As filed with the Securities and Exchange Commission on April 29, 2011

Securities Act File No. 333-171368

# U.S. SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM N-2

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

(Check appropriate box or boxes)

**Pre-Effective Amendment No. 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:***

**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 | 13,000,000 | $ 132,795,000 | $ 7,576 |

(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 Select Market on December 20, 2010.

(3) In reliance upon Rule 429 under the Securities Act of 1933, all securities unsold under the prospectus contained in such prior registration statement on Form N-2 (File No. 333-150403) (a total of 5,812,500 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.

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

**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)

April 29, 2011

HERCULES TECHNOLOGY GROWTH CAPITAL

# 13,000,000 Shares Common Stock

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

The shares of common stock may be offered at prices and terms to be described in one or more supplements to this prospectus. We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On June 9, 2010, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending June 9, 2011. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share.

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

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

Our common stock is traded on the Nasdaq Global Select Market under the symbol “HTGC.” On April 28, 2011, the last reported sale price of a share of our common stock on the Nasdaq Global Select Market was $10.75. The net asset value per share of our common stock at December 31, 2010 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.50.

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**An investment in our common stock may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See “Risk Factors” beginning on page 15 to read about risks that you should consider before investing in our common stock, including the risk of leverage.**

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

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

**This prospectus may not be used to consummate sales of shares of common stock unless accompanied by a prospectus supplement.**

**The date of this prospectus is**

**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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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the "shelf" registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to 13,000,000 shares of our common stock on the terms to be determined at the time of the offering. Shares of our common stock may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the shares of our common stock that we may offer. Each time we use this prospectus to offer shares of our common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Please carefully read this prospectus and any such supplements together with the additional information described under "Where You Can Find Additional Information" in the "Summary" and "Risk Factors" sections before you make an investment decision.

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

## SUMMARY

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

### Our Company

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

As of December 31, 2010 our total assets were approximately $591.2 million, of which, our investments comprised $472.0 million at fair value and $480.4 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $401.6 million, $23.7 million and $46.7 million, respectively, or 85.1%, 5.0% and 9.9% of total investments, respectively. Our total investments at value in foreign companies were approximately $33.4 million or 5.7% of total assets at December 31, 2010. During the three and twelve-month periods ended December 31, 2010, we made debt commitments totaling $123.0 million and $523.0 million, respectively and funded approximately $95.9 million and $320.4 million, respectively. Debt commitments for the year ended December 31, 2010 included commitments of approximately $354.8 million to new portfolio companies and $164.2 million to 23 existing portfolio companies. During the three and twelve-month periods ended December 31, 2010, we made and funded equity commitments of approximately $1.2 million and $4.2 million to 3 and 10 portfolio companies, respectively. Since inception through December 31, 2010, we have made debt and equity commitments of approximately $2.0 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company ("SBIC") subsidiaries, Hercules Technology II, L.P. ("HT II") and Hercules Technology III, L.P. ("HT III"). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of December 31, 2010, we held investments in HT II in 51 companies with a fair value of approximately $155.3 million. HT II's portfolio companies accounted for approximately 32.9% of our total portfolio at December 31, 2010. As of December 31, 2010, we held investments in HT III in eight companies with a fair value of approximately $50.3 million. HT III's portfolio accounted for approximately 10.7% of our total portfolio at December 31, 2010.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of December 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston and Boulder. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology, clean technology and life science industries and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term "structured debt with warrants" to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

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

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

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. See "Regulation—Qualifying Assets." Since 2007, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in their later rounds of financing and certain public companies, which we refer to as established stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints.

At the same time, the venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today's economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 as compared to the previous two years.

As of December 31, 2010, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 27 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

**Our Market Opportunity**

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

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

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

The unique cash flow characteristics of many technology-related companies include significant research and development expenditures and high projected revenue growth thus often making such companies difficult to evaluate from a credit perspective. In addition, the balance sheets of emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine marketplace, instead preferring the risk-reward profile of asset based lending. Traditional lenders generally do not have flexible product offerings that meet the needs of technology-related companies. The financing products offered by traditional lenders typically impose on borrowers many restrictive covenants and conditions, including limiting cash outflows and requiring a significant depository relationship to facilitate rapid liquidation.

***Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies.***Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In 2010, venture capital-backed companies received, in approximately 2,799 transactions, equity financing in an aggregate amount of approximately $26.3 billion, representing a 11.4% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during 2010 was approximately $4.5 million, down from $5.0 million in 2009. Even though the median round of financing has decreased, we believe the larger number of companies provides us a greater opportunity. Overall, seed- and first-round deals made up 37% of the deal flow and later-stage deals made up roughly 42% of all capital invested.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies during 2008 and 2009. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. In addition, lending requirements of traditional lenders have become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

**Our Business Strategy**

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

***Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals.*** We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. Our team members have originated structured debt, structured debt with warrants and equity investments in over 150 technology-related companies, representing over $2.0 billion in commitments from inception to December 31, 2010 and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

We concentrate our investing activities generally in industries in which our investment professionals have investment experience. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies and to identify and originate potentially attractive investments with these types of companies.

***Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities.*** We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash and the continued support from a venture capital or private equity firm at the time we make our investment.

Historically, our structured debt investments to technology-related companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

***Provide Customized Financing Complementary to Financial Sponsors' Capital.***We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

We use our relationships in the financial sponsor community to originate investment opportunities. Because venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our debt investments will be viewed as an attractive and complementary source of capital, both by the portfolio company and by the portfolio company's financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

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

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

***Deal Sourcing Through Our Proprietary Database.*** We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and over 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

**Dividend Reinvestment Plan**

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

**Taxation**

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

**Use of Proceeds**

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

**Leverage**

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as "leverage," to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See "Risk Factors." With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage for senior indebtedness as of December 31, 2010 was 347.8% since we exclude SBA leverage from this ratio and we have no other borrowings outstanding. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing.

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at December 31, 2010.

The Wells Facility requires various financial and operating covenants applicable to the Company and its subsidiaries, in addition to those applicable to Hercules Funding II, LLC. The covenants applicable to the Company and its subsidiaries include a requirement that we maintain a minimum tangible net worth of approximately $311 million, contingent upon our total commitments under all lines of credit not exceeding approximately $311 million. To the extent our total commitments exceed approximately $311 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by us. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Borrowings—Wells Facility.” The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2010.

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and the Royal Bank of Canada (“RBC”) have made commitments of $75 million and $25 million, respectively. Borrowings under the facility are expected to be at an interest rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Well Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there is no assurance that additional lenders will join the facility. This new arrangement will replace the existing $300 million Wells Facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and the Company will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the “Union Bank Facility”). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At December 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, we extended the termination date of this facility from May 1, 2011 to July 31, 2011.

Hercules Technology II, L.P. (“HT II”) and Hercules Technology III, L.P. (“HT III”), our wholly owned subsidiaries, are licensed by the U.S. Small Business Administration (“SBA”) as small business investment companies (“SBICs”) under the Small Business Investment Act of 1958. As of December 31, 2010, we held investments in HT II in 51 companies with a fair value of approximately $155.3 million. HT II’s portfolio companies accounted for approximately 32.9% of our total portfolio at December 31, 2010. As of December 31, 2010, we held investments in HT III in eight companies with a fair value of approximately $50.3 million. HT III’s portfolio accounted for approximately 10.7% of our total portfolio at December 31, 2010.

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. With our net investment of $75.0 million in HT II as of December 31, 2010, HT II has fully drawn its capacity to issue a total of $150.0 million of SBA guaranteed debentures, of which $150.0 million was outstanding as of December 31, 2010.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding as of December 31, 2010. There is no assurance that HT III will be able to draw up to the maximum limit available under the SBIC program.

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA.

**Distributions**

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

**Principal Risk Factors**

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

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

### Certain Anti-Takeover Provisions

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

### Recent Developments

**Convertible Senior Notes**

On April 15, 2011, we issued in a private offering $75.0 million in aggregate principal amount of 6.00% Convertible Senior Notes due 2016 (the "Convertible Senior Notes"). The Convertible Senior Notes are unsecured and bear interest at a rate of 6.00% per year, payable semiannually. In certain circumstances, at the our election, the Convertible Senior Notes will be converted into cash, shares of common stock or a combination of cash and shares of common stock, at an initial conversion rate of 84.0972 shares of common stock per $1,000 principal amount of Convertible Senior Notes which is equivalent to an initial conversion price of approximately $11.89 per share of our common stock, subject to customary anti-dilution adjustments. The conversion price is approximately 15% above the $10.34 per share closing price of our common stock on April 11, 2011. We will not have the right to redeem the Convertible Senior Notes prior to maturity. The Convertible Senior Notes will mature on April 15, 2016, unless repurchased or converted in accordance with their terms prior to such date.

**Dividend Declaration**

On March 1, 2011 our Board of Directors increased the quarterly dividend by 10.0% and declared a cash dividend of $0.22 per share that was paid on March 24, 2011 to shareholders of record as of March 10, 2011. This dividend represents our twenty-second consecutive dividend declaration since our initial public offering, bringing the total cumulative dividends declared to date to $6.03 per share.

**Share Repurchase Program**

On January 27, 2011, we approved the extension of the stock repurchase plan as previously approved on February 8, 2010 under the same terms and conditions that allows us to repurchase up to $35.0 million of our common stock for an additional six month period with a new expiration date of August 26, 2011.

**Liquidity and Capital Resources**

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA.

In February 2011, we extended the termination date under our credit facility with Union Bank from May 1, 2011 to July 31, 2011. Terms and conditions under the agreement remain the same through the extension period.

In January 2011, our portfolio company InfoLogix, Inc, a leading provider of enterprise mobile solutions for the healthcare and commercial industries, completed the sale of all of its shares to Stanley Black & Decker, Inc. (NYSE: SWK). The transaction was valued at approximately $61.2 million prior to transaction fees, closing costs, and working capital adjustments. The close of this sale will have no impact on net asset value as reported on December 31, 2010. In connection with the sale, we expect to realize a net gain of approximately $8.0-$8.5 million in the first quarter of 2011, representing an internal rate of return above 30% on our investment in Infologix. This gain is reflected in net asset value as of December 31, 2010.

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and the Royal Bank of Canada ("RBC") have made commitments of $75.0 million and $25.0 million, respectively. Borrowings under the facility are expected to be at an interest rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various lenders to join the new facility; however, there is no assurance that additional lenders will join the facility. This new arrangement will replace the existing $300 million Wells Facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that we will execute definitive documentation with Wells Fargo Capital Finance and RBC, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

**Portfolio Company Events**

In February 2011, our portfolio company Pacira, an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of novel pharmaceutical products, priced its initial public offering ("IPO") on Nasdaq-GM under the symbol ("PCRX").

In February 2011, we sold part of our equity position in portfolio company Kamada (Tel Aviv: KMDA.TA), a publicly traded Israeli-based biopharmaceutical company, and expect to recognize a realized gain of approximately $1.2 million in Q1 2011.

**General Information**

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

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

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## FEES AND EXPENSES

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

| | |
|---|---|
| **Stockholder Transaction Expenses (as a percentage of the public offering price):** | |
| Sales load (as a percentage of offering price)[1] | — % |
| Offering expenses | — % |
| Dividend reinvestment plan fees | — %[2] |
| Total stockholder transaction expenses (as a percentage of the public offering price) | — % |
| **Annual Expenses (as a percentage of net assets attributable to common stock):**[9] | |
| Operating expenses | 5.6%[3][4] |
| Interest payments on borrowed funds | 2.4%[5] |
| Fees paid in connection with borrowed funds | 0.3%[6] |
| Acquired fund fees and expenses[7] | 0.0% |
| Total annual expenses | 8.3%[8] |

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

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

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

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

(5) "Interest payments on borrowed funds" represents interest payments on borrowed funds for 2010 including our Wells Facility and the SBA debentures.
Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under our prior credit facility with Citigroup (the "Citigroup Facility"). As a fee and incentive to Citigroup for the extension of the Citigroup Facility, we entered into a Warrant Participant Agreement with Citigroup in August 2005. Pursuant to the Warrant Participation Agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the Citigroup Facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue until the Maximum Participation Limit has been reached even though the Citigroup Facility was terminated. During the quarter ended September 30, 2010, we recorded a decrease of the derivative liability related to this obligation and decreased its unrealized appreciation by approximately $177,000 for Citigroup's participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized appreciation in the related equity investments was approximately $481,000 at December 31, 2010 and is included in accrued liabilities and decreased the unrealized gain recognized by us at December 31. Since inception of the warrant participation agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing.

(6) "Fees paid in connection with borrowed funds" represents fees paid in connection with borrowed funds for 2010 including our Wells Facility and the SBA debentures.

(7) For the year ended December 31, 2010, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.

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

(9) "Average net assets attributable to common stock" equals the weighted average net assets for 2010 which is $364.7 million.

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**Example**

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

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return | $ 127 | $ 279 | $ 420 | $ 732 |

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

## SELECTED CONSOLIDATED FINANCIAL DATA

*The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Senior Securities" and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2009, 2008, 2007 and 2006 and the selected statement of operations data for fiscal 2009, 2008, 2007 and 2006 have been derived from our audited financial statements for these years, which have been audited by Ernst & Young LLP, our former independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period. The selected balance sheet data as of the end of fiscal 2010 and the financial statement of operations data for fiscal 2010 have been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm.*

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

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

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

The following tables set forth certain quarterly financial information for each of the twelve quarters up to and ending December 31, 2010. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

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

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

| (Amounts in thousands, except per share data) | For the Quarter End December 31, 2008 | September 30, 2008 | June 30, 2008 | March 31, 2008 |
|---|---|---|---|---|
| **Selected Quarterly Data (unaudited):** | | | | |
| Total investment income | $ 21,963 | $ 19,248 | $19,022 | $15,600 |
| Net investment income before provision for income taxes and investment gains and losses | 11,015 | 9,992 | 9,972 | 9,000 |
| Net increase (decrease) in net assets resulting from operations | (10,939) | 12,538 | 8,358 | 11,037 |
| Net increase (decrease) in net assets resulting from operations per common share (basic) | $ (0.33) | $ 0.38 | $ 0.25 | $ 0.34 |

## RISK FACTORS

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

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

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

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

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

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints. Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

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

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2010, management identified a material weakness related to our valuation process specifically involving debt investments. We have corrected the valuation process to refine our application of ASC 820 and believe that the audited consolidated financial statements included in this registration statement reflect the fair value of our debt investments. Our audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of our debt investments in accordance with ASC 820 using the new valuation procedure. We determined that if we had analyzed the fair value of our investments for the year ended December 31, 2009 using this procedure, the result to the 2009 consolidated financial statements would not have been material. During the year ended December 31, 2010, we recognized additional unrealized depreciation of $803,000, which is not material to the 2010 consolidated financial statements. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock and the notes could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Disclosure Controls and Procedures.”

