse effect on any of the transactions contemplated therein.

(g) The Issuer is not in violation of its organizational documents or in default under any agreement, indenture or instrument the effect of which violation or default would be material to the Issuer or the transactions contemplated by the Basic Documents. The Issuer is not a party to, bound by or in breach or violation of any indenture or other agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Issuer that would reasonably be expected to materially and adversely affect (i) the ability of the Issuer to perform its obligations under any of the Basic Documents to which it is a party or (ii) the business, operations, financial condition, properties, assets or prospects of the Issuer.

(h) There are no actions or proceedings against, or investigations of, the Issuer pending, or, to the knowledge of the Issuer threatened, before any Governmental Authority, court, arbitrator, administrative agency or other tribunal (i) asserting the invalidity of any of the Basic Documents, or (ii) seeking to prevent the issuance of the Notes or the consummation of any of the transactions contemplated by the Basic Documents or the Notes, or (iii) that could reasonably be expected to materially and adversely affect the business, operations, financial condition, properties, assets or prospects of the Issuer or the validity or enforceability of, or the performance by the Issuer of its respective obligations under, any of the Basic Documents to which it is a party or (iv) seeking to affect adversely the income tax attributes of the Notes.

(i) The Issuer is not, and neither the issuance and sale of the Notes to the Purchasers nor the activities of the Issuer pursuant to the Basic Documents, shall render the Issuer an “investment company” or under the “control” of an “investment company” as such terms are defined in the 1940 Act.

(j) It is not necessary to qualify the Indenture under the Trust Indenture Act.

(k) Both prior to and after giving effect to the transactions contemplated by the Basic Documents, the Issuer is and will be solvent and has and will have adequate capital for its business and undertakings.

(l) The chief executive offices of the Issuer are located at c/o Wilmington Trust Company, 1100 North Market Street, Wilmington, Delaware 19801, or, with the consent of each Purchaser, such other address as shall be designated by the Issuer in a written notice to the other parties hereto.

(m) There are no contracts, agreements or understandings between the Issuer and any Person granting such Person the right to require the filing at any time of a registration statement under the Securities Act with respect to the Notes.

SECTION 5.02. Securities Act. Assuming the accuracy of the representations and warranties of and compliance with the covenants of each Purchaser contained herein, the sale of the Notes and any advance of Borrowings pursuant to this Agreement are each exempt from the registration and prospectus delivery requirements of the

Securities Act. In the case of the offer or sale of the Notes, no form of general solicitation or general advertising was used by the Issuer, any Affiliates of the Issuer or any person acting on its or their behalf, including, but not limited to, advertisements, articles, notices or other communications published in any newspaper, magazine or similar medium or broadcast over television or radio, or any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. Neither the Issuer, any Affiliates of the Issuer nor any Person acting on its or their behalf has offered or sold, nor will the Issuer or any Person acting on its behalf offer or sell directly or indirectly, the Notes or any other security in any manner that, assuming the accuracy of the representations and warranties and the performance of the covenants given by the Purchasers and compliance with the applicable provisions of the Indenture with respect to each transfer of the Notes, would render the issuance and sale of the Notes as contemplated hereby a violation of Section 5 of the Securities Act or the registration or qualification requirements of any state securities laws, nor has any such Person authorized, nor will it authorize, any Person to act in such manner.

SECTION 5.03. No Fee. Neither the Issuer, nor the Depositor, nor any of their Affiliates has paid or agreed to pay to any Person any compensation for soliciting another to purchase the Notes.

SECTION 5.04. Information. The information provided pursuant to Section 7.01(a) hereof will, at the date thereof, be true and correct in all material respects.

SECTION 5.05. The Notes. The Notes have been duly and validly authorized, and, when executed and authenticated in accordance with the terms of the Indenture, and delivered to and paid for in accordance with this Note Purchase Agreement, will be duly and validly issued and outstanding, will constitute the legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity, and will be entitled to the benefits of the Indenture.

SECTION 5.06. Use of Proceeds. No proceeds of a purchase hereunder will be used (i) for a purpose that violates or would be inconsistent with Regulations T, U or X promulgated by the Board of Governors of the Federal Reserve System from time to time or (ii) to acquire any security in any transaction in violation of Section 13 or 14 of the Exchange Act.

SECTION 5.07. The Depositor. The Depositor made on the Closing Date, and hereby makes as of the Amendment Date, to the Purchasers each of the representations, warranties and covenants set forth in Section 3.01 of the Sale and Servicing Agreement and makes to the Purchasers such representations, warranties and covenants as of each Borrowing Date (except to the extent that any such representation, warranty or covenant is expressly made as of another date).

SECTION 5.08. Taxes, etc. Any taxes, fees and other charges of Governmental Authorities applicable to the Issuer and the Depositor, except for franchise or income taxes, in connection with the execution, delivery and performance by the Issuer and the Depositor of each Basic Document to which they are parties, the issuance of the Notes or otherwise applicable to the Issuer or the Depositor in connection with the Collateral have been paid or will be paid by the Issuer or the Depositor, as applicable, at or prior to the Closing Date or Borrowing Date, to the extent then due.

SECTION 5.09. Financial Condition. On the date hereof and on each Borrowing Date, neither the Issuer nor the Depositor is subject to a Bankruptcy Event or has reason to believe that its insolvency is imminent.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE PURCHASERS

SECTION 6.01. Representations and Warranties. Each Purchaser hereby makes the following representations and warranties, as to itself, to the Issuer and the Depositor on which the same are relying in entering into this Note Purchase Agreement.

(a) Organization. Such Purchaser has been duly organized and is validly existing and in good standing under the laws of the jurisdiction of its organization with power and authority to own its properties and to transact the business in which it is now engaged.

(b) Authority, etc. Such Purchaser has all requisite corporate power and authority to enter into and perform its obligations under this Note Purchase Agreement and to consummate the transactions herein contemplated. The execution and delivery by such Purchaser of this Note Purchase Agreement and the consummation by such Purchaser of the transactions contemplated hereby have been duly and validly authorized by all necessary organizational action on the part of such Purchaser. This Note Purchase Agreement has been duly and validly executed and delivered by such Purchaser and constitutes a legal, valid and binding obligation of such Purchaser, enforceable against such Purchaser in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity. Neither the execution and delivery by such Purchaser of this Note Purchase Agreement nor the consummation by such Purchaser of any of the transactions contemplated hereby, nor the fulfillment by such Purchaser of the terms hereof, will conflict with, or violate, result in a breach of or constitute a default under any term or provision of such Purchaser's organizational documents or any Governmental Rule applicable to such Purchaser.

(c) Institutional Accredited Investor. Such Purchaser is an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the 1933 Act (an "Institutional Accredited Investor") that is acquiring the Notes for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion.

(d) ERISA. Such Purchaser either (i) is not, and is not acquiring the Notes on behalf of or with the assets of, an employee benefit plan or other retirement plan or arrangement subject to Title I of ERISA or Section 4975 of the Code, or (b) is, or is acquiring the Notes on behalf of or with the assets of, an employee benefit plan or other retirement plan or arrangement subject to Title I of ERISA of Section 4975 of the Code and the conditions for exemptive relief under at least one of the following prohibited transaction class exemptions have been satisfied:

Prohibited Transaction Class Exemption ("PTCE") 96-23 (relating to transactions effected by an "in-house asset manager"), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 91-38 (relating to transactions involving bank collective investment funds), PTCE 90-1 (relating to transactions involving insurance company pooled separate accounts), and PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager").

(e) Securities Act. Such Purchaser will acquire the Notes pursuant to this Note Purchase Agreement without a view to any public distribution thereof, and will not offer to sell or otherwise dispose of the Notes (or any interest therein) in violation of any of the registration requirements of the Securities Act or any applicable state or other securities laws, or by means of any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) and will comply with the requirements of the Indenture. Such Purchaser acknowledges that it has no right to require the Issuer or any other Person to register the Notes under the Securities Act or any other securities law.

(f) Conflicts With Law. The execution, delivery and performance by such Purchaser of its obligations under this Note Purchase Agreement will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, any agreement or instrument to which such Purchaser is a party or by which such Purchaser is bound or of any statute, order or regulation applicable to such Purchaser of any court, regulatory body, administrative agency or governmental body having jurisdiction over such Purchaser, in each case which could be expected to have a material adverse effect on the transactions contemplated therein.

(g) Conflicts With Agreements, etc. Such Purchaser is not in violation of its organizational documents or in default under any agreement, indenture or instrument the effect of which violation or default would be materially adverse to such Purchaser in the performance of its obligations or duties under any of the Basic Documents to which it is a party. Such Purchaser is not a party to, bound by or in breach or violation of any indenture or other agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over such Purchaser that materially and adversely affects, or which could be expected in the future to materially and adversely affect the ability of such Purchaser to perform its obligations under this Note Purchase Agreement.

ARTICLE VII

COVENANTS OF THE ISSUER AND THE DEPOSITOR

SECTION 7.01. Information from the Issuer. So long as the Notes remain outstanding, the Issuer and the Depositor shall each furnish to the Administrative Agent on behalf of the Purchasers:

(a) such information (including financial information), documents, records or reports with respect to the Collateral, including, without limitation, the Transferred Loans and any Related Property included in the Collateral, as the Issuer, the Originator, the Servicer or the Depositor as any Group Noteholder on behalf of the Purchasers in its Ownership Group may from time to time reasonably request;

(b) as soon as possible and in any event within one (1) Business Day after the after the Issuer or the Depositor shall have knowledge of the occurrence of occurrence thereof, notice of each Event of Default under the Sale and Servicing Agreement or the Indenture, and each Default; and

(c) promptly and in any event within five (5) Business Days after the occurrence thereof, written notice of a change in address of the chief executive office or place of organization of the Issuer, the Originator or the Depositor.

SECTION 7.02. Access to Information. So long as the Notes remain outstanding, each of the Issuer and the Depositor shall, on reasonable request from time to time during regular business hours, permit any Purchaser, the Administrative Agent, or their respective agents or representatives to:

(a) examine all books, records and documents (including computer tapes and disks) in the possession or under the control of the Issuer or the Depositor relating to the Transferred Loans or the Basic Documents as may be requested, and

(b) visit the offices and property of the Issuer and the Depositor for the purpose of examining such materials described in clause (a) above.

SECTION 7.03. Ownership and Security Interests; Further Assurances. The Depositor will take all action reasonably necessary to maintain the Issuer's ownership interest in the Transferred Loans and the other items constituting Purchased Assets sold pursuant to Article II of the Sale and Servicing Agreement. The Issuer and the Depositor will take all action necessary to maintain the Indenture Trustee's security interest in the Transferred Loans and the other items of Collateral pledged to the Indenture Trustee pursuant to the Indenture.

The Issuer and the Depositor agree to take any and all acts and to execute any and all further instruments reasonably necessary or requested by the Administrative Agent to more fully effect the purposes of this Note Purchase Agreement.

SECTION 7.04. Covenants. The Issuer and the Depositor shall each duly observe and perform each of their respective covenants set forth in each of the Basic Documents to which they are parties.

SECTION 7.05. Amendments. Neither the Issuer nor the Depositor shall make, or permit any Person to make, any amendment, modification or change to, or provide any waiver under any Basic Document to which the Issuer or the Depositor, as applicable, is a party without the prior written consent of each Purchaser.

SECTION 7.06. With Respect to the Exempt Status of the Notes

(a) Neither the Issuer nor the Depositor, nor any of their respective Affiliates, nor any Person acting on their behalf will, directly or indirectly, make offers or sales of any security, or solicit offers to buy any security, under circumstances that would require the registration of the Notes under the Securities Act.

(b) Neither the Issuer nor the Depositor, nor any of their Affiliates, nor any Person acting on their behalf will engage in any form of general solicitation or general advertising (within the meaning of Regulation D promulgated under the Securities Act) in connection with any offer or sale of the Notes.

ARTICLE VIII

ADDITIONAL COVENANTS

SECTION 8.01. Legal Conditions to Closing. The parties hereto will take all reasonable action necessary to obtain (and will cooperate with one another in obtaining) any consent, authorization, permit, license, franchise, order or approval of, or any exemption by, any Governmental Authority or any other Person, required to be obtained or made by it in connection with any of the transactions contemplated by this Note Purchase Agreement.

SECTION 8.02. Mutual Obligations. On and after the Amendment Date, each party hereto will do, execute and perform all such other acts, deeds and documents as the other party may from time to time reasonably require in order to carry out the intent of this Note Purchase Agreement.

SECTION 8.03. Restrictions on Transfer. Each Purchaser agrees that it will comply with the restrictions on transfer of the Notes set forth in the Indenture and resell the Notes only in compliance with such restrictions.

ARTICLE IX

THE ADMINISTRATIVE AGENT; DB MANAGING AGENT

SECTION 9.01. Authorization and Action. Each Purchaser hereby accepts the appointment of and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of this Note Purchase Agreement, together with such powers as are reasonably incidental thereto. The Administrative Agent reserves the right, in its sole discretion, to take any such actions and exercise any such rights or remedies under this Note Purchase Agreement and any related agreements and documents. Except for actions which the Administrative Agent is expressly required to take pursuant to this Note Purchase Agreement or any other Basic Document, the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to applicable law unless the Administrative Agent shall receive further assurances to its satisfaction from the Purchasers of the indemnification obligations under Section 9.04 hereof against any and all liability and expense which may be incurred in taking or continuing to take such action.

SECTION 9.02. Administrative Agent's Reliance, Etc. Neither the Administrative Agent nor any of its respective directors, officers, agents or employees shall be liable to any Indemnified Party for any action taken or omitted to be taken by the Administrative Agent or any of its respective directors, officers, agents or employees as Administrative Agent under or in connection with this Note Purchase Agreement, any other Basic Document or any related agreement or document, except for its or their own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final and non-appealable decision. Without limiting the foregoing, the Administrative Agent: (i) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (ii) makes no warranty or representation to any Purchaser, and shall not be responsible to any Noteholder, for any statements, warranties or representations made by the Originator, the Issuer or the Depositor in connection with this Note Purchase Agreement or any other Basic Document; (iii) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Note Purchase Agreement or any other Basic Document on the part of the Originator, the Issuer or to the Depositor or to inspect the property (including the books and records) of the Originator, the Issuer or the Depositor; (iv) shall not be responsible to any Purchaser for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Note Purchase Agreement, any other Basic Document or any other instrument or document furnished pursuant hereto; and (v) shall incur no liability under or in respect of this Note Purchase Agreement or any other Basic Document by acting upon any notice (including notice by telephone), consent, certificate or other instrument or writing (which may be by telex) believed by it in good faith to be genuine and signed or sent by the proper party or parties.

SECTION 9.03. Administrative Agent and Affiliates. The Administrative Agent, the DB Managing Agent, any Purchaser and its Affiliates may generally engage in any kind of business with the Originator, the Issuer, the Depositor or any Obligor, any of their respective Affiliates and any Person who may do business with or own securities of the Issuer, the Originator, the Depositor or any Obligor or any of their respective Affiliates, all as if such entity were not the Administrative Agent, the DB Managing Agent, or any Purchaser and without any duty to account therefor to the Noteholders, as the case may be.

SECTION 9.04. Indemnification. Each Noteholder agrees to indemnify the Administrative Agent (to the extent not reimbursed by the Issuer, the Originator, the Depositor or the Servicer), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent in any way relating to or arising out of this Note Purchase Agreement or any other Basic Document or any action taken or omitted by the Administrative Agent under this Note Purchase Agreement or any other Basic Document; provided, however, that no Noteholder shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting or arising from the Administrative Agent's gross negligence or willful misconduct as is determined by a court of competent jurisdiction in a final and non-appealable decision. Without limitation of the generality of the foregoing, each Noteholder agrees to reimburse the Administrative Agent (to the extent not reimbursed by the Issuer, the Originator, the Depositor or the Servicer), promptly upon demand, for any reasonable out-of-pocket expenses (including reasonable outside counsel fees) incurred by the Administrative Agent in connection with the administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Note Purchase Agreement or any other Basic Document, provided, however, that no Noteholder shall be responsible for the costs and expenses of the

Administrative Agent in defending itself against any claim alleging the gross negligence or willful misconduct of the Administrative Agent to the extent such gross negligence or willful misconduct is determined by a court of competent jurisdiction in a final and non-appealable decision.

SECTION 9.05. Purchase Decision. Each Purchaser acknowledges that it has, independently and without reliance upon the Administrative Agent, any other Purchaser or any of their respective Affiliates, and based on such documents and information as it has deemed appropriate, made its own evaluation and decision to enter into this Note Purchase Agreement and undertake the obligations of such Purchaser hereunder.

SECTION 9.06. Successor Administrative Agent. The Administrative Agent may resign at any time by giving 60 days' written notice thereof to the Purchasers, the Originator, the Issuer and the Depositor. Upon any such resignation by the Administrative Agent, the Noteholders shall have the right to appoint a successor Administrative Agent approved by the Originator (which approval will not be unreasonably withheld or delayed and which will not be required if a Trigger Event or an Event of Default has occurred). If no successor Administrative Agent shall have been so appointed by the Noteholders, and shall have accepted such appointment, within 60 days after the retiring Administrative Agent's giving of notice or resignation, then the retiring Administrative Agent may, on behalf of the Purchasers, appoint a successor Administrative Agent. If such successor Administrative Agent is not an Affiliate of the original Administrative Agent, such successor Administrative Agent shall be subject to the Originator's prior written consent, provided that no Trigger Event or Event of Default has occurred. If for any reason a successor Administrative Agent is not appointed by the retiring Administrative Agent, the Noteholders shall perform all of the duties of the retiring Administrative Agent and the Originator, the Issuer and the Depositor shall for all purposes shall deal directly with the Noteholders. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Note Purchase Agreement. After any Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article IX shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Administrative Agent under this Note Purchase Agreement.

SECTION 9.07. Authorization and Action of DB Managing Agent. Each member of the DB Ownership Group hereby accepts the appointment of and authorizes the DB Managing Agent for such Ownership Group to take such actions as agent on its behalf and to exercise such powers as are delegated to such DB Managing Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The DB Managing Agent reserves the right, in its sole discretion, to take any actions and exercise any rights or remedies under this Note Purchase Agreement or any other Basic Document and any related agreements and documents. Except for actions which the DB Managing Agent is expressly required to take pursuant to this Note Purchase Agreement, the DB Managing Agent shall not be required to take any action which exposes the DB Managing Agent to personal liability or which is contrary to applicable law unless the DB Managing Agent shall receive further assurances to its satisfaction from the members of its related Ownership Group of the indemnification obligations under Section 10.01 against any and all liability and expense which may be incurred in taking or continuing to take such action.

SECTION 9.08. Determination of DB Cost of Funds Rate. At or before 4:00 p.m., New York City time, on the second Business Day prior to each Accrual Period each Conduit Purchaser shall notify the DB Managing Agent of the DB Cost of Funds Rate for that Accrual Period. Such notification may be based on such Conduit Purchaser's good faith estimate of the DB Cost of Funds Rate for that Accrual Period if the actual rate is not then known to such Conduit Purchaser, and in such case, such Conduit Purchaser shall notify the DB Managing Agent at or before 4:00 p.m., New York City time, on the second Business Day prior to the beginning of the next following Accrual Period of the amount of any variation between interest payable to such Conduit Purchaser for the preceding Accrual Period based on such estimate and interest which should have been payable to such Conduit Purchaser for such Accrual Period based on its final determination of the applicable DB Cost of Funds Rate. The amount of any shortfall in interest based on such variation shall be included in the amount of interest payable to such Conduit Purchaser on the following Payment Date, and the amount of any overpayment of interest to such Conduit Purchaser based on such variation shall be credited, dollar for dollar, against the portion of the amount of interest otherwise payable to such Conduit Purchaser for the following Accrual Period. Each determination by a Conduit Purchaser of the applicable DB Cost of Funds Rate pursuant to this Agreement shall be conclusive and binding on the Issuer and the Servicer in the absence of manifest error.