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

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

***The impact of recent financial reform legislation on us is uncertain.***

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Act institutes a wide range of reforms that will have an impact on all financial institutions. Many of these provisions are subject to rule making procedures and studies that will be conducted in the future. Accordingly, we cannot predict the effect the Dodd-Frank Act or its implementing regulations will have on our business, results of operations or financial condition.

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

Under a revenue procedure issued by the Internal Revenue Service, RICs are permitted to treat certain distributions made with respect to tax years ending prior to January 1, 2012, and payable in up to 90% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes. In situations where this revenue procedure is not applicable, the Internal Revenue Service has also issued private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts using a 20% cash standard (instead of the 10% cash standard of the revenue procedure) if certain requirements are satisfied. We previously determined to pay 90% of our first quarter 2009 dividend in shares of newly issued common stock, and we may in the future determine to distribute taxable dividends that are payable in part in our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock.

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

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

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

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

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

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

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

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

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

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

As of March 31, 2011, there were zero amounts outstanding under our secured facilities with Wells and Union Bank and $145.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries.

There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of December 31, 2010 our asset coverage for senior indebtedness was 347.8% since we exclude SBA leverage from this ratio and we had no other borrowings outstanding.

| | Assumed Return on Our Portfolio (Net of Expenses) | | | | |
|---|---|---|---|---|---|
| | (10)% | (5)% | 0% | 5% | 10% |
| Corresponding return to stockholder(1) | (27.52)% | (15.93)% | (4.33)% | 7.26% | 18.85% |

(1) Assumes $591.2 million in total assets, $170.0 million in debt outstanding, $412.5 million in stockholders' equity, and an average cost of funds of 6.5%, which is the approximate average cost of funds of the SBA debentures for the period ended December 31, 2010. Actual interest payments may be different.

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

At December 31, 2010, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 79.8% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

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

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at December 31, 2010 that represent greater than 5% of net assets:

| | December 31, 2010 | |
|---|---|---|
| **(in thousands)** | **Fair Value** | **Percentage of Net Assets** |
| Infologix, Inc. | $40,181 | 9.7% |
| Aveo Pharmaceuticals, Inc | 28,417 | 6.9% |
| Unify Corporation | 27,137 | 6.6% |
| Pacira Pharmaceuticals, Inc | 26,109 | 6.3% |
| Tectura Corporation | 24,010 | 5.8% |
| Velocity Technology Solutions | 23,100 | 5.6% |

InfoLogix, Inc. is a provider of enterprise mobility and radio frequency identification (RFID) solutions. The Company provides these solutions to its customers by utilizing a combination of products and services, including consulting, business software applications, managed services, mobile workstations and devices, and wireless infrastructure. At December 31, 2010 we owned a controlling interest in this portfolio company. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations—Subsequent Events" for more information regarding InfoLogix.

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

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

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

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

Velocity Technology Solutions, Inc. manages, hosts, and provides systems integration services for companies that outsource enterprise software support.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Fluctuations in interest rates may adversely affect our profitability.***

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

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

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

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

During the year ended December 31, 2010, the Company recorded an increase on participation liability and decreased its unrealized gains by a net amount of approximately $13,000 for Citigroup's participation. Since inception of the agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains. In addition, our realized gains will be reduced by the amounts owed to Citigroup under the warrant participation agreement. The value of Citigroup's participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $481,000 at December 31, 2010 and is included in accrued liabilities and decreased the unrealized gain recognized by us at December 31, 2010. Citigroup's rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

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

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

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and RBC have made commitments of $75 million and $25 million, respectively. Borrowings under the facility are expected to be at an interest rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Well Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the new credit facility. This new arrangement will replace the existing $300 million Wells Facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and the Company will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the "Union Bank Facility"). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At December 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, we extended the termination date of this facility from May 1, 2011 to July 31, 2011.

The current lenders under the Wells Facility and the Union Bank Facility have, and any future lender or lenders will have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. In addition, we may grant a security interest in our assets in connection with any such borrowing. These facilities contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, such facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially, the business our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under that facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

The terms of future available financing may place limits on our financial and operating flexibility. If we are unable to obtain sufficient capital in the future, we may:

- be forced to reduce or discontinue our operations;
- not be able to expand or acquire complementary businesses; and
- not be able to develop new services or otherwise respond to changing business conditions or competitive pressures.

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

The credit agreements governing the Wells Facility and the Union Bank Facility and the Convertible Senior Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. The Wells Facility requires us to maintain a minimum tangible net worth of $250 million, contingent upon our total commitments under all lines of credit not exceeding $250 million. Based on the net proceeds from the equity raise we completed in November 2010 the adjusted minimum tangible net worth at December 31, 2010 would be approximately $311.0 million. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under the Wells Facility and the Union Bank facility or the trustee or holders under the Convertible Senior Notes, could accelerate repayment under the facilities or the Convertible Senior Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Borrowings—Wells Facility.”

***If we cannot obtain additional capital because of either regulatory or market price constraints, we could be forced to curtail or cease our new lending and investment activities, our net asset value could decrease and our level of distributions and liquidity could be affected adversely.***

Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to the prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current economic and capital market conditions could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

In February 2010, we closed on our new $20.0 million credit facility with Union Bank, a one year revolving credit facility. Pricing of the credit facility is LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base.

During March 2011, we received a commitment to renew the $300.0 million Wells Facility with Wells Fargo Capital Finance. Under this three-year senior secured facility, Wells Fargo Capital Finance and RBC have made commitments of $75 million and $25 million, respectively. Borrowings under the facility are expected to be at an interest rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the new credit facility. This new arrangement will replace the existing $300 million credit facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that we will execute definitive documentation with Wells Fargo Capital Finance and RBC, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As of March 31, 2011, we did not have any outstanding borrowings under either of our secured credit facilities with Wells Fargo or Union Bank and $145.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Available borrowing capacity under these facilities as of December 31, 2010 was $125.0 million and subject to terms, conditions and approvals of the SBA.

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

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. As of December 31, 2010, HT II’s and HT III’s portfolio companies accounted for approximately 32.9% and 10.7%, respectively, of our total portfolio. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC’s compliance with the relevant SBA regulations.

Under current SBA regulations, a licensed SBIC can provide capital to those entities that have a tangible net worth not exceeding $18.0 million and an average annual net income after Federal income taxes not exceeding $6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must devote 25.0% of its investment activity to those entities that have a tangible net worth not exceeding $6.0 million and an average annual net income after Federal income taxes not exceeding $2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on factors such as the number of employees and gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations.

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a “change of control” of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II’s or HT III’s use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC’s leverage as of December 31, 2010 as a result of having sufficient capital as defined under the SBA regulations. See “Regulation—Small Business Administration Regulations.”

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

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding as of December 31, 2010. As of March 31, 2011, there was $145.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Access to the remaining $55.0 million leverage is subject to SBA approval and compliance with SBA regulations. There is no assurance that HT III will be able to draw up to the maximum limit available under the SBIC program.

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

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

***If we are unable to satisfy Code requirements for qualification as a RIC, then we will be subject to corporate-level income tax, which would adversely affect our results of operations and financial condition.***

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we are otherwise required to distribute, and we cannot pass such net operating losses through to our stockholders. In addition, net operating losses that we carry over to a taxable year in which we qualify as a RIC normally cannot offset ordinary income or capital gains.

***Changes in laws or regulations governing our business could negatively affect the profitability of our operations.***

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, SBICs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, then we may have to incur significant expenses in order to comply or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, then we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business results of operations or financial condition.

***Results may fluctuate and may not be indicative of future performance.***

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, changes in the accrual status of our debt investments, variations in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions.

**Risks Related to Our Investments**

***Our investments are concentrated in certain industries and in a number of technology-related companies, which subjects us to the risk of significant loss if any of these companies default on their obligations under any of their debt securities that we hold, or if any of the technology-related industry sectors experience a downturn.***

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we will be subject as a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies. As of December 31, 2010, approximately 58.9% of the fair value of our portfolio was composed of investments in four industries: 20.4% was composed of investments in the software industry, 13.8% was composed of investments in the communications and networking industry; 13.5% was composed of investments in the specialty pharma industry and 11.2% was composed of investments in the drug discovery industry. As a result, a downturn in technology-related industry sectors and particularly those in which we are heavily concentrated could materially adversely affect our financial condition.

***Our investments in the clean technology and renewable energy sector face considerable uncertainties including development, operational and regulatory challenges.***

Our investments in the clean technology sector are subject to substantial risks. Companies of this nature are relatively new and have been developed through advancement in technologies which may not be proven or whose commercial application is limited. Some of these portfolio companies may be dependent upon favorable regulatory incentives, and there is significant uncertainty about the extent to which such favorable regulatory incentives will be available in the future. Furthermore, production levels for wind, solar, and other renewable energies may be dependent upon adequate wind, sunlight, or biogas production which can vary from period to period, resulting in volatility in production levels and profitability. Demand for clean technology and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. There is particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified.

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

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

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

We have invested and will continue investing primarily in technology-related companies, many of which may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses), and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related markets are generally characterized by abrupt business cycles and intense competition. Beginning in mid-2000, there was substantial excess production capacity and a significant slowdown in many technology-related industries. This overcapacity, together with a cyclical economic downturn, resulted in substantial decreases in the market capitalization of many technology-related companies. While such valuations have recovered to some extent, such decreases in market capitalization may occur again, and any future decreases in technology-related company valuations may be substantial and may not be temporary in nature. Therefore, our portfolio companies may face considerably more risk of loss than do companies in other industry sectors.

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

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

***We have invested in and may continue investing in technology-related companies that do not have venture capital or private equity firms as equity investors, and these companies may entail a higher risk of loss than do companies with institutional equity investors, which could increase the risk of loss of your investment.***

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Portfolio companies that do not have venture capital or private equity investors may be unable to raise any additional capital to satisfy their obligations or to raise sufficient additional capital to reach the next stage of development. Portfolio companies that do not have venture capital or private equity investors may be less financially sophisticated and may not have access to independent members to serve on their boards, which means that they may be less successful than portfolio companies sponsored by venture capital or private equity firms. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are sponsored by venture capital or private equity firms.

***Price declines and illiquidity in the corporate debt markets could adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.***

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation.

As of December 31, 2010, conditions in the public and private debt and equity markets had continued to improve and pricing levels continued to rise. However, if macro and micro market conditions should deteriorate, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

***Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized losses in our investment portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could adversely affect our ability to service the notes offered hereby.

***A lack of initial public offering opportunities may cause companies to stay in our portfolio longer, leading to lower returns, unrealized depreciation, or realized losses.***

A lack of IPO opportunities for venture capital-backed companies could lead to companies staying longer in our portfolio as private entities still requiring funding. This situation may adversely affect the amount of available funding for early-stage companies in particular as, in general, venture-capital firms are being forced to provide additional financing to late-stage companies that cannot complete an IPO. In the best case, such stagnation would dampen returns, and in the worst case, could lead to unrealized depreciation and realized losses as some companies run short of cash and have to accept lower valuations in private fundings or are not able to access additional capital at all. A lack of IPO opportunities for venture capital-backed companies can also cause some venture capital firms to change their strategies, leading some of them to reduce funding of their portfolio companies and making it more difficult for such companies to access capital and to fulfill their potential, which can result in unrealized depreciation and realized losses in such companies by other companies such as ourselves who are co-investors in such companies.

***To the extent venture capital or private equity firms decrease or discontinue funding to their portfolio companies, our portfolio companies may not be able to meet their obligations under the debt securities that we hold.***

Most of our portfolio companies rely heavily on future rounds of funding from venture capital or private equity firms in order to continue operating their businesses and repaying their obligations to us under the debt securities that we hold. Venture capital and private equity firms in turn rely on their limited partners to pay in capital over time in order to fund their ongoing and future investment activities.

To the extent that venture capital and private equity firms' limited partners are unable to fulfill their ongoing funding obligations, the venture capital or private equity firms may be unable to continue financially supporting the ongoing operations of our portfolio companies. As a result, our portfolio companies may be unable to repay their obligations under the debt securities that we hold, which would harm our financial condition and results of operations.

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

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

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

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

***Economic downturns or recessions could impair the value of the collateral for our loans to our portfolio companies and consequently increase the possibility of an adverse effect on our financial condition and results of operations.***

Many of our portfolio companies are susceptible to economic recessions and may be unable to repay our loans during such periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during such periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments.

In particular, intellectual property owned or controlled by our portfolio companies constitutes an important portion of the value of the collateral of our loans to our portfolio companies. Adverse economic conditions may decrease the demand for our portfolio companies' intellectual property and consequently its value in the event of a bankruptcy or required sale through a foreclosure proceeding. As a result, our ability to fully recover the amounts owed to us under the terms of the loans may be impaired by such events.

Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us.

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

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

***We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.***

In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. In addition, we sometimes make loans that are unsecured, which are subject to the risk that other lenders may be directly secured by the assets of the portfolio company. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying assets. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the portfolio company prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through “standstill” periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock. Any decision we make not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment. Moreover, a follow-on investment may limit the number of companies in which we can make initial investments. In determining whether to make a follow-on investment, our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments and this could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

***Any unrealized depreciation that we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors in accordance with procedures approved by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized depreciation in our loan portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could adversely affect our ability to service the notes offered hereby.

***The lack of liquidity in our investments may adversely affect our business and, if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.***

We generally invest in debt securities with terms of up to seven years and hold such investments until maturity, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our qualification as a business development company and as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. Our investments are usually subject to contractual or legal restrictions on resale, or are otherwise illiquid, because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of the investments at a favorable price and, as a result, we may suffer losses.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

We invest primarily in debt securities issued by our portfolio companies. In some cases, portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. Such debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company might not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on a pari passu basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy. In addition, we would not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such companies, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not best serve our interests as debt investors.

***Our equity related investments are highly speculative, and we may not realize gains from these investments. If our equity investments do not generate gains, then the return on our invested capital will be lower than it would otherwise be, which could result in a decline in the value of shares of our common stock.***

When we invest in debt securities, we generally expect to acquire warrants or other equity securities as well. Our goal is ultimately to dispose of these equity interests and realize gains upon disposition of such interests. Over time, the gains that we realize on these equity interests may offset, to some extent, losses that we experience on defaults under debt securities that we hold. However, the equity interests that we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses that we experience.