ARTICLE X

INDEMNIFICATION

SECTION 10.01. Indemnification of the Administrative Agent and each Purchaser. (a) Each of the Originator, the Issuer and the Depositor hereby agree to, jointly and severally, indemnify and hold harmless each Indemnified Party against any and all losses, claims, damages (including punitive damages), liabilities, expenses or judgments (including accounting fees and reasonable legal fees and other expenses incurred, payable promptly upon written request) incurred in connection with this Note Purchase Agreement or any other Basic Document, including any breach in any material respect of any representation, warranty or covenant of the Issuer or the Depositor in this Note Purchase Agreement or any of the other Basic Documents or in any certificate or other written material delivered pursuant hereto or thereto and any action, suit or proceeding or any claim asserted in connection with the foregoing (collectively, "Losses"); provided, however, that the Originator, the Issuer and the Depositor shall not be so required to indemnify any such Indemnified Party or otherwise be liable to any such Indemnified Party hereunder for any Losses (i) which would constitute credit recourse for uncollectible Loans or any other assets of the Issuer (except to the extent any such Losses are attributable to any breach by the Originator, the Depositor, the Issuer or the Servicer of any representation, warranty or covenant made by it in relation to any such Loan or other asset of the Issuer), (ii) which would otherwise be covered in Section 10.02 or (iii) arising from such Indemnified Party's willful misfeasance, bad faith or gross negligence (except for errors in judgment) as determined by a court of competent jurisdiction.

(b) The indemnities contained in this Section 10.01 will be in addition to any liability which the Originator, the Issuer or the Depositor may otherwise have pursuant to this Note Purchase Agreement and any other Basic Document.

SECTION 10.02. Taxes.

(a) All payments made by the Originator, the Servicer or the Issuer under this Note Purchase Agreement and the other Basic Documents shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon net income imposed on any Purchaser in the Deutsche Bank Ownership Group as a result of a present or former connection between such Purchaser and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from such Purchaser or the Noteholder related to such Purchaser having executed, delivered or performed its obligations or received a payment under, or enforced, this Note Purchase Agreement). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to any Indemnified Party hereunder, the amounts so payable to such Purchaser shall be increased to the extent necessary to yield to such Purchaser (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Note Purchase Agreement or any of the other Basic Documents; provided, however, that the Issuer shall not be required to increase any such amounts payable to any Deutsche Bank Conduit Purchaser that is not organized under the laws of the United States of America or a state thereof if such Purchaser fails to comply with the requirements of Section 10.02(b). Whenever any Non-Excluded Taxes are payable by the Issuer, as promptly as possible thereafter, the Originator shall send to such Purchaser a certified copy of an original official receipt received by the Issuer showing payment thereof. If the Issuer fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to such Purchaser the required receipts or other required documentary evidence, the Issuer shall indemnify such Purchaser for any incremental taxes, interest or penalties that may become payable by such Purchaser as a result of any such failure. The agreements in this Section 10.02 shall survive the termination of this Note Purchase Agreement and the payment of all other amounts payable hereunder.

(b) Each Purchaser in the Deutsche Bank Ownership Group that is not incorporated under the laws of the United States of America or a state thereof shall:

(i) deliver to the Issuer two duly completed copies of (A) United States Internal Revenue Service Form-W8-BEN or W8-ECI, or successor applicable form, as the case may be, or (B) an Internal Revenue Service Form W9, or successor applicable form, as the case may be;

(ii) deliver to the Issuer two further copies of any such form or certification on or before the date that any such form or certification expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Issuer; and

(iii) obtain such extensions of time for filing and completing such forms or certifications as may reasonably be requested by the Issuer;

unless in any such case an event (including, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Purchaser from duly completing and delivering any such form with respect to it and such Purchaser so advises the Issuer. The Deutsche Bank Conduit Purchaser shall certify (i) in the case of a W8-BEN or W8-ECI, that it is entitled to receive payments under this Note Purchase Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W9, that it is entitled to an exemption from United States backup withholding tax. Each Person not incorporated under the laws of the United States of America or a state thereof that is an assignee pursuant to Section 8.03 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this Section 10.02.

ARTICLE XI

LIMITED RECOURSE

SECTION 11.01. Limited Recourse.

(a) Hercules hereby unconditionally and irrevocably undertakes and agrees with and for the benefit of the Purchasers and the Indenture Trustee on behalf of the Noteholders to cause the due and punctual performance and observance by the Issuer and its successors and assigns of the full and punctual payment when due of all payments of principal on the Notes by the Issuer in an amount equal to 10% of the Note Principal Balance as of the Termination Date, and agrees to pay any and all expenses (including reasonable fees and expenses of counsel) incurred by the Purchasers and the Indenture Trustee on behalf of the Noteholders in enforcing any rights under this Article XI. The guarantee provided hereunder is a guarantee of performance and payment and not of collection.

(b) In the event that the Issuer shall fail in any manner whatsoever to perform or observe any of the terms, covenants, conditions, agreements and undertakings on the part of the Issuer to be performed or observed under the Sale and Servicing Agreement and the other Basic Documents, (other than payments of principal on the Notes) (such terms, covenants, conditions, agreements, undertakings and other obligations being the “Issuer Obligations”) when the same shall be required to be performed or observed under the Sale and Servicing Agreement or any such other document, then Hercules will itself duly and punctually perform or observe, or cause to be duly and punctually performed or observed, such Issuer Obligation, provided that it shall be a condition to the accrual of the obligation of Hercules hereunder that the any Purchaser, the Administrative Agent or the Indenture Trustee on behalf of the Noteholders shall have first made demand upon the Issuer for payment of such Issuer Obligation and have exhausted all Collateral pledged for the benefit of each Indemnified Party under the Indenture. Notwithstanding the foregoing, this paragraph (b) shall in no event require Hercules to perform or observe such Issuer Obligation if the effect of such performance or observation would be to provide credit recourse to Hercules for the performance of the Transferred Loans.

ARTICLE XII

MISCELLANEOUS

SECTION 12.01. Amendments. No amendment or waiver of any provision of this Note Purchase Agreement shall in any event be effective unless the same shall be in writing and signed by all of the parties hereto, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 12.02. Notices. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including telecopies) and mailed, telecopied (with a copy delivered by overnight courier) or delivered, as to each party hereto, at its address as set forth in Schedule I hereto or at such other address as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be deemed effective upon receipt thereof, and in the case of telecopies, when receipt is confirmed by telephone.

SECTION 12.03. No Waiver; Remedies. No failure on the part of any party hereto to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 12.04. Binding Effect; Assignability.

(a) This Note Purchase Agreement shall be binding upon and inure to the benefit of the Issuer, the Depositor and each Purchaser and their respective permitted successors and assigns (including any subsequent holders of the Notes); provided, however, except as provided in clause (d) below, neither the Issuer nor the Depositor shall have any right to assign their respective rights hereunder or interest herein (by operation of law or otherwise) without the prior written consent of the Purchasers.

(b) Each Purchaser may, in the ordinary course of its business and in accordance with the Basic Documents and applicable law, including applicable securities laws, at any time sell to one or more Persons (each, a "Participant"), participating interests in all or a portion of its rights and obligations under this Note Purchase Agreement. Notwithstanding any such sale by such Purchaser of participating interests to a Participant, such Purchaser's rights and obligations under this Note Purchase Agreement shall remain unchanged, such Purchaser shall remain solely responsible for the performance thereof, and the Issuer and the Depositor shall continue to deal solely and directly with such Purchaser and shall have no obligations to deal with any Participant in connection with such Purchaser's rights and obligations under this Note Purchase Agreement.

(c) This Note Purchase Agreement shall create and constitute the continuing obligation of the parties hereto in accordance with its terms, and shall remain in full force and effect until such time as all amounts payable with respect to the Notes shall have been paid in full.

(d) Each Group Noteholder may sell or assign its Note or its right and obligations hereunder and thereunder, including its outstanding Note Principal Balance, only with the prior consent of the Originator unless (i) such sale or assignment is to an Affiliate of such Purchaser or another member of its Ownership Group or to another Conduit Purchaser of the same rating at the time of such transfer sponsored or administered by such Group Noteholder or any of its Affiliates, (ii) such sale or assignment occurs during the continuance of a Trigger Event under the Sale and Servicing Agreement or (iii) the Depositor or the Originator breaches a representation or warranty contained in the Sale and Servicing Agreement. In addition, a Purchaser shall have the right to sell or finance the Note pursuant to a repurchase, financing or similar transaction without the consent of the Originator.

SECTION 12.05. Provision of Documents and Information. Each of the Issuer and the Depositor acknowledges and agrees that a Purchaser is permitted to provide to any subsequent Purchaser, permitted assignees and Participants, opinions, certificates, documents and other information relating to the Issuer, the Depositor and the Collateral delivered to such Purchaser pursuant to this Note Purchase Agreement provided that with respect to confidential information, such subsequent Purchaser, permitted assignees and Participants agree to be bound by Section 11.13 of the Sale and Servicing Agreement.

SECTION 12.06. **GOVERNING LAW; JURISDICTION. THIS NOTE PURCHASE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH OF THE PARTIES TO THIS NOTE PURCHASE AGREEMENT HEREBY AGREES TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY APPELLATE COURT HAVING JURISDICTION TO REVIEW THE JUDGMENTS THEREOF. EACH OF THE PARTIES HEREBY WAIVES ANY OBJECTION BASED ON *FORUM NON CONVENIENS* AND ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER IN ANY OF THE AFOREMENTIONED COURTS AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT.**

SECTION 12.07. No Proceedings.

(a) Until the date that is one year and one day after the last day on which any amount is outstanding under this Note Purchase Agreement, the Depositor and each Purchaser hereby covenant and agree that they will not institute against the Issuer or the Depositor, or join in any institution against the Issuer or the Depositor of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law.

(b) Each of the Originator, the Issuer, the Depositor, the Servicer, the Administrative Agent and each Purchaser hereby agrees that it shall not institute or join against, or knowingly or intentionally encourage or cooperate with any other Person in instituting against, any Conduit Purchaser any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or other proceeding under any federal or state bankruptcy or similar law, for one year and a day after the latest maturing commercial paper note, medium term note or other debt security issued by such Conduit Purchaser is paid.