***We generally do not control our portfolio companies and therefore our portfolio companies may make decisions with which we disagree.***

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

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

In 2010, we received early loan repayments and pay down of working capital loans of approximately $114.5 million. We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

***We may not realize gains from our equity investments.***

When we invest in debt securities, we generally expect to acquire warrants or other equity securities as well. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

***Our financial results could be negatively affected if we are unable to recover our principal investment as a result of a negative pledge on the intellectual property of our portfolio companies.***

In some cases, we collateralize our investments by obtaining a first priority security interest in a portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a first priority security interest in a portion of a portfolio company's assets and a negative pledge covering a company's intellectual property and a first priority security interest in the proceeds from such intellectual property. In the case of a negative pledge, the portfolio company cannot encumber or pledge their intellectual property without our permission. In the event of a default on a loan, the intellectual property of the portfolio company will most likely be liquidated to provide proceeds to pay the creditors of the company. As a result, a negative pledge may affect our ability to fully recover our principal investment. In addition, there can be no assurance that our security interest in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court.

At December 31, 2010, approximately 75.4% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 1.8% of our portfolio company loans were secured by a second priority security in all of the assets of the portfolio company and 22.8% portfolio company loans were prohibited from pledging or encumbering their intellectual property pursuant to negative pledges.

***We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.***

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay dividends, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

***Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans.***

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. We have made direct equity investments or received warrants in connection with loans representing approximately 14.9% of the aggregate outstanding balance of our portfolio as of December 31, 2010. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company's common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

**Risks Related to Our Common Stock**

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

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

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

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

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

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

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

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

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

At our Annual Meeting of Stockholders on June 9, 2010, our stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company’s net asset value per share, subject to Board approval of the offering. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder’s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

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

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during the quarter ended December 31, 2010.

***We may again obtain the approval of our stockholders to issue shares of our common stock at prices below the then current net asset value per share of our common stock. If we receive such approval from the stockholders, we may again issue shares of our common stock at a price below the then current net asset value per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our net asset value per share.***

We may again obtain the approval of our stockholders to issue shares of our common stock at prices below the then current net asset value per share of our common stock. Such approval has allowed and may again allow us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to business development companies under the 1940 Act. Any decision to sell shares of our common stock below the then current net asset value per share of our common stock is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders’ best interests.

Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder’s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset value per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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

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

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

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

***Current levels of market volatility are high. Our common stock price has been and continues to be volatile and may decrease substantially.***

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the financial performance of specific industries in which we invest in on a recurring basis;
- announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;
- losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;
- changes in the value of our portfolio of investments;
- realized losses in investments in our portfolio companies;
- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departures of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and could divert management's attention and resources from our business.

**FORWARD-LOOKING STATEMENTS**

The matters discussed in this prospectus, as well as in future oral and written statements by management of Hercules Technology Growth Capital, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “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;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a small business investment company and a RIC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus, please see the discussion under “Risk Factors.” You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made.

This prospectus contains third-party estimates and data regarding valuations of venture capital-backed companies. This data was reported by Dow Jones VentureSource, an independent venture capital industry research company which we refer to as VentureSource. VentureSource is commonly relied upon as an information source in 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 funding investments in debt and equity securities in accordance with our investment objective and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

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

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the Nasdaq Global Select Market under the symbol "HTGC."

The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Select Market, the sales price as a percentage of net asset value and the dividends declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

| | | Price Range | | Premium/ Discount of High Sales Price to NAV | Premium/ Discount of Low Sales Price to NAV | Cash Dividend per Share(2) |
|---|---|---|---|---|---|---|
| | NAV(1) | High | Low | | | |
| **2008** | | | | | | |
| First quarter | $ 12.28 | $12.75 | $ 9.59 | 103.8% | 78.1% | $ 0.300 |
| Second quarter | $ 12.21 | $11.32 | $ 8.93 | 92.7% | 73.1% | $ 0.340 |
| Third quarter | $ 12.25 | $11.35 | $ 7.95 | 92.7% | 64.9% | $ 0.340 |
| Fourth quarter | $ 11.56 | $10.24 | $ 4.57 | 88.6% | 39.5% | $ 0.340 |
| **2009** | | | | | | |
| First quarter | $ 10.94 | $ 8.62 | $ 3.93 | 78.8% | 31.2% | $ 0.320 |
| Second quarter | $ 10.27 | $ 8.89 | $ 4.76 | 86.6% | 46.3% | $ 0.300 |
| Third quarter | $ 10.37 | $10.35 | $ 8.33 | 99.8% | 80.3% | $ 0.300 |
| Fourth quarter | $ 10.29 | $11.22 | $ 8.96 | 109.0% | 87.1% | $ 0.340 |
| **2010** | | | | | | |
| First quarter | $ 10.11 | $11.15 | $ 9.16 | 110.3% | 90.6% | $ 0.200 |
| Second quarter | $ 9.80 | $11.50 | $ 8.62 | 117.3% | 88.0% | $ 0.200 |
| Third quarter | $ 9.36 | $10.57 | $ 9.13 | 112.9% | 97.5% | $ 0.200 |
| Fourth quarter | $ 9.50 | $10.91 | $ 9.87 | 114.8% | 103.8% | $ 0.200 |
| **2011** | | | | | | |
| First quarter | * | $11.31 | $10.22 | * | * | $ 0.22 |
| Second quarter (through April 28, 2011) | * | $11.36 | $10.09 | * | * | ** |

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
(2) Represents the dividend declared in the specified quarter. The dividend paid in the first quarter of 2009 was comprised of cash and stock.
* Net asset value has not yet been calculated for this period.
** Dividend has not yet been declared for this period.

The last reported price for our common stock on April 28, 2011 was $10.75 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 |
| May 3, 2007 | May 16, 2007 | June 18, 2007 | 0.300 |
| August 2, 2007 | August 16, 2007 | September 17, 2007 | 0.300 |
| November 1, 2007 | November 16, 2007 | December 17, 2007 | 0.300 |
| February 7, 2008 | February 15, 2008 | March 17, 2008 | 0.300 |
| May 8, 2008 | May 16, 2008 | June 16, 2008 | 0.340 |
| August 7, 2008 | August 15, 2008 | September 15, 2008 | 0.340 |
| November 6, 2008 | November 14, 2008 | December 15, 2008 | 0.340 |
| February 12, 2009 | February 23, 2009 | March 30, 2009 | 0.320* |
| May 7, 2009 | May 15, 2009 | June 15, 2009 | 0.300 |
| August 6, 2009 | August 14, 2009 | September 14, 2009 | 0.300 |
| October 15, 2009 | October 20, 2009 | November 23, 2009 | 0.300 |
| December 16, 2009 | December 24, 2009 | December 30, 2009 | 0.040 |
| February 11, 2010 | February 19, 2010 | March 19, 2010 | 0.200 |
| May 3, 2010 | May 12, 2010 | June 18, 2010 | 0.200 |
| August 2, 2010 | August 12, 2010 | September 17, 2010 | 0.200 |
| November 4, 2010 | November 10, 2010 | December 17, 2010 | 0.200 |
| March 1, 2011 | March 10, 2011 | March 24, 2011 | 0.220 |
| | | | $ 6.025 |

* Dividend paid in cash and stock

On March 1, 2011 the Board of Directors increased the quarterly dividend by 10.0% and declared a cash dividend of $0.22 per share that was paid on March 24, 2011 to shareholders of record as of March 10, 2011. This dividend is the Company's twenty-second consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.03 per share.

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

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2010, approximately 95.0% would be from ordinary income and spill over earnings from 2009 and 5.0% would be a return of capital. However there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2010 distributions to stockholders will actually be.

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

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See “Regulation.”

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

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act. For a more detailed discussion, see “Regulation.”

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

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

### Overview

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and may also finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley as well as through additional offices in Boston and Boulder.

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

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

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. We are treated for federal income tax purposes as a regulated investment company, or a RIC under Subchapter M of the Code as of January 1, 2006. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of-income, asset diversification and income distribution requirements. The income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as “good income.” Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Since 2007, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

**Current Economic and Market Environment**

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints.

At the same time, the venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today’s economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 when compared to the previous two years.

**Portfolio and Investment Activity**

The total value of our investment portfolio was $472.0 million at December 31, 2010, as compared to $374.7 million at December 31, 2009. During the year ended December 31, 2010, we had debt commitments totaling $523.0 million and funded $320.4 million under these commitments and commitments from prior years, including restructuring and recapitalization transactions. We also made equity investments totaling approximately $2.3 million during the year ended December 31, 2010. The fair value of our equity and warrant portfolios at December 31, 2010 were $46.7 million and $23.7 million, respectively. For the year ended December 31, 2010, we recognized net unrealized depreciation on our debt, and warrant portfolios of approximately $3.1 million and $0.5 million and net unrealized appreciation on our equity portfolio of approximately $5.2 million, in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, (“ASC 820”), formerly known as FAS 157.

At December 31, 2010, we had unfunded contractual commitments of $117.2 million to 19 portfolio companies. 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, unfunded commitments do not necessarily represent future cash requirements. In addition, we executed 8 non-binding term sheets for approximately $92.0 million for proposed future commitments. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process as well as 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.

In response to the lack of liquidity in the debt and capital markets, during 2009 we slowed our origination activities, adopting a slow and steady investment strategy and shifting our focus to established-stage companies. These changes were made to manage our credit performance, maintain adequate liquidity and to manage our operating expenses in this extremely challenging and unprecedented credit environment. In 2010, we saw signs of improvement in the venture capital backed technology-related sector and entered into commitments of approximately $523.0 million to new and existing portfolio companies, including restructuring and recapitalization transactions.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the year ended December 31, 2010, we received normal principal amortization repayments of $81.6 million, and early repayments and working line of credit pay downs totaling $114.5 million. Total portfolio investment activity (inclusive of unearned income) as of and for each of the years ended December 31, 2010 and 2009 was as follows:

| (in millions) | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Beginning Portfolio | $ 374.7 | $ 578.2 |
| Purchase of debt investments | 320.4 | 86.3 |
| Equity Investments | 2.3 | 2.9 |
| Sale of Investments | (34.2) | (36.5) |
| Principal payments received on investments | (81.6) | (110.6) |
| Early pay-offs and recoveries | (114.5) | (164.2) |
| Accretion of loan discounts and paid-in-kind principal | 3.3 | 17.3 |
| Net change in unrealized depreciation in investments | 1.6 | 1.3 |
| Ending Portfolio | $ 472.0 | $ 374.7 |

The following table shows the fair value of our portfolio of investments by asset class as of December 31, 2010 and December 31, 2009 (excluding unearned income).

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Senior secured debt with warrants | $ 357,963 | 75.8% | $ 226,391 | 60.4% |
| Senior secured debt | 59,251 | 12.6% | 107,075 | 28.6% |
| Preferred stock | 26,813 | 5.7% | 22,875 | 6.1% |
| Senior debt-second lien with warrants | 8,094 | 1.7% | 6,118 | 1.6% |
| Common Stock | 19,911 | 4.2% | 12,210 | 3.3% |
| | $ 472,032 | 100.0% | $ 374,669 | 100.0% |

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

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States | $ 438,585 | 92.9% | $ 349,262 | 93.2% |
| Canada | 20,876 | 4.4% | 21,553 | 5.8% |
| England | 10,653 | 2.3% | — | 0.0% |
| Israel | 1,918 | 0.4% | 1,310 | 0.3% |
| Netherlands | — | 0.0% | 2,544 | 0.7% |
| | $ 472,032 | 100.0% | $ 374,669 | 100.0% |

Our portfolio companies are primarily privately held expansion-and established-stage companies in the biopharmaceutical, clean technology, communications and networking, consumer and business products, electronics and computers, energy, information services, internet consumer and business services, medical devices, semiconductor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

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

For years ended December 31, 2010 and 2009, our ten largest portfolio companies represented approximately 57.5% and 51.9% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2010 and 2009, we had six and three investments, respectively, that represented 5% or more of our net assets. At December 31, 2010, we had three equity investments representing approximately 48.0% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2009, we had five equity investments which represented approximately 50.3% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

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

At December 31, 2010, we had one Control Investment, InfoLogix, Inc. Approximately $3.0 million in investment income was derived from our debt investment in this software and internet consumer portfolio company during the period ended December 31, 2010. See "—Subsequent Events" for more information regarding InfoLogix. At December 31, 2009, we had one investment in one portfolio company deemed to be a Control Investment. $1.4 million in investment income was derived from our debt investment in this portfolio company. No investments in 2008 were deemed to be Control Investments.

Approximately $2.5 million of realized gains and net unrealized appreciation of approximately $77,000 on this control investment were recognized during the year ended December 31, 2010. No realized gains or losses related to Control Investments were recognized during the years ended December 31, 2009 and 2008. We recognized unrealized appreciation of approximately $8.4 million on Control Investments in 2009. No unrealized appreciation or depreciation was recognized on Control Investments during the year end December 31, 2008.

At December 31, 2010, the Company had one investment in a portfolio company deemed to be an Affiliate. No income was derived from this investment as this is a non-income producing equity investment. At December 31, 2009, the Company had an investment in one portfolio company deemed to be an Affiliate and did not derive income as this investment was a non-income producing equity investment. At December 31, 2008, the Company had three portfolio companies deemed to be Affiliates. For the year ended December 31, 2008, income derived from these three investments was $199,000 in interest income and $18,000 related to commitment and facility fee amortization.

There were no realized gains or losses related to this Affiliate during the years ended December 31, 2010, 2009 and 2008. During the years ended December 31, 2010, and 2009, we recognized unrealized appreciation of approximately $795,000 and $4.0 million and during the year ended December 31, 2008 we recognized unrealized depreciation of approximately $3.3 million related to Affiliates.