(c) Notwithstanding anything in this Note Purchase Agreement to the contrary, no Conduit Purchaser shall have any obligation to pay any amount required to be paid by it hereunder in excess of any amount available to such Conduit Purchaser after paying or making provision for the payment of its rated indebtedness; and each of the other parties hereto agrees that it will not have a claim under Section 101(5) of the Bankruptcy code if and to the extent that any such payment obligation owed to it by such Conduit Purchaser exceeds the amount available to such Conduit Purchaser to pay such amount after paying or making provision for the payment of its notes.

SECTION 12.08. Execution in Counterparts. This Note Purchase Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

SECTION 12.09. No Recourse - Purchasers and Depositor.

(a) The obligations of each Purchaser under this Note Purchase Agreement, or any other agreement, instrument, document or certificate executed and delivered by or issued by any Purchaser or any officer thereof are solely the partnership or corporate obligations of such Purchaser, as the case may be. No recourse shall be had for payment of any fee or other obligation or claim arising out of or relating to this Note Purchase Agreement or any other agreement, instrument, document or certificate executed and delivered or issued by any Purchaser or any officer thereof in connection therewith, against any stockholder, limited partner, employee, officer, director or incorporator of such Purchaser.

(b) The obligations of the Depositor under this Note Purchase Agreement, or any other agreement, instrument, document or certificate executed and delivered by or issued by the Depositor or any officer thereof are solely the limited liability company obligations of the Depositor. No recourse shall be had for payment of any fee or other obligation or claim arising out of or relating to this Note Purchase Agreement or any other agreement, instrument, document or certificate executed and delivered or issued by a Purchaser or any officer thereof in connection therewith, against any member, managing director, employee or officer of the Depositor.

(c) The obligations of the Deutsche Bank Conduit Purchaser under this Note Purchase Agreement, or any other agreement, instrument, document or certificate executed and delivered by or issued by the Deutsche Bank Conduit Purchaser or any officer thereof are solely the limited liability company obligations of the Deutsche Bank Conduit Purchaser. No recourse shall be had for payment of any fee or other obligation or claim arising out of or relating to this Note Purchase Agreement or any other agreement, instrument, document or certificate executed and delivered or issued by a Purchaser or any officer thereof in connection therewith, against any member, managing director, employee or officer of the Deutsche Bank Conduit Purchaser.

(d) Each Purchaser, by accepting the Notes, acknowledges that such Notes represent an obligation of the Issuer and do not represent an interest in or an obligation of the Originator, the Servicer, the Depositor, the Administrator, the Administrative Agent, the Owner Trustee, the Indenture Trustee or any Affiliate thereof and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in this Agreement, the Notes or the Basic Documents.

SECTION 12.10. Survival. All representations, warranties, covenants, guaranties and indemnifications contained in this Note Purchase Agreement and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the sale, transfer or repayment of the Notes.

SECTION 12.11. Tax Characterization. Each party to this Note Purchase Agreement (a) acknowledges and agrees that it is the intent of the parties to this Note Purchase Agreement that for all purposes, including federal, state and local income, single business and franchise tax purposes, the Notes will be treated as evidence of indebtedness secured by the Collateral and proceeds thereof and the trust created under the Indenture will not be characterized as an association (or publicly traded partnership) taxable as a corporation, (b) agrees to treat the Notes for federal, state and local income and franchise tax purposes as indebtedness and (c) agrees that the provisions of all Basic Documents shall be construed to further these intentions of the parties.

SECTION 12.12. Conflicts. Notwithstanding anything contained herein to the contrary, in the event of the conflict between the terms of the Sale and Servicing Agreement and this Note Purchase Agreement, the terms of this Note Purchase Agreement shall control.

SECTION 12.13. Limitation on Liability. It is expressly understood and agreed by the parties hereto that (a) this Note Purchase Agreement is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee of Hercules Funding Trust I, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Note Purchase Agreement or any other related documents.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Note Purchase Agreement to be executed by their respective officers hereunto duly authorized, as of the date first above written.

HERCULES FUNDING TRUST I,

By: Wilmington Trust Company, not in its individual capacity but solely as Owner Trustee

By: /s/ Jeanne M. Oller
Name: Jeanne M. Oller
Title: Senior Financial Services Officer

HERCULES FUNDING I LLC

By: /s/ Scott Harvey
Name: Scott Harvey
Title: Chief Legal Officer

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

By: /s/ David Lund
Name: David Lund
Title: Chief Financial Officer

CITIGROUP GLOBAL MARKETS REALTY CORP.

By: /s/ Douglas Lipton
Name: Douglas Lipton
Title: Authorized Signer

DEUTSCHE BANK AG, NEW YORK BRANCH

By: /s/ Daniel Pietrzak
Name: Daniel Pietrzak
Title: Director

By: /s/ Sergey Moiseyenko
Name: Sergey Moiseyenko
Title: Vice President

NANTUCKET FUNDING CORP., LLC

By: /s/ Philip A. Martone
Name: Philip A. Martone
Title: Vice President

Exhibit f.18

EXECUTION COPY

FOURTH AMENDMENT TO WARRANT PARTICIPATION AGREEMENT
(Hercules Funding Trust I)

THIS FOURTH AMENDMENT TO THE WARRANT PARTICIPATION AGREEMENT, dated as of May 2, 2007 (this "Amendment"), is entered into in connection with that certain Warranty Agreement, dated as of August 1, 2005, as amended by the First Omnibus Amendment dated as of March 6, 2006, the Second Amendment to Warrant Participation Agreement dated October 16, 2006 and the Second Omnibus Amendment dated as of December 6, 2006 (as further amended, supplemented, restated or replaced from time to time, the "Warrant Participation Agreement"), by and among Hercules Technology Growth Capital, Inc. (together with its successors and assigns, "Hercules") and Citigroup Global Markets Realty Corp. (together with its successors and assigns, the 'Participant"). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Warrant Participation Agreement.

R E C I T A L S

WHEREAS, the above-named parties have entered into the Warrant Participation Agreement, and, pursuant to and, in compliance with Section 18 thereof, the parties hereto desire to amend the Warrant Participation Agreement in certain respects as provided herein;

NOW, THEREFORE, based upon the above Recital, the mutual premises and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENT.

(a) The following definitions in Section 1 of the Warrant Participation Agreement are hereby added or amended and restated in their entirety, as applicable, as follows:

"Amendment Date": May 2, 2007.

"Warrant" and "Warrants" shall mean all warrants or similar rights convertible into or exchangeable or exercisable for any equity interests received by Hercules as an "equity kicker" from the Obligor in connection with any Transferred Loan sold or granted by Hercules to the Depositor under the Loan Sale Agreement prior to the Amendment Date, including any additional amounts of interests that a holder thereof may became entitled to by operation of any anti-dilution or other adjustment rights which may result in, for example, a subdivision or combination thereof in accordance with the related Warrant Agreement as listed on Exhibit A attached hereto.

For the avoidance of doubt, the term Warrant shall in no event include the right of Hercules to participate as an investor in future equity financings by an Obligor and to the extent a Transferred Loan represents a percentage of a Loan made by Hercules to an Obligor, the Warrants shall include only the pro rate percentage of the warrants (or other comparable equity interest described above) issued to Hercules by the Obligor in connection with such Loan, such ratable portion to be determined by reference to a fraction, the numerator of which is the outstanding principal amount of the Transferred Loan, and the denominator of which is the aggregate outstanding principal amount of such Loan.

(b) With respect to Section 3 and Section 14(a) of the Warrant Participation Agreement, the term “Collection Date” is hereby replaced with the term “Amendment Date” in each instance.

SECTION 2. AGREEMENT IN FULL FORCE AND EFFECT AS AMENDED.

Except as specifically amended hereby, all provisions of the Warrant Participation Agreement shall remain in full force and effect. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Warrant Participation Agreement other than as expressly set forth herein and shall not constitute a novation of the Warrant Participation Agreement.

SECTION 3. REPRESENTATIONS.

Each of Hercules and the Participant represent and warrant as of the date of this Amendment as follows:

(i) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization;

(ii) the execution, delivery and performance by it of this Amendment are within its powers, have been duly authorized, and do not violate (A) its charter, by-laws, or other organizational documents, or (B) any provision of applicable law or regulation;

(iii) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment by or against it;

(iv) this Amendment has been duly executed and delivered by it;

(v) this Amendment constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally or by general principles of equity; and

(vi) there is no Event of Default as described in the Warrant Participation Agreement.

SECTION 4. CONDITIONS TO EFFECTIVENESS.

The effectiveness of this Amendment is conditioned upon the following:

(i) delivery of executed signature pages to this Amendment by all parties hereto;

(ii) delivery of executed signature pages to the Amended and Restated Note Purchase Agreement dated as of the date hereof by all parties thereto;

(iii) delivery of executed signature pages to the Amended and Restated Sale and Servicing Agreement dated as of the date hereof by all parties thereto;

(iv) delivery of executed signature pages to the First Amendment to the Loan Sale Agreement dated as of the date hereof by all parties thereto;

(v) delivery of executed signature pages to the First Amendment to Joinder in Intercreditor and Concentration Account Administration Agreement dated as of the date hereof by all parties thereto;

(vi) delivery of all executed signature pages to the Second Amended and Restated Warrant Pledge and Security Agreement dated as of the date hereof by all parties thereto;

(vii) delivery of executed signature pages to the First Supplemental Indenture dated as of the date hereof by all parties thereto; and

(viii) delivery of executed signature pages to the First Amendment to Securities Account Control Agreement dated as of the date hereof by all parties thereto.

SECTION 5. MISCELLANEOUS.

(a) This Amendment may be executed in any number of counterparts (including by facsimile), and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument but all of which together shall constitute one and the same agreement.

(b) The descriptive headings of the various sections of this Amendment are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

(c) This Amendment may not be amended or otherwise modified except as provided in the Warrant Participation Agreement.

(d) The failure or unenforceability of any provision hereof shall not affect the other provisions of this Amendment.

(e) Whenever the context and construction so require, all words used in the singular number herein shall be deemed to have been used in the plural, and vice versa, and the masculine gender shall include the feminine and neuter and the neuter shall include the masculine and feminine.