The following table shows the fair value of our portfolio by industry sector at December 31, 2010 and December 31, 2009 (excluding unearned income):

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Software | $ 96,508 | 20.4% | $ 61,514 | 16.5% |
| Communications & Networking | 65,098 | 13.8% | 58,039 | 15.6% |
| Specialty Pharma | 63,607 | 13.5% | 25,628 | 6.8% |
| Drug Discovery | 52,777 | 11.2% | 53,266 | 14.2% |
| Consumer & Business Products | 45,316 | 9.6% | 25,200 | 6.7% |
| Drug Delivery | 35,250 | 7.5% | 21,479 | 5.7% |
| Clean Tech | 25,722 | 5.4% | — | 0.0% |
| Therapeutic | 25,300 | 5.4% | 14,532 | 3.9% |
| Diagnostic | 14,911 | 3.2% | 11,924 | 3.2% |
| Information Services | 10,857 | 2.3% | 38,127 | 10.2% |
| Surgical Devices | 10,172 | 2.1% | 2,741 | 0.7% |
| Electronics & Computer Hardware | 7,819 | 1.6% | 17,778 | 4.7% |
| Internet Consumer & Business Services | 7,255 | 1.5% | 20,254 | 5.4% |
| Biotechnology Tools | 5,987 | 1.3% | 9,726 | 2.6% |
| Semiconductors | 3,227 | 0.7% | 11,982 | 3.2% |
| Media/Content/Info | 2,223 | 0.5% | 2,375 | 0.6% |
| Energy | 3 | 0.0% | 104 | 0.0% |
| | $ 472,032 | 100.0% | $ 374,669 | 100% |

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. See “Business—Investment Process—Loan and Compliance Administration.” The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of December 31, 2010 and 2009, respectively:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| **Investment Grading** | | | | |
| 1 | $ 65,345 | 16.3% | $ 16,536 | 5.1% |
| 2 | 232,713 | 57.9% | 148,117 | 45.6% |
| 3 | 90,739 | 22.6% | 110,707 | 34.0% |
| 4 | 8,776 | 2.2% | 38,983 | 12.0% |
| 5 | 4,045 | 1.0% | 10,791 | 3.3% |
| | $ 401,618 | 100.0% | $ 325,134 | 100.0% |

As of December 31, 2010, our investments had a weighted average investment grading of 2.21 as compared to 2.71 at December 31, 2009. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At December 31, 2010, eight portfolio companies were graded 3, two portfolio companies were graded 4, and two were graded 5 as compared to 17, 4 and 5 portfolio companies, respectively, at December 31, 2009. The improvement in investment grading for the period ended December 31, 2010 was driven in part by meaningful progress in the economy and among our portfolio companies , many of which have experienced improved operating performance and greater access to the venture capital market as they secure new equity financings. At December 31, 2010, we had two loans on non accrual with a fair market value of approximately $4.0 million compared to five loans at December 31, 2009 with a fair value of approximately $10.5 million.

The effective yield on our debt investments during the year was 16.0% and was attributed in part to interest charges and fees related to loan restructurings and acceleration of fee income recognition from early loan repayments. The overall weighted average yield to maturity of our loan obligations was approximately 13.92% at December 31, 2010, increased slightly compared to 13.6% at December 31, 2009, attributed to increased investments to both expansion and established-stage companies and asset based financing offered to more mature middle market companies. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $1.0 million to $25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from prime to 14.02% as of December 31, 2010. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In most cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property.

At December 31, 2010, approximately 75.4% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 1.8% of our portfolio company loan was secured by a second priority security in all of the assets of the portfolio company, 22.8% of our portfolio company loans were prohibited from pledging or encumbering their 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, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of December 31, 2010, we held warrants in connection with the majority of our debt investments in our portfolio companies. We hold warrants in 91 portfolio companies, with a fair value of approximately $23.7 million. The fair value of the warrant portfolio has increased by approximately 63.4%, in part due to new investments, as compared to the fair value of $14.5 million at December 31, 2009. These warrant holdings would require us to invest approximately $65.0 million to exercise such warrants are exercised. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

## Results of Operations

### Comparison of periods ended December 31, 2010 and 2009

***Investment Income***

Interest income totaled approximately $54.7 million and $62.2 million for 2010 and 2009, respectively. The decrease in interest income was directly related to a lower average investment portfolio outstanding in 2010 than in 2009. In 2010 and 2009, interest income included approximately $6.2 million and $6.7 million of income from accrued exit fees, respectively. Income from commitment, facility and loan related fees such as amendment fees and pre-payment penalties totaled approximately $4.8 million and $12.1 million for 2010 and 2009, respectively. At December 31, 2010 and 2009, we had approximately $6.6 million and $2.4 million of deferred income related to commitment and facility fees, respectively. The increase in deferred income was attributed to increased investment originations in 2010.

***Operating Expenses***

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $30.1 million and $31.2 million during the periods ended December 31, 2010 and 2009, respectively.

Interest and fees totaled approximately $9.8 million and $11.3 million during the periods ended December 31, 2010 and 2009, respectively. This $1.5 million year over year decrease is primarily attributable to the interest expense and one time fees incurred in 2009 on the Citigroup Credit Facility that was paid off in full in March of 2009 offset by an increase in interest expense on higher borrowings under our SBA debentures.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to $7.1 million from $7.3 million for the periods ended December 31, 2010 and 2009, respectively, primarily due to lower workout related expenses.

Employee compensation and benefits totaled approximately $10.5 million and $10.7 million during the periods ended December 31, 2010 and 2009, respectively. This decrease is primarily due to a lower bonus accrual during the period ended December 31, 2010 as compared to 2009. Stock-based compensation totaled approximately $2.7 million and $1.9 million during the periods ended December 31, 2010 and 2009, respectively. These increases were due to the higher expense attributed to restricted stock grants issued in the first quarter of 2010.

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

Net investment income before income tax expense for the year ended December 31, 2010 totaled $29.4 million as compared with a net investment income before income tax expense in 2009 of approximately $43.1 million. The changes are made up of the items described above under “Investment Income” and “Operating Expenses.”

***Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation***

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

In 2010, we generated realized gains totaling approximately $4.7 million primarily due to the sale of warrants and common stock of 12 portfolio companies. We recognized realized losses in 2010 of approximately $31.1 million on the disposition of investments in 10 portfolio companies. We recognized realized gains of approximately $3.7 million during the year ended December 31, 2009 primarily due to the sale of warrants and common stock of four portfolio companies. We recognized realized losses in 2009 of approximately $34.5 million on the disposition of investments in 16 portfolio companies. A summary of realized gains and losses for the years end December 31, 2010 and 2009 is as follows:

| | December 31, | |
|---|---|---|
| **(in thousands)** | **2010** | **2009** |
| Realized gains | $ 4,677 | $ 3,738 |
| Realized losses | (31,059) | (34,539) |
| Net realized (losses) | $(26,382) | $(30,801) |

For the year ended December 31, 2010, net unrealized appreciation totaled approximately $2.0 million and for the year ended December 31, 2009, net unrealized appreciation totaled approximately $1.3 million. The year to year increase is primarily due to the reversal of unrealized depreciation to realized losses.

The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. During the year ended December 31, 2010, net unrealized investment appreciation recognized by the company was reduced by approximately $13,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see the discussion set forth under "—Borrowings."

The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2010 and 2009:

| | December 31, | |
|---|---|---|
| **(in thousands)** | **2010** | **2009** |
| Gross unrealized appreciation on portfolio investments | $ 40,696 | $ 42,272 |
| Gross unrealized depreciation on portfolio investments | (64,465) | (73,969) |
| Reversal of prior period net unrealized appreciation upon a realization event | (3,902) | (2,319) |
| Reversal of prior period net unrealized depreciation upon a realization event | 29,674 | 35,256 |
| Citigroup Warrant Participation | (13) | 29 |
| Net unrealized appreciation/(depreciation) on portfolio investments | $ 1,990 | $ 1,269 |

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

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

For the year ended December 31, 2010 net increase in net assets resulting from operations totaled approximately $5.0 million compared to net income of approximately $13.6 million for the period ended December 31, 2009. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $0.12 and $0.12, respectively, for the year ended December 31, 2010, compared to a basic and fully diluted net income per share of $0.38 and $0.37, respectively, for the year ended December 31, 2009.

**Comparison of periods ended December 31, 2009 and 2008**

***Investment Income***

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

***Operating Expenses***

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

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

Net investment income before income tax expense for the year ended December 31, 2009 totaled $43.1 as compared with a net investment income before income tax expense in 2008 of approximately $40.0 million. This change is made up of the items described above.

***Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation***

In 2009, we generated realized gains totaling approximately $3.7 million primarily due to the sale of warrants and common stock of four portfolio companies. We recognized realized losses in 2009 of approximately $34.5 million on the disposition of investments in sixteen portfolio companies. We recognized realized gains of approximately $6.9 million during the year ended December 31, 2008 from the sale of common stock of nine portfolio companies. We recognized realized losses in 2008 of approximately $4.3 million on the disposition of investments in ten portfolio companies. A summary of realized gains and losses for the years end December 31, 2009 and 2008 is as follows:

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

For the year ended December 31, 2009, net unrealized investment depreciation totaled approximately $1.3 million and for the year ended December 31, 2008, net unrealized appreciation totaled approximately $21.4 million. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. As of December 31, 2009, the net unrealized investment appreciation recognized by the company was reduced by approximately $29,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see the discussion set forth under "Borrowings." The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2009 and 2008:

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

***Income and Excise Taxes***

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

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

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

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

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

## Financial Condition, Liquidity and Capital Resources

At December 31, 2010, we had approximately $107.0 million in cash and cash equivalents and available borrowing capacity of approximately $50.0 million under the Wells Facility, $20.0 million under the Union Bank Facility and $55.0 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

For the year ended December 31, 2010, net cash provided by operating activities totaled approximately $93.3 million as compared to cash provided by operations of $225.9 million in 2009. Cash used in investing activities for the year ended December 31, 2010, totaled approximately $106,000 and was primarily used for the purchase of computer equipment, leasehold improvements and office furniture and other long term assets. Net cash provided by financing activities totaled $75.3 million for the year ended December 31, 2010, primarily attributed to net proceeds from the issuance of common stock of $68.7 million and borrowings of $39.4 million of SBA debentures, offset by cash dividend payments of $26.9 million, common stock repurchases of $3.7 million and fees of $2.2 million paid on our credit facilities and debenture borrowings.

As of December 31, 2010, net assets totaled $412.5 million, with a net asset value per share of $9.50. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

In November 2010, we completed a follow-on public offering of approximately 7.2 million shares of common stock for gross proceeds of approximately $71.9 million and net proceeds of approximately $68.1 million. Additionally, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2010 Annual Shareholder Meeting held on June 9, 2010, our shareholders authorized the Company, with the approval of its Board of Directors, to sell up to 20% of the Company’s outstanding common stock at a price below the Company’s then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of its common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. There can be no assurance that these capital resources will be available given the credit constraints of the banking and capital markets.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of December 31, 2010 was 0%, excluding SBA leverage, based on our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total asset coverage when excluding the SEC exemptive order is approximately 347.8% at December 31, 2010.

On September 27, 2006 and on May 26, 2010, HT II and HT III received licenses to operate as Small Business Investment Companies under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of December 31, 2010, all required contributed capital from Hercules has been invested into HT II and HT III. The Company is the sole limited partner of HT II and HT III and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2010 as a result of having sufficient capital as defined under the SBA regulations.

With our net investment of $75.0 million in HT II as of December 31, 2010, HT II has the current capacity to issue a total of $150.0 million of SBA guaranteed debentures, of which $150.0 million was outstanding. As of December 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. As of December 31, 2010, we held investments in HT II in 51 companies with a fair value of approximately $155.3 million. HT II's portfolio accounted for approximately 32.9% of the Company's total portfolio at December 31, 2010.

As of December 31, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding at December 31, 2010. As of December 31, 2010, HT III has paid the SBA commitment fees of approximately $750,000. As of December 31, 2010, we held investments in HT III in eight companies with a fair value of approximately $50.3 million. HT III's portfolio accounted for approximately 10.7% of our total portfolio at December 31, 2010.

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA. See "—Subsequent Events."

At December 31, 2010 and December 31, 2009, we had the following borrowing capacity and outstanding:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Union Bank Facility | $ 20,000 | $ — | $ — | $ — |
| Wells Facility | 50,000 | — | 50,000 | — |
| SBA Debentures[1] | 225,000 | 170,000 | 150,000 | 130,600 |
| Total | $ 295,000 | $ 170,000 | $ 200,000 | $ 130,600 |

(1) The Company has the ability to borrow an additional $55.0 million in SBA debentures under HT III, subject to SBA approval and compliance with SBA regulations.

**Off Balance Sheet Arrangements**

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of December 31, 2010, we had unfunded origination activity commitments of approximately $117.2 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. In addition, we had approximately $92.0 million of non-binding term sheets with eight companies outstanding, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility and our Union Bank Facility to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

**Contractual Obligations**

The following table shows our contractual obligations as of December 31, 2010:

| | Payments due by period (in thousands) | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations(1)(2)** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **After 5 years** |
| Borrowings(3) | $170,000 | $ — | $ — | $ — | $ 170,000 |
| Operating Lease Obligations(4) | 3,367 | 1,202 | 2,165 | — | — |
| Total | $173,367 | $ 1,202 | $ 2,165 | $ — | $ 170,000 |

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have warrant participation with Citigroup. See "Borrowings."
(3) Includes borrowings under the Wells Facility, Union Bank Facility and the SBA debentures. We had zero outstanding borrowings under the Wells Facility or the Union Bank Facility at December 31, 2010.
(4) Long-term facility leases.

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

**Borrowings**

***Citibank Credit Facility***

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the "Citibank Credit Facility") with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $481,000 as of December 31, 2010 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

***Long-term SBA Debentures***

On September 27, 2006, HT II and on May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of December 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. With our net investment of $75.0 million in HT II as of December 31, 2010, HT II has the current capacity to issue up to a total of $150.0 million of SBA guaranteed debentures, of which $150.0 million was outstanding. Currently, HT II has paid commitment fees of approximately $1.5 million. As of December 31, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding at December 31,2010. Currently, HT III has paid commitment fees of approximately $750,000. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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

HT II and HT III are periodically examined and audited by the SBA’s staff to determine its compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II’s or HT III’s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC’s leverage as of December 31, 2010 as a result of having sufficient capital as defined under the SBA regulations.

As of December 31, 2010, HT III could draw up to $55.0 million of additional leverage from SBA, as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT II was approximately $139.4 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT III was approximately $13.9 million with an average interest rate of approximately 3.215%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA. See "—Subsequent Events."

***Wells Facility***

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was zero outstanding debt under the Wells Facility at December 31, 2010.

The Wells Facility includes various financial and operating covenants applicable to the Company and its subsidiaries, in addition to those applicable to Hercules Funding II, LLC. The covenants applicable to the Company and its subsidiaries include:

- A requirement that we maintain a minimum tangible net worth of approximately $311.0 million, contingent upon our total commitments under all lines of credit not exceeding approximately $311.0 million. To the extent our total commitments exceeds approximately $311.0 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. Based on the net proceeds from the equity raise we completed in November 2010, the adjusted minimum tangible net worth at December 31, 2010 would be approximately $311.0 million.
- A requirement that we maintain a ratio, on a consolidated basis, of debt (excluding subordinated debt) to the sum of tangible net worth and subordinated debt, of not more than 1.25 to 1.00 as of the end of each fiscal quarter.
- A requirement that we maintain an interest coverage ratio (i.e., a ratio of net investment income to total interest expense (including unused line fees)), on a consolidated basis, greater than or equal to 2.00 to 1.00, measured as of the end of each fiscal quarter for the three-month period then ended.
- A requirement that we maintain, on a consolidated basis, an aggregate amount of unrestricted cash balances and committed borrowing availability greater than or equal to 75% of the aggregate amount of unfunded commitments of Hercules Funding II, LLC to its borrowers, measured as of the end of each fiscal month.