(f) This Amendment represents the final agreement between the parties only with respect to the subject matter expressly covered hereby and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements between the parties. There are no unwritten oral agreements between the parties.

(g) **THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PROVISIONS (OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).**

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HERCULES:

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

By: /s/ David Lund
Name: David Lund
Title: Chief Financial Officer

THE PARTICIPANT:

CITIGROUP GLOBAL MARKETS REALTY CORP.

By: /s/ Douglas Lipton
Name: Douglas Lipton
Title: Authorized Signor

Exhibit h.1

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

[ ] Shares of Common Stock
UNDERWRITING AGREEMENT

[ ], 2006

[Name of Underwriter]
[Address]

Ladies and Gentlemen:

Hercules Technology Growth Capital, Inc., a Maryland corporation (the "Company") proposes to issue and sell to [ ] (each, an "Underwriter" and, collectively the "Underwriters") an aggregate of [ ] shares of common stock, par value $0.001 per share, of the Company (the "Firm Shares").

The Company also proposes to issue and sell to the Underwriters not more than an additional [ ] shares of its common stock, par value $0.001 per share (the "Additional Shares"), if and to the extent that the Underwriters shall have determined to exercise the right to purchase such shares of common stock granted in Section 2 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The shares of common stock, par value $0.001 par value per share, of the Company to be outstanding after giving effect to the sales contemplated hereby, are hereinafter referred to as the "Common Stock."

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form N-2 (No. 333-__________) and a related preliminary prospectus for the registration of the Shares under the Securities Act of 1933, as amended (the "Securities Act"), and the related rules and regulations of the Commission thereunder (the "Securities Act Rules and Regulations"). The registration statement, as it may have heretofore been amended at the time it became effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430C and Rule 497 under the Securities Act, and any post-effective amendment filed pursuant to Rule 462(b) under the Securities Act, is hereinafter referred to as the "Registration Statement;" the prospectus, dated as of [ ], included in the Registration Statement at the time it became effective on [ ] (including the information, if any, deemed to be part of the Registration Statement at the time of effectiveness pursuant to Rule 430C and Rule 497 under the Securities Act) is hereinafter referred to as the "Base Prospectus;" the preliminary prospectus supplement dated [ ], filed with the Commission pursuant to Rule 497 under the Securities Act is hereinafter referred to as the "Pre-Pricing Prospectus Supplement" (and together with the Base Prospectus, the "Pre-Pricing Prospectus"); the prospectus supplement to be filed with the Commission pursuant to Rule 497 under the Securities

Act after the execution and delivery of this Agreement is hereinafter referred to as the "Prospectus Supplement" (and together with the Base Prospectus, the "Prospectus").

As used in this Agreement the term "Applicable Time" means the date and time that this Agreement is executed and delivered by the parties hereto.

1. Representations and Warranties.

(a) The Company represents and warrants to, and agrees with, the Underwriters that:

(i) The Company meets the requirements for use of Form N-2 under the Securities Act and the Securities Act Rules and Regulations. At the time the Registration Statement became effective, the Registration Statement complied in all material respects with the requirements of the Securities Act, the Securities Act Rules and Regulations and did not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the Pre-Pricing Prospectus, when considered together with the pricing terms and other information set forth on Exhibit B hereto (the "Pricing Information") complied, as of its date, in all material respects, with the requirements of the Securities Act and the Securities Act Rules and Regulations, and the Pre-Pricing Prospectus, when considered together with the Pricing Information, as of the Applicable Time, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; the Prospectus, as of the date of the Prospectus Supplement, will comply in all material respects, with the requirements of the Securities Act and the Securities Act Rules and Regulations, and the Prospectus, as of the date of the Prospectus Supplement, the Closing Date and any Option Closing date, did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided, however, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or Prospectus or any amendments or supplements thereto made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by any Underwriter expressly for use in the Registration Statement or Prospectus.

(ii) The Registration Statement has become effective; the SEC has not issued, and is not, to the knowledge of the Company, threatening to issue, any stop order under the Securities Act or other order suspending the effectiveness of the Registration Statement (as amended or supplemented).

(iii) The Company has elected to be treated by the Commission as a business development company under the Investment Company Act of 1940 (the "Investment Company Act"), such election is effective and all required action has been taken under the Securities Act, the Investment Company Act and any state securities laws to make the public offering and the issuance and sale of the Shares by the Company, and the provisions of the Company's articles of incorporation and bylaws comply as to form in all material respects with the requirements of the Investment Company Act and the rules and regulations promulgated thereunder.

(iv) To the Company's knowledge, Ernst & Young LLP, the accounting firm that audited the financial statements of the Company set forth in the Registration Statement and Prospectus, was and is an independent registered accounting firm as required by the Securities Act and the Securities Act Rules and Regulations for the periods covered by the financial statements on which they reported contained in the prospectus.

(v) The financial statements, together with the related schedules and notes thereto, of the Company set forth in the Registration Statement and the Prospectus fairly present in all material respects the financial condition of the Company as of the dates indicated and the results of their operations for the respective periods specified, and are prepared in conformity with generally accepted accounting principles and the selected financial information and data included in the Registration Statement and the Prospectus have been prepared on a basis consistent with that of the books and records of the Company.

(vi) The Company (A) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maryland, has full corporate power and authority to conduct its business as described in the Prospectus; (B) has full power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby; and (C) is duly licensed or qualified to do business as a foreign corporation and in good standing in the State of California, Colorado, Maryland, Massachusetts, Ohio and Illinois except where the failure to be so qualified or licensed or to be in good standing would not result in a material adverse effect upon the financial condition, business or results of operations of the Company ("Material Adverse Effect").

(vii) The Company has three subsidiaries, Hercules Technology II, L.P., Hercules Technology SBIC Management, LLC and Hercules Funding I LLC. Hercules Technology II, L.P. is a limited partnership duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware Revised Uniform Limited Partnership Act and is duly licensed or qualified to do business in California, Colorado, Maryland, Massachusetts and Ohio; Hercules Technology SBIC Management, LLC is a limited liability company duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware Limited Liability Company Act, as amended, and is duly licensed or qualified to do business in California, Colorado, Maryland, Massachusetts, Ohio and Illinois; Hercules Funding I LLC is a limited liability company duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware Limited Liability Company Act, as amended, and is duly licensed or qualified to do business in California, Colorado, Maryland, Massachusetts, Ohio and Illinois, except where the failure of the subsidiaries to be so qualified or licensed or to be in good standing would not result in a Material Adverse Effect.

(viii) Neither the Company nor any of its subsidiaries is, or with the giving of notice or lapse of time or both would be, in default or violation with respect to its charter or bylaws or governing documents. Neither the Company nor any of its subsidiaries is, or with the giving of notice or lapse of time or both would be, in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, or in violation of any statutes, laws, ordinances or governmental rules or regulations or any orders or decrees to which it is subject.

(ix) The Company's authorized capitalization is as set forth in the Prospectus; the outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable and conform in all material respects to the description thereof in the Prospectus under the heading "Description of Capital Stock"; the Shares have been duly authorized by all requisite corporate action on the part of the Company for the issuance and sale of the Shares to the Underwriters pursuant to this Agreement.

(x) Except as set forth in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (A) the Company has not incurred any liabilities or obligations, direct or contingent, or entered into any transactions, other than in the ordinary course of business, that are material to the Company, (B) there has not been any material change in the capital stock of the Company, or any material adverse change, or to the Company's knowledge, any development involving a prospective material adverse change, in the condition (financial or otherwise), business, net worth or results of operations of the Company (excluding changes due to investment activities in the ordinary course of business), (C) there has been no dividend or distribution declared or paid in respect of the Company's capital stock and (D) the Company has not incurred any short-term debt or long-term debt that is, in either case, material with respect to the Company (excluding debt resulting from a draw down on the Company's credit facility).

(xi) There is no pending or, to the knowledge of the Company, threatened action, suit or proceeding, legal or governmental, to which the Company is a party before or by any court or governmental agency or body, that is required to be described in the Prospectus and is not so described.

(xii) There are no contracts, agreements or understandings of the Company that are required to be filed as exhibits to the Registration Statement by the Securities Act or by the Securities Act Rules and Regulations that have not been so filed or incorporated by reference therein as permitted by the Securities Act Rules and Regulations.

(xiii) This Agreement has been duly authorized, executed and delivered by the Company.

(xiv) The issuance and sale of the Shares and the consummation of the transactions contemplated herein will not result in a material breach or violation of any of the terms and provisions of, constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Company pursuant to, any agreement, indenture, mortgage, lease or other instrument to which the Company is a party or by which it or any of its properties or assets may be bound nor will such action result in any violation of the Company's charter or bylaws, or any order, law, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its properties.

(xv) No consent, approval, authorization, notification or order of, or filing with, any court or governmental agency or body is required for the consummation by the Company of the transactions contemplated by this Agreement, except such as may be required by the securities or Blue Sky laws of the various states, the rules and regulations of the NASD or the securities laws of any jurisdiction outside of the United States in connection with the offer and sale of the Shares.

(xvi) This Agreement complies as to form in all material respects with all applicable provisions of the Investment Company Act.

(xvii) The Shares have been authorized for listing on the Nasdaq Global Market, subject to official notice of issuance or sale of the Shares, as the case may be.

(xviii) Except as described in the Prospectus, the Company and each of its subsidiaries have all necessary licenses, authorizations, consents and approvals and have made all necessary filings required under any federal, state or local law, regulation or rule, and have obtained all necessary licenses, authorizations, consents and approvals from other persons, required in order to conduct their business as described under the heading "Business" in the Prospectus, except to the extent that any failure to have any such licenses, authorizations, consents or approvals, to make any such filings or to obtain any such authorizations, consents or approvals is not, alone or in the aggregate, reasonably likely to result in a Material Adverse Effect; neither the Company nor any of its subsidiaries is in violation of, or in default under, any such license, authorization, consent or approval of any federal, state or local law, regulation or rule or any decree, order or judgment applicable to the Company, the effect of which is reasonably likely to result in a Material Adverse Effect; and neither the Company nor any of its subsidiaries has received any notification or communication from any agency or department of federal, state, or local government or any regulatory authority or the staff thereof threatening to revoke or modify any license, authorization, consent or approval, which alone or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would be reasonably likely to result in a Material Adverse Effect.

(xix) Except as disclosed in the Prospectus under the caption "Certain Relationships and Related Transactions," the Company has not entered into any transaction with any person which would be required to be disclosed under Item 404 of the Commission's Regulation S-K.

(xx) Except as otherwise disclosed in the Prospectus, as of the date thereof, no extension of credit has been made by the Company to an executive officer or director of the Company in violation of Section 402 of Sarbanes-Oxley Act of 2002.

(xxi) Except with respect to the Underwriters or as disclosed in the Prospectus, the Company has not incurred any liability for any finder's fees or similar payments in connection with the issuance and sale the Shares.

(xxii) The Company (A) has not taken, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price or any security of the Company to facilitate the issuance or the sale or resale of the Shares, (B) has not since the filing of the Registration Statement sold, bid for or purchased, or paid anyone compensation for soliciting purchases of, shares of Common Stock of the Company and (C) will not, until the later of the Expiration Time or the completion of the distribution (within the meaning of Regulation M under the Exchange Act) of the Shares, sell, bid for or purchase, pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company; provided that any action in connection with the Company's dividend reinvestment plan will not be deemed to be within the restrictions of this Section 1.

(xxiii) Except as described in the Prospectus, since January 1, 2006, the Company has been organized and operated, and currently is organized and operated, in conformance with the applicable requirements to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended ("Subchapter M of the Code").

(xxiv) The Company has been organized and operated as, and currently is organized and operated, in material conformance with the requirements of the Investment Company Act applicable to business development companies.

(xxv) The provisions of the corporate charter and by-laws of the Company and the investment objective, policies and restrictions described in the Prospectus are not inconsistent with the requirements of the Investment Company Act and the rules and regulations promulgated thereunder applicable to a business development company, and the provisions of the organizational documents of each of the subsidiaries and the operations of each of the subsidiaries allow the Company to be in compliance in all material respects with the requirements of the Investment Company Act and the rules and regulations promulgated thereunder applicable to a business development company.

(xxvi) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since the Company's most recent audited fiscal year, there have been, to the Company's knowledge, no changes in the Company's internal controls over financial reporting that could significantly affect internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

(xxvii) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rules 13a-14 and 15d-14 under the Exchange Act) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive officers or officers and principal financial officer or officers, as appropriate to allow timely decisions regarding disclosure.

(xxviii) The Company and its officers and directors, in their capacities as such, are in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

(xxix) Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any employee of the Company has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds, violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended, made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment, or received or retained any funds in violation of any law, rule or regulation.

(b) Any certificate required by this Agreement that is signed by any officer of the Company and delivered to the Underwriters or counsel for the Underwriters shall be deemed a representation and warranty by the Company to the Underwriters, as to the matters covered thereby.

2. Agreements to Sell and Purchase. The Company hereby agrees to sell to the Underwriters, and the Underwriters, upon the basis of the representations, warranties and covenants herein contained, but subject to the conditions hereinafter stated, agree to purchase, severally and not jointly, from the Company the number of Firm Shares set forth opposite the name of Each Underwriter on Schedule I hereof at $[ ] per share ("Purchase Price").

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the Underwriters the Additional Shares, and the Underwriters shall have a one-time right to purchase, severally and not jointly, from the Company up to the number of Additional Shares set forth opposite the name of Each Underwriter on Schedule II hereof at the Purchase Price. If the Underwriters elect to exercise such option, the Underwriters shall so notify the Company in writing not later than [ ] (______) days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by the Underwriters and the date on which such shares are to be purchased. Such date may be the same as the Closing Date (as defined below) but not earlier than the Closing Date nor later than [______] (__) business days after the date of such notice. Additional Shares may be purchased as provided in Section 4 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. On the day that Additional Shares are to be purchased (the "Option Closing Date"), each Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments to eliminate fractional shares as the Underwriters may determine) that bears the same proportion to the total number of Additional Shares to be purchased on such Option

Closing Date as the number of Firm Shares set forth in Schedule A hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

3. Public Offering of Shares. The Underwriters advise the Company that it proposes to make a public offering of Shares as soon after this Agreement has been executed and delivered as in its judgment is advisable.

The Company is further advised by you that the Shares are to be offered to the public initially at $[ ] per share (the "Public Offering Price").

4. Payment and Delivery. Payment for the Firm Shares shall be made to the Company by the wire transfer of immediately available funds to the order of the Company against delivery of such Firm Shares for the respective accounts of the several Underwriters at [ ], New York City time, on [ ], or at such other time on the same or such other date, no later than five business days after the date of this Agreement as the Underwriters and the Company may agree upon in writing. The time and date of such payment are hereinafter referred to as the "Closing Date."

Payment for any Additional Shares shall be made to the Company by the wire transfer of immediately available funds to the order of the Company against delivery of such Additional Shares for the respective accounts of the several Underwriters at [ ], New York City time, on the date specified in the notice described in Section 2 or at such other time on the same or on such other date, in any event not later than [ ], New York City time, three (3) business days following the date the Underwriters provide the Company with notice pursuant to Section 2 of this Agreement, as shall be designated in writing by the Underwriters. The time and date of such payment are hereinafter referred to as the "Option Closing Date."

Certificates for the Firm Shares and the Additional Shares shall be in definitive form and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and the Additional Shares shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, for the respective accounts of the several Underwriters, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriters duly paid, against payment of the Purchase Price therefor. The Firm Shares and Additional Shares shall be delivered through the facilities of The Depository Trust Company.

5. Covenants of the Company. The Company covenants with each Underwriter as follows:

(a) To notify the Underwriters promptly the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose, and the suspension of the qualification of the Shares for offering or sale in any jurisdiction. The Company will make every reasonable effort to prevent the issuance of any stop order described in this subsection hereunder and, if any such stop order is issued, to use commercially reasonable efforts to obtain the lifting thereof at the earliest possible moment, and to advise the Underwriters promptly of any examination pursuant to Section 8(e) of the Securities Act or of the Company becoming the subject of a proceeding under Section 8A of the Securities Act in connection with any offering of the Shares.

(b) To give the Underwriters notice of any intention to file any amendment to the Registration Statement (including any post-effective amendment) or any amendment or supplement to the Prospectus (including any revised prospectus proposed for use by the Underwriters in connection with the offering, which differs from the prospectus on file at the Commission at the time the Registration Statement becomes effective, whether such revised prospectus is required to be filed pursuant to Rule 497(b) or Rule 497(h) of the Securities Act Rules and Regulations), whether required to be filed pursuant to the Investment Company Act, the Securities Act or otherwise, and to furnish the Underwriters with copies of any such amendment or supplement a reasonable amount of time prior to such proposed filing or use, as the case may be, and to not file any such amendment or supplement to which the Underwriters or counsel for the Underwriters shall reasonably object, except as may be required by applicable law; provided, however, in the event of any such objection, the Underwriters agree to cooperate with the Company to ensure that an acceptable filing can be promptly made.

(c) To furnish, upon request and without charge, to the Underwriters a signed copy of the Registration Statement (including exhibits thereto) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and to furnish to you in New York City, without charge, prior to [ ] New York City time on the business day next succeeding the date of this Agreement and during the period mentioned in Section 5(d) below, as many copies of the Pre-Pricing Prospectus and Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(d) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object in writing within two business days after receipt, and to file with the Commission within the applicable period specified in Rule 497 under the Securities Act any prospectus required to be filed pursuant to such Rule.

(e) If any event shall occur or a condition exist as a result of which it is necessary, in the reasonable opinion of counsel for the Company in consultation with counsel for the Underwriters, to amend or supplement the Registration Statement or the Prospectus in order to make the statements therein not misleading in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, to forthwith amend or supplement the Registration Statement or Prospectus by preparing and filing with the Commission (and furnishing to the Underwriters a reasonable number of copies of) an amendment or amendments of the Registration Statement or an amendment or amendments of or a supplement or supplements to, the Prospectus (in form and substance satisfactory to counsel for the Underwriters), at the Company's expense, which will amend or supplement the Registration Statement or the Prospectus so that the statements in the Prospectus, as so amended or supplemented, will not, in the light of the circumstances under which they were made, be misleading when the Prospectus is delivered to a purchaser, and the Underwriters and their counsel agree to cooperate with the Company to ensure that an acceptable filing can be promptly made.

(f) To endeavor, in cooperation with the Underwriters and their counsel, to assist such counsel to qualify the Shares for offer and sale under the applicable securities laws of such states and other jurisdictions of the United States as the Underwriters may designate; provided, however, that the Company shall not be obligated to file any general consent to service of process, or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not now so qualified. The Company will file such statements and reports as may be required to consummate the transactions contemplated hereby by the laws of each jurisdiction in which the Shares have been qualified as above provided.

(g) For a period of ____ days from the date of this Agreement, to not, without the prior consent of the Underwriters, directly or indirectly sell, offer to sell, enter into any agreement to sell, or otherwise dispose of, any equity or equity related securities of the Company or securities convertible into such securities, other than the Shares or the Common Stock issued in reinvestment of dividends or distributions or to the Company's directors upon that individual's election to receive shares of the company's Common Stock in lieu of a cash retainer.

(h) To apply the net proceeds received by the Company from the sale of the Shares sold by it as set forth under "Use of Proceeds" in the Prospectus.

(i) To use its best efforts to maintain its status as a business development company under the Investment Company Act.

(j) To use its best efforts to conform with the applicable requirements to be treated as a regulated investment company under Subchapter M of the Code.

(k) Except for the authorization of actions permitted to be taken by the Underwriters as contemplated herein or in the Prospectus, not to take, directly or indirectly, within 30 days of the date of the Prospectus, any action designed to cause or to result in, or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the issuance of the sale or resale of the Shares; provided, that any action in connection with the Company's dividend reinvestment plan or to the issuance of shares of the Company's Common Stock to the Company's directors upon that individual's election to receive shares of the company's Common Stock in lieu of a cash retainer each will be deemed to be within the meaning of this Section 4.