- A requirement that we not permit the aggregate unpaid principal balance of all loans serviced by the Company for its subsidiaries and affiliates that are more than 60 days past due to exceed 10% of the aggregate unpaid principal balance of all such loans serviced by the Company, measured as of the end of each fiscal month.
- A requirement that we not permit the aggregate unpaid principal balance of all loans serviced by the Company for its subsidiaries and affiliates that (i) are more than 90 days past due according to the original terms of such loan, (ii) with respect to which foreclosure proceedings have been initiated, or (iii) that the Company deems to be non-collectible as of the last day of any fiscal month to exceed 10% of the aggregate unpaid principal balance of all such loans serviced by the Company as of such day.

The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2010.

During March 2011, we received a commitment to renew the Wells Facility. See "—Subsequent Events."

***Union Bank Facility***

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the "Union Bank Facility"). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. At December 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011.

The Union Bank Facility includes various financial and operating covenants. These covenants include:

- Requirements that we maintain, on a consolidated basis, measured as of the last day of each fiscal quarter:
  - A ratio of cash, marketable securities and notes receivable (excluding notes from affiliates), minus bad debt reserve, to current liabilities of not less than 0.10 to 1.00;
  - Tangible net worth of not less than $250,000,000; and
  - A ratio of total consolidated liabilities to tangible net worth of not more than 1.25 to 1.00.
- A requirement that we not permit the aggregate unpaid principal balance of all loans owned by the Company or its subsidiaries, or serviced by the Company for its subsidiaries and affiliates, that are more than 30 days past due to exceed 10% of the aggregate unpaid principal balance of all such loans owned by the Company or its subsidiaries or serviced by the Company.
- A requirement that the Company maintain a ratio, on an unconsolidated basis, of (i) the sum of unrestricted cash and cash equivalents plus 50% of the aggregate principal amount of loans owed to the Company and not subject to any security interest to (ii) the aggregate outstanding amount of loans under the Union Bank Facility, of not less than 1:00 to 1:00.
- A requirement that the Company maintain a ratio, on an unconsolidated basis, as of the last day of each fiscal quarter, determined by dividing (a) an amount equal to (i) the sum of cash payments of principal and interest received on eligible notes receivable, plus the net cash proceeds from the sale of Company stock, in each case during such fiscal quarter, minus (ii) all operating expenses during such fiscal quarter, minus (iii) all dividends and other restricted payments made during such fiscal quarter, by

(b) the sum of (i) one-third of the average daily balance of loans outstanding under the Union Bank Facility during such fiscal quarter plus (ii) interest expense during such fiscal quarter, of not less than 1:50 to 1:00.

- A requirement that the Company maintain at all times a ratio, on a consolidated basis, of (i) the value of total assets, less all liabilities and indebtedness not represented by senior securities, to (ii) the aggregate amount of senior securities representing indebtedness, of not less than 2:00 to 1:00.

The Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. On April 5, 2011, the Company entered into an amendment to the Union Bank Facility which modified certain terms thereof to permit the issuance of the Notes.

At December 31, 2010 and December 31, 2009, the Company had the following borrowing capacity and outstanding borrowings:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Union Bank Facility | $ 20,000 | $ — | $ — | $ — |
| Wells Facility | 50,000 | — | 50,000 | — |
| SBA Debenture[(1)] | 225,000 | 170,000 | 150,000 | 130,600 |
| Total | $295,000 | $ 170,000 | $200,000 | $ 130,600 |

(1) The Company has the ability to borrow an additional $55.0 million in SBA debentures under HT III, subject to SBA approval. In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA. See "—Subsequent Events."

## Dividends

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

| Date Declared | Record Date | Payment Date | Amount Per Share |
|---|---|---|---|
| October 27, 2005 | November 1, 2005 | November 17, 2005 | $ 0.025 |
| December 9, 2005 | January 6, 2006 | January 27, 2006 | 0.300 |
| April 3, 2006 | April 10, 2006 | May 5, 2006 | 0.300 |
| July 19, 2006 | July 31, 2006 | August 28, 2006 | 0.300 |
| October 16, 2006 | November 6, 2006 | December 1, 2006 | 0.300 |
| February 7, 2007 | February 19, 2007 | March 19, 2007 | 0.300 |
| May 3, 2007 | May 16, 2007 | June 18, 2007 | 0.300 |
| August 2, 2007 | August 16, 2007 | September 17, 2007 | 0.300 |
| November 1, 2007 | November 16, 2007 | December 17, 2007 | 0.300 |
| February 7, 2008 | February 15, 2008 | March 17, 2008 | 0.300 |
| May 8, 2008 | May 16, 2008 | June 16, 2008 | 0.340 |
| August 7, 2008 | August 15, 2008 | September 19, 2008 | 0.340 |
| November 6, 2008 | November 14, 2008 | December 15, 2008 | 0.340 |
| February 12, 2009 | February 23, 2009 | March 30, 2009 | 0.320* |
| May 7, 2009 | May 15, 2009 | June 15, 2009 | 0.300 |
| August 6, 2009 | August 14, 2009 | September 14, 2009 | 0.300 |
| October 15, 2009 | October 20, 2009 | November 23, 2009 | 0.300 |
| December 16, 2009 | December 24, 2009 | December 30, 2009 | 0.040 |
| February 11, 2010 | February 19, 2010 | March 19, 2010 | 0.200 |
| May 3, 2010 | May 12, 2010 | June 18, 2010 | 0.200 |
| August 2, 2010 | August 12, 2010 | September 17, 2010 | 0.200 |
| November 4, 2010 | November 10, 2010 | December 17, 2010 | 0.200 |
| March 1, 2011 | March 10, 2011 | March 24, 2011 | 0.220 |
| | | | $ 6.025 |

* Dividend paid in cash and stock.

On March 1, 2011 the Board of Directors increased the quarterly dividend by 10.0% and declared a cash dividend of $0.22 per share that was paid on March 24, 2011 to shareholders of record as of March 10, 2011. This dividend is the Company's twenty-second consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.03 per share.

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

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the year ended December 31, 2010 and 2009, 100% were distributions of ordinary income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2011 distributions to stockholders will actually be.

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

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

Pursuant to a recent revenue procedure, the IRS has indicated that it will treat distributions from certain publicly traded RICs (including BDCs) that are paid part in cash and part in stock as dividends that would satisfy the RIC's annual distribution requirements and qualify for the dividends paid deduction for income tax purposes. In order to qualify for such treatment, the revenue procedure requires that at least 10% of the total distribution be paid in cash and that each shareholder have a right to elect to receive its entire distribution in cash. If the number of shareholders electing to receive cash would cause cash distributions to be in excess of 10%, then each shareholder electing to receive cash would receive a proportionate share of the cash to be distributed (although no shareholder electing to receive cash may receive less than 10% of such shareholder's distribution in cash). This revenue procedure applies to distributions made with respect to taxable years ending prior to January 1, 2012.

## Critical Accounting Policies

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

### *Valuation of Portfolio Investments.*

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

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ("ASC") topic 820 Fair Value Measurements and Disclosures, (formerly known as SFAS No. 157, Fair Value Measurements). At December 31, 2010, approximately 79.8% of the Company's total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company's debt securities are primarily invested in equity sponsored technology, life science and clean technology companies. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

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

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

(2) preliminary valuation conclusions are then documented and discussed with our investment committee;

(3) the valuation committee of the board of directors reviews the preliminary valuation of the investment committee and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments, if any, and

(4) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the valuation committee.

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

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

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

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

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

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company's debt securities are primarily invested in equity sponsored technology, life science and clean technology companies. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

During the quarter ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. We applied a new procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method, as discussed above. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date. The Company considers each portfolio company's credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment's fair value as of the measurement date.

The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of its debt investments in accordance with ASC 820 using the new valuation procedures described above. The Company determined that if it had analyzed the fair value of its investments for the year ended December 31, 2009 using this procedure, the result to the 2009 consolidated financial statements would not have been material. During the year ended December 31, 2010 the Company recognized additional unrealized depreciation of $803,000, which is not material to the 2010 consolidated financial statements.

In addition, amounts previously recorded as deferred fee income ($2.4 million at December 31, 2009) and accrued back-end fees ($6.6 million at December 31, 2009) are no longer shown separately on the consolidated Balance Sheets because these amounts are a component of fair value of the investments on the consolidated Schedule of Investments.

Under the new valuation methodology, the Company's process includes the examination of criteria similar to those used in its original investment decision, including, among other things, the underlying investment performance, the current portfolio company's financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors than those a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

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

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

Equity-Related Securities and Warrants

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

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

***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, we 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. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. There were two, five and four loans on non-accrual status as of December 31, 2010, 2009 and 2008 with a fair value of approximately $4.0 million, $10.5 million and $864,000, respectively. The cost of non-accrual loans are approximately $11.4 million, $25.5 million and $2.9 million as of December 31, 2010, 2009 and 2008, respectively.

***Paid-In-Kind and End of Term Income***.

Contractual paid-in-kind ("PIK") interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the year ended December 31, 2010, 2009 and 2008, approximately $2.3 million, $2.9 million and $1.0 million in PIK income was recorded respectively.

***Fee Income.***

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

Effective January 1, 2011, we will recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount (OID) related to early loan pay-off or material modification of the specific debt outstanding.

During its quarter ended December 31, 2010, the Company corrected its method of accounting for nonrecurring fees related to loan modifications. The Company previously recognized these fees upon modification of loans. The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the correct accounting and recognize fee income in accordance with the procedures described in the preceding paragraph. The Company determined that if it had analyzed the one-time fees for the year ended December 31, 2009 using these procedures, the result to the 2009 consolidated financial statements would not have been material. In addition, the change in method of accounting for nonrecurring fees related to loan modifications has no impact on taxable income. During the year ended December 31, 2010, the Company deferred one-time fee revenue that was recognized in previous periods as income of approximately $1.0 million which is not material to the 2010 consolidated financial statements. The result of the change in methods applied as of December 31, 2010 was approximately $707,000 and was recorded as a reduction in revenue during the fourth quarter of 2010. In the first quarter of 2011, the Company expects to record as revenue $432,000 of the approximate $707,000.

In addition, the Company has considered the aggregated impact of the out of period adjustments recorded in 2010 related to the application of ASC 820 as discussed above under "Debt Investments" and the one-time fee recognition, and concluded that the aggregated impact would not be material to the 2010 or previously issued consolidated financial statements.

***Stock-Based Compensation.***

We have issued and may, from time to time, issue additional stock options and restricted stock to employees under our 2004 Equity Incentive Plan and Board members under our 2006 Equity Incentive Plan. We follow ASC 718, formally known as FAS 123R "*Share-Based Payments*" to account for stock options granted. Under ASC 718, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized.

***Federal Income Taxes.***

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98.2% of our capital gain net income for each one year period ending on October 31. At December 31, 2010 and 2009, zero and zero excise tax was recorded, respectively. At December 31, 2008, we recorded a liability for excise tax of approximately $203,000 on income and capital gains of approximately $5.0 million which was distributed in 2009.

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

**Recent Accounting Pronouncements**

In February 2010, the FASB issued ASU 2010-09,*Subsequent Events* ("ASU 2010-09"), which amends ASC 855 to address certain implementation issues, including (1) eliminating the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, (2) clarifying the period through which conduit bond obligors must evaluate subsequent events, and (3) refining the scope of the disclosure requirements for reissued financial statements. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-01,*Accounting for Distributions to Shareholders with Components of Stock and Cash*("ASU 2010-01"), which addresses the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can receive in the aggregate. ASU 2010-01 clarifies that the stock portion of such a distribution is considered a share issuance reflected prospectively in earnings per share. ASU 2010-01 is effective for interim and annual periods ending after December 15, 2009 and should be applied on a prospective basis. We adopted the requirements of ASU 2010-01 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

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

**Subsequent Events**

***Investing Activities***

As of March 1, 2011, Hercules has:

a. Closed commitments of approximately $42.0 million to new portfolio companies, excluding $0.4 million of restructurings, and funded approximately $46.0 million of commitments since the close of the fourth quarter.

b. Pending commitments (signed term sheets) of approximately $128.0 million.

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

| Closed Commitments and Pending Commitments (in millions) | |
|---|---|
| Q1-11 Closed Commitments (as of 3-1-2011) (a,b) | $ 42.0 |
| Pending Commitments (as of 3-1-2010)(c) | $128.0 |
| **Total 2011 Closed and Pending Commitments** | **$170.0** |

Notes:

a. Closed commitments exclude $0.4 million of existing credit restructures and renewals.

b. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.

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

***Dividend Declaration***

On March 1, 2011 the Board of Directors increased the quarterly dividend by 10.0% and declared a cash dividend of $0.22 per share was paid on March 24, 2011 to shareholders of record as of March 10, 2011. This dividend would represent the Company’s twenty-second consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $6.03 per share.

***Share Repurchase Program***

On January 27, 2011, the Company approved the extension of the stock repurchase plan as previously approved on February 8, 2010 under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock set to expire on February 11, 2011 for an additional six month periods with a new expiration date of August 26, 2011.

***Liquidity and Capital Resources***

In January 2011, the Company repaid $25.0 million of SBA debentures under its first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, Hercules submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA.

In February 2011, the Company extended the termination date under the credit facility with Union Bank from May 1, 2011 to July 31, 2011. Terms and conditions under the agreement remain the same through the extension period.

In January 2011, the Company's portfolio company InfoLogix, Inc., a leading provider of enterprise mobile solutions for the healthcare and commercial industries, completed the sale of all of its shares to Stanley Black & Decker, Inc. (NYSE: SWK). The transaction was valued at approximately $61.2 million prior to transaction fees, closing costs, and working capital adjustments. The close of this sale will have no impact on net asset value as reported on December 31, 2010. In connection with the sale, we expect to realize a net gain of approximately $8.0-$8.5 million in the first quarter of 2011, representing an internal rate of return above 30% on Hercules' investment in Infologix. This gain is reflected in net asset value as of December 31, 2010.

During March 2011, the Company received a commitment to renew the $300.0 million Wells Facility with Wells Fargo Capital Finance. Under this three-year senior secured facility, Wells Fargo Capital Finance and the Royal Bank of Canada ("RBC") have made commitments of $75 million and $25 million, respectively. Borrowings under the facility are expected to be at an interest rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the new credit facility. This new arrangement will replace the existing $300 million credit facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and the Company will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

***Portfolio Company Events***

In February 2011, the Company's portfolio company Pacira, an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of novel pharmaceutical products, priced its initial public offering ("IPO") on Nasdaq-GM under the symbol ("PCRX").