(l) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of its obligations under this Agreement, including: (i) the fees, disbursements and expenses of counsel for the Company and the Company's accountants in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, the Pre-Pricing Prospectus Supplement, the Prospectus Supplement and the Prospectus, and any amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any Blue Sky in connection with the offer and sale of the Shares under state securities laws and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky, (iv) all filing fees and the reasonable fees and disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the offering of the Shares by the National Association of Securities Dealers, Inc., if any, (v) any fees charged by the rating agencies for the rating of the Shares, (vi) the cost of printing certificates representing the Shares, (vii) the fees and expenses of any transfer agent, registrar or depositary in connection with the issuance of the Shares, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and, with the prior approval of the Company, the cost of any aircraft chartered in connection with the road show and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that except as provided in this Section, Section 7 entitled "Indemnification and Contribution", the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Shares by them and any advertising expenses connected with any offers they may make.

6. Conditions of the Underwriters' Obligations; Additional Covenants. The obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company contained herein, to the accuracy of the statements of the Company's officers made in each certificate furnished pursuant to the provisions hereof and to the performance and observance by the Company of all covenants and agreements herein or its part to be performed and observed, and to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date and the Option Closing Date, as the case may be, there shall not have occurred any change in the condition, financial or otherwise, or in the earnings, business or operations of the Company, taken as a whole, from that set forth in the Prospectus that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares as contemplated hereby.

(b) On the Closing Date and the Option Closing Date, as the case may be, the Underwriters shall have received:

(1) The opinion, dated the Closing Date and the Option Closing Date, as the case may be, of Sutherland Asbill & Brennan LLP, counsel for the Company, in substantially the form set forth in Annex I hereto and their negative assurance letter dated the Closing Date and the Option Closing Date in form reasonably satisfactory to counsel for the Underwriters to the effect set forth in Annex II hereto. In rendering such opinion, Sutherland Asbill & Brennan LLP may rely as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials;

(c) The Underwriters shall have received from [   ], counsel for the Underwriters, such opinion or opinions, dated the Closing Date and the Option Closing Date, in form and substance satisfactory to the Underwriters, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(d) The Company shall have furnished to the Underwriters on Closing Date or the Option Closing Date a certificate of the Company, signed by the President or other senior officer of the Company, dated the Closing Date or the Option Closing Date, to the effect set forth in Section 5(a) above and to the effect that the signer of such certificate has carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus and this Agreement and that, to the best of his knowledge:

(i) the representations, warranties and covenants of the Company contained in this Agreement are true and correct as of the date of the Agreement and, in all material respects (except to the extent that any of such representations and warranties are already qualified as to materiality herein, in which case, such representations and warranties shall be true and correct without further qualification), the Closing Date and the Option Closing Date, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied in all material respects hereunder on or before the Closing Date and the Option Closing Date, as the case may be;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to his knowledge, threatened; and

(iii) since the date of the most recent balance sheet included or incorporated by reference in the Prospectus, there has been no material adverse change in the condition (financial or other), earnings, business, net worth or results of operations of the Company (excluding changes due to investment activities in the ordinary course of business), except as set forth in or contemplated in the Prospectus.

The officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

(e) On each the date hereof, the Closing date and the Option Closing Date, as the case may be, the Underwriters shall have received from Ernst & Young LLP, a letter, dated hereof, the Closing Date and the Option Closing Date, as the case may be, in form and substance reasonably satisfactory to the Underwriters, and stating the conclusions and findings of such firm with respect to the financial information and certain financial information contained in the Registration Statement and the Prospectus ordinarily covered by accountants' "comfort letters" in connection with registered public offerings; provided that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof and, if applicable, the letter delivered on the Option Closing Date shall use a "cut-off date" not more than three business days prior to the Option Closing Date.

(f) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (e) of this Section 6, or (ii) any change in or affecting the business or properties of the Company, the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Underwriters, so material and adverse as to make it impractical or inadvisable to proceed with the offering as contemplated by the Registration Statement and the Prospectus.

(g) Prior to the Closing Date and the Option Closing Date, as the case may be, the Company shall have furnished to the Underwriters such further appropriate information, certificates and documents as the Underwriters may reasonably request.

(h) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between the Underwriters and certain executive officers of the Company relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to the Underwriters on or before the date hereof, shall be in full force and effect on the Closing Date.

(i) The obligation of the Underwriters to purchase Additional Shares hereunder is subject to the delivery to the Underwriters on the Option Closing Date of such documents as it may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares and other matters related to the issuance of the Additional Shares.

(j) The Shares shall have been approved for listing on the Nasdaq Global Market, subject only to notice of issuance at or prior to the Closing Date or the Option Closing Date, as the case may be.

If any of the conditions specified in this Section 6 shall not have been fulfilled when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be satisfactory in form and substance to the Underwriters and their counsel, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Underwriters. Notice of such cancellation shall be given to the Company in writing or by telephone or telegraph confirmed in writing.

7. Indemnification and Contribution.

(a) Indemnification of the Underwriters. The Company agrees to indemnify and hold harmless each Underwriter, its officers and employees, and each person, if any, who controls such Underwriter within the meaning of the Securities Act and the Exchange Act against any loss, claim, damage, liability or expense, as incurred, to which such Underwriter or such controlling person may become subject, under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based (i) upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, or any amendment thereto, including any information deemed to be a part thereof pursuant to Rule 497 and Rule 430C under the Securities Act, or the omission or alleged omission therefrom of a material fact required to be stated therein necessary to make the statements therein not misleading or (ii) upon any untrue statement or alleged untrue statement of a material fact contained in the Pre-Pricing Prospectus, when considered together with the Pricing Information, or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and to reimburse such Underwriter and each such controlling person for any legal and other expense reasonably incurred (including the fees and disbursements of counsel chosen by the Underwriters) reasonably incurred by such Underwriter or such controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the foregoing indemnity agreement shall not apply to any loss, claim, damage, liability or expense based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by such Underwriter expressly for use in the Registration Statement, the Pre-Pricing Prospectus, Pricing Information or the Prospectus (or any amendment or supplement thereto).

(b) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Company and its respective directors, officers and employees, for and against any losses, damages or liabilities to which the Company may become subject, insofar as such losses, damages or liabilities (or actions or claims in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Prospectus relating to the Shares, or any amendment or supplement thereto, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Prospectus relating to the Shares, or any such amendment or supplement, in reliance upon and in conformity with written information relating to the Underwriters furnished to the Company by you or by any Underwriter through you, expressly for use in the preparation thereof, and will reimburse the Company for any legal or other expenses incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred (including such losses, damages, liabilities or expenses to the extent of the aggregate amount paid in settlement of any such action or claim, provided that (subject to Section 7(c) hereof) any such settlement is effected with the written consent of the Underwriters).

(c) Promptly after receipt by an indemnified party under Section 7(a) or 7(b) hereof of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under Section 7(a) or 7(b) hereof, notify each such indemnifying party in writing of the commencement thereof, but the failure so to notify such indemnifying party shall not relieve such indemnifying party from any liability except to the extent that it has been prejudiced in any material respect by such failure or from any liability that it may have to any such indemnified party otherwise than under Section 7(a) or 7(b) hereof. In case any such action shall be brought against any such indemnified party and it shall notify each indemnifying party of the commencement thereof, each such indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party under Section 7(a) or 7(b) hereof similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of such indemnified party, be counsel to such indemnifying party), and, after notice from such indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party shall not be liable to such indemnified party under Section 7(a) or 7(b) hereof for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. The indemnified party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party at the expense of the indemnifying party has been authorized by the indemnifying party, (ii) the indemnified party shall have been advised by such counsel that there may be a conflict of interest between the indemnifying party and the indemnified party in the conduct of the defense, or certain aspects of the defense, of such action (in which case the indemnifying party shall not have the right to direct the defense of such action with respect to those matters or aspects of the defense on which a conflict exists or may exist on behalf of the indemnified party) or (iii) the indemnifying party shall not in fact have employed counsel reasonably satisfactory to such indemnified party to assume the defense of such action, in any of which events such fees and expenses to the extent applicable shall be borne, and shall be paid as incurred, by the indemnifying party. If at any time such indemnified party shall have requested such indemnifying party under Section 7(a) or 7(b) hereof to reimburse such indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a) or 7(b) hereof effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of such request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request for reimbursement prior to the date of such settlement. No such indemnifying party shall (i) without the written consent of such indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action, claim or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not such indemnified party is an actual or potential party to such action, claim or proceeding) unless such settlement, compromise or judgment (A) includes an unconditional release of such indemnified party from all liability arising out of such action, claim or proceeding and (B) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any such indemnified party or (ii) be liable for any settlement or any such action effected without its written consent, but if settled with the consent of the indemnifying party or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. In no event shall such indemnifying parties be liable for the fees and expenses of more than one counsel, in addition to any local counsel, for all such indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

(d) If the indemnification provided for in this Section 7 is unavailable to or insufficient to indemnify or hold harmless an indemnified party under Section 7(a) or 7(b) hereof in respect of any losses, damages or liabilities (or actions or claims in respect thereof) referred to therein, then each indemnifying party under Section 7(a) or 7(b) hereof shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages or liabilities (or actions or claims in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, from the offering. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under Section 7(c) hereof and such indemnifying party was prejudiced in a material respect by such failure, then each such indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault, as applicable, of the Company, on the one hand, and the Underwriters, on the other hand, in connection with the statements or omissions that resulted in such losses, damages or liabilities (or actions or claims in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by, as applicable, the Company, on the one hand, and the Underwriters, on the other hand, shall be deemed to be in the same proportion as the total net proceeds from such offering (before deducting expenses) received by the Company bear to the total commissions received by the Underwriters. The relative fault, as applicable, of the Company, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, on the one hand, or the Underwriters, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 7(d). The amount paid or payable by such an indemnified party as a result of the losses, damages or liabilities (or actions or claims in respect thereof) referred to above in this Section 7(d) shall be deemed to include any legal or other expenses incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares purchased upon exercise of the Rights were offered exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations of the Underwriters in this Section 7(d) to contribute are several in proportion to their respective underwriting obligations with respect to the Shares and not joint.