In February 2011, Hercules sold part of its equity position in portfolio company Kamada (Tel Aviv: KMDA.TA), a publicly traded Israeli-based biopharmaceutical company, and expects to recognize a realized gain of approximately $1.2 million in Q1 2011.

***Convertible Senior Notes***

On April 15, 2011, the Company issued in a private offering $75.0 million in aggregate principal amount of 6.00% Convertible Senior Notes due 2016 (the "Convertible Senior Notes"). The Convertible Senior Notes are unsecured and bear interest at a rate of 6.00% per year, payable semiannually. In certain circumstances, at the our election, the Convertible Senior Notes will be converted into cash, shares of common stock or a combination of cash and shares of common stock, at an initial conversion rate of 84.0972 shares of common stock per $1,000 principal amount of Convertible Senior Notes which is equivalent to an initial conversion price of approximately $11.89 per share of the Company's common stock, subject to customary anti-dilution adjustments. The conversion price is approximately 15% above the $10.34 per share closing price of the Company's common stock on April 11, 2011. The Company will not have the right to redeem the Convertible Senior Notes prior to maturity. The Convertible Senior Notes will mature on April 15, 2016, unless repurchased or converted in accordance with their terms prior to such date.

**Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2010, approximately 81.5% of our portfolio loans were at variable rates or at variable rates with a floor rate and 18.5% of our loans were at fixed rates. Over time additional investments may be at variable rates. We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten-year treasury every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT II was approximately $139.4 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT III was approximately $13.9 million with an average interest rate of approximately 3.215%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Interest payments on our SBA debentures are payable semi-annually and there are no principal payments required on these issues prior to maturity.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which was reduced to 0.3% upon the one year anniversary of the credit facility on August 25, 2009. The Wells Facility is collateralized by debt investment in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. During March 2011, the Company received a commitment to renew the Wells Facility.

In February 2010, we closed on our $20.0 million credit facility with Union Bank, a one year revolving credit facility. Pricing of credit facility is LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. In February 2011, the maturity date of the facility with Union Bank was extended to July 31, 2011.

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified by the Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to the issuer’s management, including its Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of these disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of December 31, 2010. Based on this evaluation, the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) concluded that our disclosure controls and procedures were not effective as of December 31, 2010, the end of the period covered by the Company's Annual Report on Form 10-K, due to the material weaknesses described below.

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

**Internal Control Over Financial Reporting**

***Management's Report on Internal Control over Financial Reporting***

The management of Hercules Technology Growth Capital, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO Framework").

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2010, management identified a material weakness related to our valuation process specifically involving debt investments in our portfolio which could impact reported amounts with respect to investments and net increase (decrease) in unrealized appreciation on investments. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Because of this material weakness, management concluded that the Company did not maintain effective control over financial reporting as of December 31, 2010. We have corrected the valuation process to refine our application of valuation procedures and believe that the audited consolidated financial statements included in the Company's Annual Report reflect the fair value of our debt investments.

***Remediation Efforts***

The remediation efforts, as outlined below, are designed to address the fair value of debt investments in accordance with generally accepted accounting principles and to strengthen the Company's internal control over financial reporting.

The Company implemented the following remediation steps to address the material weakness discussed above and to improve its internal control over financial reporting:

During the quarter ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. We applied a new procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method, as discussed above. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date. The Company considers each portfolio company's credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment's fair value as of the measurement date.

The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of its debt investments in accordance with ASC 820 using the new valuation procedure. The Company determined that if it had analyzed the fair value of its investments for the year ended December 31, 2009 using this procedure, the result to the 2009 consolidated financial statements would not have been material. During the year ended December 31, 2010, the Company recognized additional unrealized depreciation of $803,000, which is not material to the 2010 consolidated financial statements.

## BUSINESS

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as our additional offices in Boston and Boulder.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company ("SBIC") subsidiaries, Hercules Technology II, L.P. ("HT II") and Hercules Technology III, L.P. ("HT III"). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of December 31, 2010, we held investments in HT II in 51 companies with a fair value of approximately $155.3 million. HT II's portfolio companies accounted for approximately 32.9% of our total portfolio at December 31, 2010. As of December 31, 2010, we held investments in HT III in eight companies with a fair value of approximately $50.3 million. HT III's portfolio accounted for approximately 10.7% of our total portfolio at December 31, 2010.

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

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

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

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Since 2007, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

### Current Market Conditions

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints.

At the same time, the venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today’s economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 as compared to the previous two years.

### Corporate History and Offices

We are a Maryland Corporation formed in December 2003 that began investment operations in September 2004. We are an internally managed, non-diversified, closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 Act. As a business development company, we are required to meet various regulatory tests. A business development company is required to invest at least 70% of its total assets in “qualifying assets,” including securities of private and thinly traded public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. A business development company also must meet a coverage ratio of total net assets to total senior securities, which include all of our borrowings (including accrued interest payable) except for debentures issued by the Small Business Administration, and any preferred stock we may issue in the future, of at least 200% subsequent to each borrowing or issuance of senior securities. See “Regulation”.

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

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

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

We may acquire a portfolio of investments or sell a portion of our portfolio on an opportunistic basis. We, from time to time, engage in discussions with counterparties in respect of various potential transactions. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors and required third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated.

## Our Market Opportunity

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

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

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

The unique cash flow characteristics of many technology-related companies include significant research and development expenditures and high projected revenue growth thus often making such companies difficult to evaluate from a credit perspective. In addition, the balance sheets of emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine marketplace, instead preferring the risk-reward profile of asset based lending. Traditional lenders generally do not have flexible product offerings that meet the needs of technology-related companies. The financing products offered by traditional lenders typically impose on borrowers many restrictive covenants and conditions, including limiting cash outflows and requiring a significant depository relationship to facilitate rapid liquidation.

***Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies.***Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In the first nine months of 2010, venture capital-backed companies received, in approximately 2,799 transactions, equity financing in an aggregate amount of approximately $26.3 billion, representing a 11.4% increase from the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size in 2010 was approximately $4.5 million, down from $5.0 million in 2009. Even though the median round of financing has decreased, we believe the larger number of companies provides us a greater opportunity to provide debt financing to these venture backed companies. Overall, seed and first-round deals made up 37% of the deal flow in 2010, and later-stage deals made up roughly 42% of all capital invested.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies during 2008 and 2009. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. In addition, lending requirements of traditional lenders have become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

## Our Business Strategy

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

***Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals.*** We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, at Hercules, our team members have originated structured debt, debt with warrants and equity investments in over 150 technology-related companies, representing over $2.0 billion in commitments from inception to December 31, 2010, and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

We concentrate our investing activities generally in industries in which our investment professionals have investment experience. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies and to identify and originate potentially attractive investments with these types of companies.

***Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities.*** We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

Historically our structured debt investments to technology-related companies, typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

***Provide Customized Financing Complementary to Financial Sponsors' Capital.***We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

We use our relationships in the financial sponsor community to originate investment opportunities. Because venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our debt investments will be viewed as an attractive and complimentary source of capital, both by the portfolio company and by the portfolio company's financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

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

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

***Deal Sourcing Through Our Proprietary Database.*** We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

## Our Investments and Operations

We principally invest in debt securities and, to a lesser extent, equity securities, with a particular emphasis on structured debt with warrants.

We generally seek to invest in companies that have been operating for at least six to 12 months prior to the date of our investment. We anticipate that such entities may, at the time of investment, be generating revenues or will have a business plan that anticipates generation of revenues within 24 to 48 months. Further, we anticipate that on the date of our investment we will generally obtain a lien on available assets, which may or may not include intellectual property, and these companies will have sufficient cash on their balance sheet to operate as well as potentially amortize their debt for at least three to nine months following our investment. We generally require that a prospective portfolio company, in addition to having sufficient capital to support leverage, demonstrate an operating plan capable of generating cash flows or raising the additional capital necessary to cover its operating expenses and service its debt, for an additional six to 12 months subject to market conditions.

We expect that our investments will generally range from $1.0 million to $25.0 million. We typically structure our debt securities to provide for amortization of principal over the life of the loan, but may include an interest-only period of three to 12 months for emerging growth and expansion-stage companies and longer for established-stage companies. Our loans will be collateralized by a security interest in the borrower’s assets, although we may not have the first claim on these assets and the assets may not include intellectual property. Our debt investments carry fixed or variable contractual interest rates which generally ranged from PRIME to 14.02% as of December 31, 2010. As of December 31, 2010, 81.6% of our loans were at floating rates or floating rates with a floor and 15.2% of the loans were at fixed rates. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees, success fees, payment-in-kind (“PIK”) provisions or prepayment fees, which we may be required to include in income prior to receipt. We also generate revenue in the form of commitment and facility fees.

In addition, the majority of our venture capital-backed companies structured debt investments generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for potential capital appreciation. The warrants typically will be immediately exercisable upon issuance and generally will remain exercisable for the lesser of five to seven years or one to three years after completion of an initial public offering. The exercise prices for the warrants varies from nominal exercise prices to exercise prices that are at or above the current fair market value of the equity for which we receive warrants. We may structure warrants to provide minority rights provisions or on a very select basis put rights upon the occurrence of certain events. We generally target a total annualized return (including interest, fees and value of warrants) of 12% to 25% for our debt investments.

Typically, our structured debt and equity investments take one of the following forms:

- *Structured debt with warrants.* We seek to invest a majority of our assets in structured debt with warrants of prospective portfolio companies. Traditional “mezzanine” debt is a layer of high-coupon financing between debt and equity that most commonly takes the form of subordinated debt coupled with warrants, combining the cash flow and risk characteristics of both senior debt and equity. However, our investments in structured debt with warrants may be the only debt capital on the balance sheet of our portfolio companies, and in many cases we have a first priority security interest in all of our portfolio company's assets, or in certain investments we may have a negative pledge on intellectual property. Our structured debt with warrants typically have maturities of between two and seven years, with full amortization after an interest only period for emerging-growth or expansion-stage companies and longer deferred amortization for select established-stage companies. Our structured debt with warrants generally carry a contractual interest rate between PRIME and 14.02% and may include an additional end-of-term payment or PIK ("Paid in Kind"), and are in an amount between $1.0 million and $25.0 million. In most cases we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases we may prohibit a company from pledging or otherwise encumbering their intellectual property. We may structure our structured debt with warrants with restrictive affirmative and negative covenants, default penalties, prepayment penalties, lien protection, equity calls, change-in-control provisions or board observation rights.

- *Senior Debt.* We seek to invest a limited portion of our assets in senior debt. Senior debt may be collateralized by accounts receivable and/or inventory financing of prospective portfolio companies. Senior debt has a senior position with respect to a borrower's scheduled interest and principal payments and holds a first priority security interest in the assets pledged as collateral. Senior debt also may impose covenants on a borrower with regard to cash flows and changes in capital structure, among other items. We generally collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company's intellectual property. Our senior loans, in certain instances, may be tied to the financing of specific assets. In connection with a senior debt investment, we may also provide the borrower with a working capital line-of-credit that will carry an interest rate ranging from Prime or LIBOR plus a spread with a floor, generally maturing in one to three years, and will be secured by accounts receivable and/or inventory.
- *Equipment Loans.* We intend to invest a limited portion of our assets in equipment-based loans to early-stage prospective portfolio companies. Equipment-based loans are secured by a first priority security interest in only the specific assets financed. These loans are generally for amounts up to $3.0 million, carry a contractual interest rate between PRIME and PRIME plus 10%, and have an average term between three and four years. Equipment loans may also include end of term payments.
- *Equity-Related Securities.* The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our structured debt investments. In addition to the warrants received as a part of a structured debt financing, we typically receive the right to make equity investments in a portfolio company in connection with that company's next round of equity financing. We may also on certain debt investments have the right to convert a portion of the debt investment into equity. These rights will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. These equity-related investments are typically in the form of preferred or common equity and may be structured with a dividend yield, providing us with a current return, and with customary anti-dilution protection and preemptive rights. In the future, we may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company's stock or by exercising our right, if any, to require a portfolio company to buy back the equity-related securities we hold. We may also make stand alone direct equity investments into portfolio companies in which we may not have any debt investment in the company. As of December 31, 2010, we held equity interests in 42 portfolio companies.

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

| | Structured Debt with Warrants | Senior Debt | Equipment Loans | Equity-Related Securities |
|---|---|---|---|---|
| **Typical Structure** | Term debt with warrants | Term or revolving debt | Term debt with warrants | Preferred stock or common stock |
| **Investment Horizon** | Long term, ranging from 2 to 7 years, with an average of 3 years | Usually under 3 years | Ranging from 3 to 4 years | Ranging from 3 to 7 years |
| **Ranking/Security** | Senior secured, either first out or last out second lien | Senior/First lien | Secured only by underlying equipment | None/unsecured |
| **Covenants** | Less restrictive; Mostly financial; Maintenance-based | Generally borrowing base and financial | None | None |
| **Risk Tolerance** | Medium/High | Low | High | High |
| **Coupon/Dividend** | Cash pay—fixed and floating rate; Payment-in-kind in limited cases | Cash pay—floating or fixed rate | Cash pay-floating or fixed rate and may include Payment-in-kind | Generally none |
| **Customization or Flexibility** | More flexible | Little to none | Little to none | Flexible |
| **Equity Dilution** | Low to medium | None to low | Low | High |

**Investment Criteria**

We have identified several criteria, among others, that we believe are important in achieving our investment objective with respect to prospective portfolio companies. These criteria, while not inclusive, provide general guidelines for our investment decisions.

***Portfolio Composition.*** While we generally focus our investments in venture capital and private equity-backed technology-related companies, we seek to diversify across various financial sponsors as well as across various stages of companies' development and various technology industry sub-sectors and geographies. During 2010, we began increasing our investments in lower middle market companies that may be or are approaching an operational level where they are EBITDA positive and possibly cash flow positive thereby decreasing their reliance on additional venture capital or private equity investments. At December 31, 2010, our investments in lower middle market companies accounted for approximately 40% of our total investments.

***Continuing Support from One or More Financial Sponsors.*** We generally invest in companies in which one or more established financial sponsors have previously invested and continue to make a contribution to the management of the business. We believe that having established financial sponsors with meaningful commitments to the business is a key characteristic of a prospective portfolio company. In addition, we look for representatives of one or more financial sponsors to maintain seats on the Board of Directors of a prospective portfolio company as an indication of such commitment.

***Company Stage of Development.*** While we invest in companies at various stages of development, we generally require that prospective portfolio companies be beyond the seed stage of development and generally have received or anticipate to have commitments for their first institutional round of equity financing for early stage companies. Starting in 2008, we began shifting our focus to expansion and established-stage companies that have revenues or significant anticipated revenue growth. We expect a prospective portfolio company to demonstrate progress in its product development or demonstrate a path towards revenue generation or increase its revenues and operating cash flow over time. The anticipated growth rate of a prospective portfolio company is a key factor in determining the value that we ascribe to any warrants or other equity securities that we may acquire in connection with an investment in debt securities.

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

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

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

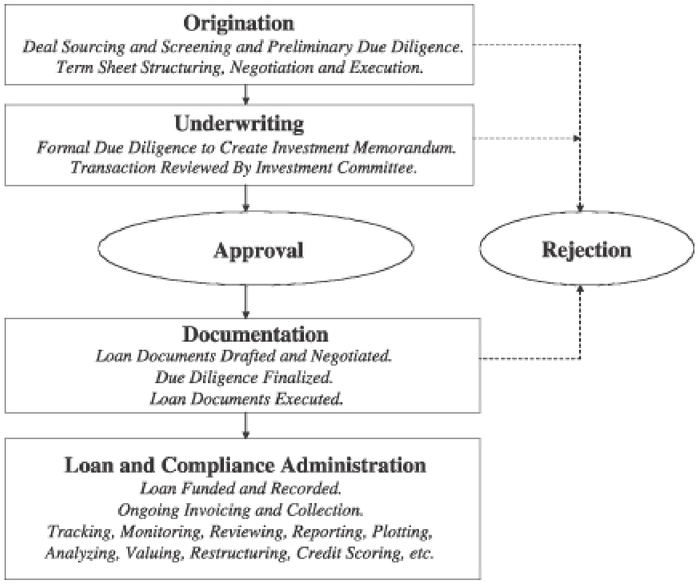
***Exit Strategy.*** Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value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

**Investment Process**

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

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

Our investment process is summarized in the following chart:




***Origination***

The origination process for our investments includes sourcing, screening, preliminary due diligence and deal structuring and negotiation, all leading to an executed non-binding term sheet. Our investment origination team, which consists of approximately 27 investment professionals, is headed by our Senior Managing Directors of Technology and Life Science, and our Chief Executive Officer. The origination team is responsible for sourcing potential investment opportunities and members of the investment origination team use their extensive relationships with various leading financial sponsors, management contacts within technology-related companies, trade sources, technology conferences and various publications to source prospective portfolio companies. Our investment origination team is divided into middle market, technology and life sciences sub-teams to better source potential portfolio companies.

In addition, we have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows our origination team to maintain, cultivate and grow our industry relationships while providing our origination team with comprehensive details on companies in the technology-related industries and their financial sponsors.

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

***Underwriting***

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

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

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

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

***Documentation***

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

***Loan and Compliance Administration***

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

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

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

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

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

Grade 1. Loans involve the least amount of risk in our portfolio. The borrower is performing above expectations, and the trends and risk profile is generally favorable.

Grade 2. The borrower is performing as expected and the risk profile is neutral to favorable. All new loans are initially graded 2.

Grade 3. The borrower may be performing below expectations, and the loan's risk has increased materially since origination. We increase procedures to monitor a borrower that may have limited amounts of cash remaining on the balance sheet, is approaching its next equity capital raise within the next three to six months, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a level 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2.

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

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

At December 31, 2010, our investments had a weighted average investment grading of 2.21.

***Managerial Assistance***

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

## Competition

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

## Corporate Structure

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

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

## Employees

As of December 31, 2010, we had 52 employees, including 27 investment and portfolio management professionals all of whom have extensive experience working on financing transactions for technology-related companies.

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## PORTFOLIO COMPANIES
## (dollars in thousands)

The following tables set forth certain information as of December 31, 2010 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(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Acceleron Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | 0.50% | | $ 69 | $ 922 |
| 149 Sidney Street | | Preferred Stock Warrants | 0.13% | | 35 | 189 |
| Cambridge, MA 02139 | | Preferred Stock Warrants | 0.05% | | 39 | 99 |
| | | Preferred Stock | 0.86% | | 1,341 | 2,316 |
| Total Acceleron Pharmaceuticals, Inc. | | | | | 1,484 | 3,526 |
| Aveo Pharmaceuticals, Inc. | Drug Discovery | Senior Debt | | | | |
| 75 Sidney Street 4th Floor | | Matures September 2013 | | | | |
| Cambridge, MA 02139 | | Interest rate Prime + 7.15% or | | | | |
| | | Floor rate of 11.9% | | $ 25,000 | 26,108 | 26,108 |
| | | Preferred Stock Warrants | 0.31% | | 190 | 686 |
| | | Preferred Stock Warrants | 0.07% | | 104 | 165 |
| | | Preferred Stock Warrants | 0.02% | | 24 | 58 |
| | | Preferred Stock Warrants | 0.24% | | 288 | 770 |
| | | Preferred Stock Warrants | 0.20% | | 236 | 630 |
| Total Aveo Pharmaceuticals, Inc. | | | | | 26,950 | 28,417 |
| Dicerna Pharmaceuticals, Inc. | Drug Discovery | Senior Debt | | | | |
| 480 Arsenal Street | | Matures July 2012 | | | | |
| Bldg 1, Suite 120 | | Interest rate Prime + 9.20% or | | | | |
| Watertown, MA 02472 | | Floor rate of 12.95% | | $ 4,699 | 4,678 | 4,706 |
| | | Preferred Stock Warrants | 0.81% | | 205 | 182 |
| | | Preferred Stock Warrants | 0.13% | | 30 | 33 |
| | | Preferred Stock Warrants | 0.09% | | 28 | 25 |
| | | Preferred Stock | 0.90% | | 503 | 503 |
| Total Dicerna Pharmaceuticals, Inc. | | | | | 5,444 | 5,449 |
| EpiCept Corporation | Drug Discovery | Common Stock Warrants | 0.59% | | 4 | 112 |
| 777 Old Saw Mill River Road | | Common Stock Warrants | 0.05% | | 40 | 10 |
| Tarrytown, NY 10591 | | | | | | |
| Total EpiCept Corporation | | | | | 44 | 122 |
| Horizon Therapeutics, Inc. | Drug Discovery | Preferred Stock Warrants | 0.31% | | 231 | — |
| 1033 Skokie Boulevard, Suite 355 | | | | | | |
| Northbrook, IL 60062 | | | | | | |
| Total Horizon Therapeutics, Inc. | | | | | 231 | — |
| Inotek Pharmaceuticals Corp. | Drug Discovery | Preferred Stock | 1.08% | | 1,500 | — |
| 33 Hayden Avenue, 2nd Floor | | | | | | |
| Lexington, MA 02421 | | | | | | |
| Total Inotek Pharmaceuticals Corp. | | | | | 1,500 | — |

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| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Merrimack Pharmaceuticals, Inc.<br>One Kendall Square<br>Building 700, 2nd Floor<br>Cambridge, MA 02139 | Drug Discovery | Preferred Stock Warrants | 0.34% | | $ 155 | $ 170 |
| | | Preferred Stock | 0.61% | | 2,000 | 1,547 |
| Total Merrimack Pharmaceuticals, Inc. | | | | | 2,155 | 1,717 |
| Paratek Pharmaceuticals, Inc.<br>75 Kneeland Street<br>Boston, MA 02111 | Drug Discovery | Preferred Stock Warrants | 0.52% | | 137 | 155 |
| | | Preferred Stock | 0.61% | | 1,000 | 999 |
| Total Paratek Pharmaceuticals, Inc. | | | | | 1,137 | 1,154 |
| PolyMedix, Inc.<br>170 N. Radnor Chester Road<br>Suite 300<br>Radnor, PA 19087 | Drug Discovery | Senior Debt<br>Matures September 2013<br>Interest rate Prime + 7.1% or<br>Floor rate of 12.35% | | $ 10,000 | 9,605 | 9,605 |
| | | Preferred Stock Warrants | 0.77% | | 480 | 248 |
| Total PolyMedix, Inc. | | | | | 10,085 | 9,853 |
| Portola Pharmaceuticals, Inc.<br>270 E Grand Avenue<br>South San Francisco, CA 94080 | Drug Discovery | Senior Debt<br>Matures April 2011<br>Interest rate Prime + 2.16% | | $ 1,666 | 2,033 | 2,033 |
| | | Preferred Stock Warrants | 0.35% | | 152 | 506 |
| Total Portola Pharmaceuticals, Inc. | | | | | 2,185 | 2,539 |
| **Total Drug Discovery (12.79%)*** | | | | | **51,215** | **52,777** |
| Affinity Videonet, Inc.<br>1641 California, 3rd Floor<br>Denver, CO 80202 | Communications & Networking | Preferred Stock Warrants | 4.45% | | 102 | 180 |
| Total Affinity Videonet, Inc. | | | | | 102 | 180 |
| E-band Communications, Corp.(6)<br>10095 Scripps Ranch Ct. Suite A.<br>San Diego, CA 92131 | Communications & Networking | Preferred Stock | 11.00% | | 2,880 | 3,069 |
| Total E-Band Communications, Corp. | | | | | 2,880 | 3,069 |
| IKANO Communications, Inc.<br>124 N. Charles Lindbergh<br>Salt Lake City, UT 84111 | Communications & Networking | Senior Debt<br>Matures August 2011<br>Interest rate 12.00% | | $ 1,654 | 1,953 | 1,953 |
| | | Preferred Stock Warrants | 1.37% | | 45 | — |
| | | Preferred Stock Warrants | 2.08% | | 72 | — |
| Total IKANO Communications, Inc. | | | | | 2,070 | 1,953 |
| Intelepeer, Inc.<br>2855 Campus Drive, Suite 450<br>San Mateo, CA 94404 | Communications & Networking | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 8.125% | | $ 7,624 | 7,468 | 7,459 |
| | | Preferred Stock Warrants | 0.33% | | 102 | 111 |
| Total Intelepeer, Inc. | | | | | 7,570 | 7,570 |
| Neonova Holding Company<br>1000 Perimeter Park Drive, Suite K<br>Morrisville, NC 27560 | Communications & Networking | Preferred Stock Warrants | 1.37% | | 94 | 12 |
| | | Preferred Stock | 1.52% | | 250 | 140 |
| Total Neonova Holding Company | | | | | 344 | 152 |

| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Opsource, Inc.(4)<br>5201 Great America Parkway<br>Suite 120<br>Santa Clara, CA 95054 | Communications & Networking | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 7.75% or<br>Floor rate of 11.00% | | $ 5,000 | $ 4,888 | $ 4,888 |
| | | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 7.25% or<br>Floor rate of 10.50% | | $ 2,000 | 1,944 | 1,905 |
| | | Revolving Line of Credit<br>Matures June 2011<br>Interest rate Prime + 5.25% or<br>Floor rate of 8.50% | | $ 1,500 | 1,458 | 1,458 |
| | | Preferred Stock Warrants | 0.58% | | 223 | 105 |
| Total Opsource, Inc. | | | | | 8,513 | 8,356 |
| Pac-West Telecomm, Inc.<br>555 12th Street<br>Suite 250<br>Oakland, CA 94607 | Communications & Networking | Senior Debt<br>Matures April 2014<br>Interest rate Prime + 7.5% or<br>Floor rate of 12.0% | | $ 10,000 | 9,634 | 9,634 |
| | | Preferred Stock Warrants | 0.78% | | 121 | 147 |
| Total Pac-West Telecomm, Inc. | | | | | 9,755 | 9,781 |
| PeerApp, Inc.<br>375 Elliot Street, Suite 150K<br>Newton Upper Falls, MA 02464 | Communications & Networking | Senior Debt<br>Matures April 2013<br>Interest rate Prime + 7.5% or<br>Floor rate of 11.50% | | $ 2,911 | 2,855 | 2,792 |
| | | Preferred Stock Warrants | 0.50% | | 61 | 65 |
| Total PeerApp, Inc. | | | | | 2,916 | 2,857 |
| Peerless Network, Inc.<br>200 S. Wacker Drive, Suite 3100<br>Chicago, IL 60606 | Communications & Networking | Preferred Stock Warrants | 0.27% | | 95 | 138 |
| | | Preferred Stock | 2.03% | | 1,000 | 1,930 |
| Total Peerless Network, Inc. | | | | | 1,095 | 2,068 |
| Ping Identity Corporation<br>1099 18th Street, Suite 2950<br>Denver, CO 80202 | Communications & Networking | Preferred Stock Warrants | 0.93% | | 52 | 6 |
| Total Ping Identity Corporation | | | | | 52 | 6 |
| Purcell Systems, Inc.<br>16125 East Euclid Avenue<br>Spokane, WA 99216 | Communications & Networking | Preferred Stock Warrants | 1.17% | | 123 | 330 |
| Total Purcell Systems, Inc. | | | | | 123 | 330 |
| Seven Networks, Inc.<br>2100 Seaport Blvd, Suite 100<br>Redwood City, CA 94063 | Communications & Networking | Preferred Stock Warrants | 0.89% | | 174 | 40 |
| Total Seven Networks, Inc. | | | | | 174 | 40 |
| Stoke, Inc.(4)<br>5403 Betsy Ross Drive<br>Santa Clara, CA 94043 | Communications & Networking | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | | $ 4,000 | 3,883 | 3,883 |
| | | Preferred Stock Warrants | 0.24% | | 53 | 210 |
| | | Preferred Stock Warrants | 0.11% | | 65 | 133 |
| | | Preferred Stock | 0.23% | | 500 | 500 |
| Total Stoke, Inc. | | | | | 4,501 | 4,726 |