(e) The obligations of the Company under this Section 7 shall be in addition to any liability that the Company may otherwise have and shall extend, upon the same terms and conditions, to each officer, director, employee, agent or other representative and to each person, if any, who controls any Underwriter within the meaning of the Securities Act; and the obligations of the Underwriters under this Section 7 shall be in addition to any liability that the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company who signed the Registration Statement and to each person, if any, who controls the Company within the meaning of the Securities Act.

(f) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof, including, without limitation, the provisions of this Section 7, and are fully informed regarding such provisions. They further acknowledge that the provisions of this Section 7 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement, the Prospectus, and any supplement or amendment thereof, as required by the Securities Act.

(g) Notwithstanding any other provision of this Section 7, no party shall be entitled to indemnification and contribution under this Agreement in violation of Section 17(i) of the Investment Company Act.

8. Termination of Agreement.

(a) The obligations of the Underwriters under this Agreement may be terminated at anytime on or prior to the Closing Date, by notice given to the Company if, prior to the delivery and payment for the Shares, in the sole judgment of the Underwriters there has been any material adverse change or any development involving a prospective material adverse change in the business, prospects, properties, management, financial condition or results of operation of the Company, which would, in the Underwriters' judgment, make it impracticable or inadvisable to proceed with the Offering of the Shares on the terms and in the manner contemplated in the Registration Statement and the Prospectus, or (y) there shall have occurred: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq Global Market or minimum or maximum prices shall have been generally established on such exchange, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by such exchange or by order of the Commission or any court or other governmental authority; (ii) a suspension or material limitation in trading in the Company's securities on the Nasdaq National Market; or (iii) a general moratorium on commercial banking activities declared by either federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States.

(b) If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 5.

9. Notices. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Underwriters, will be mailed, delivered or telegraphed and confirmed to:

[Name of Underwriters]
[Address]

and if sent to the Company:

Hercules Technology Growth Capital, Inc.
525 University Avenue
Suite 700
Palo Alto, CA 94301

10. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and will inure to the benefit of the officers and directors and controlling persons referred to in Section 7 hereof, and no other person will have any right or obligation hereunder. The term "successors and assigns" as used in this Agreement shall not include a purchaser, as such purchaser, of Shares from the Underwriters.

11. Governing Law; Construction. This Agreement and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement ("Claim"), directly or indirectly, shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflict of law provisions thereof to the extent such principles or rules would require or permit the application of the laws of another jurisdiction. The Section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

12. Submission to Jurisdiction. Except as set forth below, no Claim may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Company consents to the jurisdiction of such courts and personal service with respect thereto. The Company hereby consents to personal jurisdiction, service and venue in any court in which any Claim arising out of or in any way relating to this Agreement is brought by any third party against the Underwriter or any indemnified party. Each of the Underwriters and the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement. The Company agrees that a final judgment in any such action, proceeding or counterclaim brought in any such court shall be conclusive and binding upon the Company and may be enforced in any other courts to the jurisdiction of which the Company is or may be subject, by suit upon such judgment.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

14. Severability. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

If the foregoing is in accordance with your understanding of our agreement, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the Underwriters.

Very truly yours,

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

By: ____________

Name:

Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written by , individually and as Representative, by its undersigned officer thereunto duly authorized.

, as Representative of the various Underwriters listed on Schedule 1 hereto

By: ____________________________________

Name:

Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

EXHIBIT B

PRICING INFORMATION

Number of Shares :

Number of Shares under the Over-allotment Option:

Offering Price:

Underwriter Discount and Commissions:

Estimated Net Proceeds to the Company:

Exhibit l

CYNTHIA M. KRUS
DIRECT LINE: 202.383.0218
E-mail: Cynthia.krus@sablaw.com

May 15, 2007

Hercules Technology Growth Capital, Inc.
400 Hamilton Avenue
Suite 310
Palo Alto, CA 94301

Ladies and Gentlemen:

We have acted as counsel to Hercules Technology Growth Capital, Inc., a Maryland corporation (the "Company"), in connection with a registration statement on Form N-2, File No. 333-141828 (the "Registration Statement"), filed by the Company under the Securities Act of 1933, as amended (the "Act"), relating to (i) the offering from time to time by the Company of up to 12,000,000 shares of the Company's common stock, par value $0.001 per share (the "Common Stock") and (ii) the sale by the selling shareholders named in the Registration Statement (the "Selling Shareholders") of an aggregate of 479,568 shares of the Company's common stock, par value $0.001 per share, in connection with the offering described in the Registration Statement, which shares have been issued and are outstanding (the "Selling Shareholder Shares"). The Registration Statement provides that the Common Stock may be offered in amounts, at prices, and on terms to be set forth in one or more supplements (each a "Prospectus Supplement") to the final prospectus (the "Prospectus").

We have participated in the preparation of the Registration Statement and have examined originals or copies, certified or otherwise identified to our satisfaction by public officials or officers of the Company as authentic copies of originals, of (i) the Company's charter (the "Charter") and its bylaws (the "Bylaws"), (ii) resolutions of the board of directors of the Company (the "Board") relating to the authorization of the preparation and filing of the Registration Statement and approving the offer and issuance of the Common Stock, and (iii) such other documents as in our judgment were necessary to enable us to render the opinions expressed below.

In our review and examination of all such documents, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents and records submitted to us as originals, and the conformity with authentic originals of all documents and records submitted to us as copies. We have assumed without verification the accuracy and completeness of all corporate records made available to us by the Company.

To the extent we have deemed appropriate, we have relied upon certificates of public officials and certificates and statements of corporate officers of the Company as to certain factual matters.

We assume that the issuance, sale and amount of the Common Stock to be offered from time to time will be authorized and determined by proper action of the Board in accordance with the parameters described in the Registration Statement (each, a "Board Action") and in accordance with the Company's charter and bylaws and with applicable Maryland law.

This opinion is limited to the laws of the State of Maryland, and we express no opinion with respect to the laws of any other jurisdiction. The opinions expressed in this letter are based on our review of the General Corporation Law of Maryland.

Based upon and subject to the foregoing and our investigation of such matters of law as we have considered advisable, we are of the opinion that:

1. The Company is a corporation duly incorporated and existing under the laws of the State of Maryland.
2. Upon due authorization by Board Action of the issuance of the Common Stock, and upon the consummation of the sale of the Common Stock and the payment of the consideration therefor in accordance with the terms and provisions of such Board Action, the Common Stock will be duly authorized, validly issued, fully paid and nonassessable.
3. The Selling Shareholder Shares have been duly authorized and validly issued, and are fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm in the "Legal Matters" section of the prospectus included in the Registration Statement. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Sutherland Asbill & Brennan LLP

Sutherland Asbill & Brennan LLP

Exhibit n.1

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption “Experts”, “Selected Consolidated Financial Data”, and “Senior Securities”, and to the use of our reports dated (a) February 28, 2007, with respect to the consolidated financial statements, including the consolidated schedules of investments and (b) dated March 30, 2007, with respect to the senior securities table, of Hercules Technology Growth Capital, Inc., included in the Registration Statement (Form N-2 File No. 333-141828) and related Prospectus for the registration of 12,479,568 shares of its common stock.

/s/ Ernst & Young LLP

San Francisco, CA
May 11, 2007

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
400 Hamilton Avenue, Suite 310
Palo, Alto, California 94301

May 15, 2007

U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Attention: Mary Cole

Re: Hercules Technology Growth Capital, Inc. – Registration Statement on Form N-2
(File No. 333-141828)

Ladies and Gentlemen:

In accordance with Rule 461 under the Securities Act of 1933, as amended, Hercules Technology Growth Capital, Inc. (the ***"Company"***) respectfully requests acceleration of effectiveness of the above-referenced Registration Statement on Form N-2, as amended (the "***Form N-2***"), to 4:00 p.m. on May 16, 2007, or as soon as thereafter as practicable.

In connection with the submission of the Company's request for accelerated effectiveness of the above-referenced Form N-2, the Company hereby acknowledges that:

- should the Commission or the staff, acting pursuant to delegated authority, declare the Form N-2 effective, it does not foreclose the Commission from taking any action with respect to the Form N-2;
- the action of the Commission or the staff, acting pursuant to delegated authority, in declaring the Form N-2 effective, does not relieve the Company from its full responsibility for the adequacy and accuracy of the disclosure in the Form N-2; and
- the Company may not assert staff comments and the declaration of effectiveness as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

By: /s/ Manuel A. Henriquez
Name: Manuel A. Henriquez
Title: Chairman, Chief Executive Officer and President

CYNTHIA M. KRUS
DIRECT LINE: 202.383.0218
E-mail: cynthia.krus@sablaw.com

May 15, 2007

VIA EDGAR

Mary A. Cole
Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Registration Statement on Form N-2 (File No. 333-141828) filed by Hercules Technology Growth Capital, Inc. on April 3, 2007 (the "Registration Statement")

Dear Ms. Cole:

On behalf of Hercules Technology Growth Capital, Inc. (the "Company"), and pursuant to the provisions of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, please find enclosed for filing Amendment No. 1 ("Amendment No. 1") to the Registration Statement.

We are filing Amendment No. 1 in response to comments received via letter dated April 24, 2007, which sets forth the comments of the staff (the "Staff") of the Division of Investment Management on the Company's Registration Statement. The Staff's comments are set forth below.

Cover

1. Please add to the disclaimer above the Table of Contents that the prospectus will be updated to reflect material changes.

Response: The disclosure on the Table of Contents page of the Registration Statement has been revised to provide the requested information.

* * *

At the time the Company requests acceleration of the effective date of the Registration Statement, it will furnish a letter to the SEC acknowledging that:

- should the Commission or the staff, acting pursuant to delegated authority, declare the filing effective, it does not foreclose the Commission from taking any action with respect to the filing;

- the action of the Commission or the staff, acting pursuant to delegated authority, in declaring the filing effective, does not relieve the Company from its full responsibility for the adequacy and accuracy of the disclosure in the filing; and
- the Company may not assert this action as defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

If you have any questions or additional comments concerning the foregoing, please contact me.

Sincerely,

/s/ Cynthia M. Krus

Cynthia M. Krus