| Portfolio Company | Industry | Type of Investment(1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Tectura Corporation<br>333 Twin Dolphin Drive, Suite 750<br>Redwood City, CA 94065 | Communications & Networking | Senior Debt<br>Matures December 2012<br>Interest rate 11% | | $ 5,625 | $ 5,512 | $ 5,512 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate 11% | | $ 17,477 | 18,488 | 18,488 |
| | | Preferred Stock Warrants | 0.22% | | 50 | 10 |
| Total Tectura Corporation | | | | | 24,050 | 24,010 |
| **Total Communications & Networking (15.78%)*** | | | | | **64,145** | **65,098** |
| Atrenta, Inc.<br>2077 Gateway Place, Suite 300<br>San Jose, CA 95110 | Software | Preferred Stock Warrants | 0.77% | | 102 | 46 |
| | | Preferred Stock Warrants | 0.25% | | 34 | 15 |
| | | Preferred Stock Warrants | 0.30% | | 95 | 22 |
| | | Preferred Stock | 0.25% | | 250 | 143 |
| Total Atrenta, Inc. | | | | | 481 | 226 |
| Blurb, Inc.<br>580 California Street, Suite 300<br>San Francisco, CA 94104 | Software | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.50% or<br>Floor rate of 8.5% | | $ 1,162 | 1,392 | 1,392 |
| | | Preferred Stock Warrants | 0.49% | | 25 | 349 |
| | | Preferred Stock Warrants | 0.52% | | 299 | 228 |
| Total Blurb, Inc. | | | | | 1,716 | 1,969 |
| Braxton Technologies, LLC.<br>770 Wooten Road, Suite 105<br>Colorado Springs, CO 80915 | Software | Preferred Stock Warrants | 0.62% | | 188 | — |
| Total Braxton Technologies, LLC. | | | | | 188 | — |
| Bullhorn, Inc.<br>33-41 Farnsworth, 5th Floor<br>Boston, MA 02210 | Software | Preferred Stock Warrants | 0.80% | | 43 | 234 |
| Total Bullhorn, Inc. | | | | | 43 | 234 |
| Clickfox, Inc.<br>3445 Peachtree Road, Suite 1250<br>Atlanta, GA 30326 | Software | Senior Debt<br>Matures July 2013<br>Interest rate Prime + 6.00% or<br>Floor rate of 11.25% | | $ 6,000 | 5,801 | 5,801 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate Prime + 5.00% or<br>Floor rate of 12.00% | | $ 2,000 | 1,997 | 1,996 |
| | | Preferred Stock Warrants | 1.00% | | 177 | 643 |
| | | Preferred Stock Warrants | 0.09% | | 152 | 643 |
| Total Clickfox, Inc. | | | | | 8,127 | 9,083 |
| Forescout Technologies, Inc.<br>10001 De Anza Blvd., Suite 220<br>Cupertino, CA 95014 | Software | Preferred Stock Warrants | 0.90% | | 99 | 14 |
| Total Forescout Technologies, Inc. | | | | | 99 | 14 |
| GameLogic, Inc.<br>411 Waverly Oakds Road, Suite 312<br>Boston, MA 02452 | Software | Preferred Stock Warrants | 2.67% | | 92 | — |
| Total GameLogic, Inc. | | | | | 92 | — |

| Portfolio Company | Industry | Type of Investment(1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| HighJump Acquisition, LLC.<br>6455 City West Parkway<br>Eden Prairie, MN 55344 | Software | Senior Debt<br>Matures May 2013<br>Interest rate Libor + 9.25% or<br>Floor rate of 12.50% | | $ 17,500 | $17,386 | $17,386 |
| Total HighJump Acquisition, LLC. | | | | | 17,386 | 17,386 |
| HighRoads, Inc.<br>150 Presidential Way<br>Woburn, MA 01801 | Software | Preferred Stock Warrants | 3.18% | | 44 | 65 |
| Total HighRoads, Inc. | | | | | 44 | 65 |
| Infologix, Inc. (4) (7)<br>101 E. County Line Road, Suite 210<br>Hatboro, PA 19040 | Software | Senior Debt<br>Matures November 2013<br>Interest rate 18.00% | | $ 5,500 | 5,162 | 5,162 |
| | | Convertible Senior Debt<br>Matures November 2014<br>Interest rate 12.00% | | | 1,111 | 1,127 |
| | | Revolving Line of Credit<br>Matures May 2011<br>Interest rate 12.00% | | $ 12,317 | 12,317 | 12,317 |
| | | Senior Debt<br>Matures December 2010<br>Interest rate 18.00% | | $ 2,178 | 2,178 | 2,178 |
| | | Senior Debt<br>Matures April 2013<br>Interest rate 8.00% | | $ 1,350 | 1,350 | 1,350 |
| | | Senior Debt<br>Matures September 2011<br>Interest rate 10.00% | | $ 500 | 509 | 509 |
| | | Preferred Stock Warrants | 8.47% | | 725 | 1,394 |
| | | Common Stock | 33.89% | | 5,000 | 9,620 |
| | | Common Stock | 0.10% | | 36 | 69 |
| | | Common Stock | 22.74% | | 3,355 | 6,455 |
| Total Infologix, Inc. | | | | | 31,743 | 40,181 |
| PSS Systems, Inc.<br>2525 E Charleston Road, Suite 201<br>Mountain View, CA 94303 | Software | Preferred Stock Warrants | 0.38% | | 51 | 17 |
| Total PSS Systems, Inc. | | | | | 51 | 17 |
| Rockyou, Inc.<br>585 Broadway Street, Suite A<br>Redwood City, CA 94036 | Software | Preferred Stock Warrants | 0.08% | | 117 | 186 |
| Total Rockyou, Inc. | | | | | 117 | 186 |
| Sportvision, Inc.<br>4619 N. Ravenswood<br>Chicago, IL 60640 | Software | Preferred Stock Warrants | 1.89% | | 39 | — |
| Total Sportvision, Inc. | | | | | 39 | — |
| Unify Corporation<br>1420 Rocky Ridge Drive, Suite 380<br>Roseville, CA 95661 | Software | Senior Debt<br>Matures June 2015<br>Interest rate Libor + 8.50% or<br>Floor rate of 10.50% | | $ 24,000 | 22,248 | 22,968 |
| | | Revolving Line of Credit<br>Matures June 2015<br>Interest rate Libor + 7.50% or<br>Floor rate of 9.50% | | $ 3,750 | 3,731 | 3,476 |
| | | Preferred Stock Warrants | 4.70% | | 1,434 | 693 |
| Total Unify Corporation | | | | | 27,413 | 27,137 |

| Portfolio Company | Industry | Type of Investment(1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| WildTangent, Inc.<br>18578 NE 67th Court, Building 5<br>Redmond, WA 98052 | Software | Preferred Stock Warrants | 0.17% | | $ 238 | $ 10 |
| Total WildTangent, Inc. | | | | | 238 | 10 |
| **Total Software (23.39%)*** | | | | | **87,777** | **96,508** |
| Luminus Devices, Inc.<br>1100 Technology Park Drive<br>Billerica, MA 02821 | Electronics & Computer Hardware | Senior Debt<br>Matures December 2011<br>Interest rate 11.875% | | $ 540 | 540 | 540 |
| | | Preferred Stock Warrants | 0.28% | | 183 | — |
| | | Preferred Stock Warrants | 0.14% | | 84 | — |
| | | Preferred Stock Warrants | 0.69% | | 334 | — |
| Total Luminus Devices, Inc. | | | | | 1,141 | 540 |
| Maxvision Holding, LLC.<br>495 Production Avenue<br>Huntsville, AL 35758 | Electronics & Computer Hardware | Senior Debt<br>Matures October 2012<br>Interest rate Prime + 7.25% or<br>Floor rate of 10.75% | | $ 5,000 | 5,377 | 377 |
| | | Senior Debt<br>Matures April 2012<br>Interest rate Prime + 5.0% or<br>Floor rate of 8.5% | | $ 3,409 | 3,382 | 3,382 |
| | | Revolving Line of Credit<br>Matures April 2012<br>Interest rate Prime + 5.0% or<br>Floor rate of 8.5% | | $ 3,100 | 3,163 | 3,163 |
| | | Common Stock | 1.25% | | 81 | — |
| Total Maxvision Holding, LLC | | | | | 12,003 | 6,922 |
| Shocking Technologies, Inc.<br>5870 Hellyer Avenue<br>San Jose, CA 95138 | Electronics & Computer Hardware | Preferred Stock Warrants | 1.44% | | 63 | 90 |
| Total Shocking Technologies, Inc. | | | | | 63 | 90 |
| Spatial Photonics, Inc.(8)<br>930 Hamlin Court<br>Sunnyvale, CA 94086 | Electronics & Computer Hardware | Preferred Stock Warrants | 0.19% | | 129 | — |
| | | Preferred Stock | 0.84% | | 767 | 267 |
| Total Spatial Photonics Inc. | | | | | 896 | 267 |
| VeriWave, Inc.<br>8770 SW Nimbus Avenue, Suite B<br>Beaverton, OR 97008 | Electronics & Computer Hardware | Preferred Stock Warrants | 1.22% | | 54 | — |
| | | Preferred Stock Warrants | 0.31% | | 46 | — |
| Total VeriWave, Inc. | | | | | 100 | — |
| **Total Electronics & Computer Hardware (1.90%)*** | | | | | **14,203** | **7,819** |
| Aegerion Pharmaceuticals, Inc.<br>1140 Route 22 East, Suite 304<br>Bridgewater, NJ 08807 | Specialty Pharmaceuticals | Preferred Stock Warrants | 0.60% | | 69 | 761 |
| | | Preferred Stock | 1.08% | | 1,475 | 2,206 |
| Total Aegerion Pharmaceuticals, Inc. | | | | | 1,544 | 2,967 |
| Althea Technologies, Inc.<br>11040 Roselle Street<br>San Diego, CA 92121 | Specialty Pharmaceuticals | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 7.70% or<br>Floor rate of 10.95% | | $ 12,000 | 11,661 | 11,661 |
| | | Preferred Stock Warrants | 3.04% | | 309 | 276 |
| Total Althea Technologies, Inc. | | | | | 11,970 | 11,937 |

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| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Chroma Therapeutics, Ltd.(5) | Specialty | Senior Debt | | | | |
| 93 Milton Park | Pharmaceuticals | Matures September 2013 | | | | |
| Abington, Oxon OX14 4RY | | Interest rate Prime + 7.75% or | | | | |
| | | Floor rate of 12.00% | | $ 10,000 | $ 9,797 | $ 10,021 |
| | | Preferred Stock Warrants | 0.60% | | 490 | 632 |
| Total Chroma Therapeutics, Ltd. | | | | | 10,287 | 10,653 |
| Pacira Pharmaceuticals, Inc. | Specialty | Senior Debt | | | | |
| 5 Sylvan Way | Pharmaceuticals | Matures May 2014 | | | | |
| Parsippany, NJ 07054 | | Interest rate Prime + 6.25% or | | | | |
| | | Floor rate of 10.25% | | $ 11,250 | 11,105 | 11,105 |
| | | Senior Debt | | | | |
| | | Matures May 2014 | | | | |
| | | Interest rate Prime + 8.65% or | | | | |
| | | Floor rate of 12.65% | | $ 15,000 | 13,749 | 13,749 |
| | | Preferred Stock Warrants | 1.56% | | 1,086 | 1,255 |
| Total Pacira Pharmaceuticals, Inc. | | | | | 25,940 | 26,109 |
| QuatRx Pharmaceuticals Company | Specialty | Senior Debt | | | | |
| 777 East Eisenhower Pkwy | Pharmaceuticals | Matures October 2011 | | | | |
| Suite 100 | | Interest rate Prime + 8.90% or | | | | |
| Ann Arbor, MI 48108 | | Floor rate of 12.15% | | $ 9,306 | 9,474 | 9,474 |
| | | Convertible Senior Debt | | | | |
| | | Interest rate of 8.0% | | | | |
| | | Matures March 2012 | | $ 1,888 | 1,888 | 2,467 |
| | | Preferred Stock Warrants | 0.22% | | 220 | — |
| | | Preferred Stock Warrants | 0.18% | | 307 | — |
| | | Preferred Stock | 0.20% | | 751 | — |
| Total Quatrx Pharmaceuticals Company | | | | | 12,640 | 11,941 |
| **Total Specialty Pharmaceuticals (15.42%)*** | | | | | **62,381** | **63,607** |
| Annie's, Inc. | Consumer & | | | | | |
| 564 Gateway Drive | Business Products | | | | | |
| Napa, CA 94558 | | Preferred Stock Warrants | 0.47% | | 321 | 75 |
| Total Annie's, Inc. | | | | | 321 | 75 |
| IPA Holdings, LLC (4) | Consumer & | Senior Debt | | | | |
| 2775 Premiere Parkway, Suite 100 | Business Products | Matures November 2012 | | | | |
| Deluth, GA 30097 | | Interest rate Prime + 6.75% or | | | | |
| | | Floor rate of 11% | | $ 8,250 | 8,505 | 8,160 |
| | | Senior Debt | | | | |
| | | Matures May 2013 | | | | |
| | | Interest rate Prime + 9.75% or | | | | |
| | | Floor rate of 14.0% | | $ 6,500 | 7,019 | 6,995 |
| | | Revolving Line of Credit | | | | |
| | | Matures November 2012 | | | | |
| | | Interest rate Prime + 6.25% or | | | | |
| | | Floor rate of 10.50% | | $ 856 | 761 | 761 |
| | | Preferred Stock Warrants | 2.00% | | 275 | — |
| | | Common Stock | 1.00% | | 500 | — |
| Total IPA Holding, LLC | | | | | 17,060 | 15,916 |
| Market Force Information, Inc. | Consumer & | | | | | |
| 1877 Broadway, Suite 200 | Business Products | Preferred Stock Warrants | 0.37% | | 24 | 60 |
| Boulder, CO 80302 | | Preferred Stock | 0.69% | | 500 | 439 |
| Total Market Force Information, Inc. | | | | | 524 | 499 |

| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Trading Machines, Inc.<br>One Atlantic Street, Suite 301<br>Stamford, CT 06901 | Consumer & Business Products | Senior Debt<br>Matures January 2014<br>Interest rate Prime + 10.25% or<br>Floor rate of 13.50% | | $ 9,812 | $ 8,644 | $ 4,000 |
| | | Preferred Stock Warrants | 3.00% | | 878 | — |
| | | Preferred Stock | 0.12% | | 50 | — |
| Total Trading Machines, Inc. | | | | | 9,572 | 4,000 |
| Velocity Technology Solutions, Inc.<br>750 Third Avenue, 10th Floor<br>New York, NY 10017 | Consumer & Business Products | Senior Debt<br>Matures February 2015<br>Interest rate LIBOR + 8% or<br>Floor rate of 11.00% | | $ 15,417 | 15,072 | 14,574 |
| | | Senior Debt<br>Matures February 2015<br>Interest rate LIBOR + 10% or<br>Floor rate of 13.00% | | $ 8,333 | 8,317 | 8,526 |
| Total Velocity Technology Solutions, Inc. | | | | | 23,389 | 23,100 |
| Wageworks, Inc.<br>1100 Park Place 4th Floor<br>San Mateo, CA 94403 | Consumer & Business Products | Preferred Stock Warrants | 1% | | 253 | 1,443 |
| | | Preferred Stock | 0% | | 250 | 283 |
| Total Wageworks, Inc. | | | | | 503 | 1,726 |
| **Total Consumer & Business Products (10.98%)*** | | | | | **51,369** | **45,316** |
| Enpirion, Inc.<br>53 Frontage Road, Suite 210<br>Perryville III Corporate Park<br>Hampton, NJ 08807 | Semiconductors | Preferred Stock Warrants | 0.21% | | 157 | 1 |
| Total Enpirion, Inc. | | | | | 157 | 1 |
| iWatt, Inc.<br>90 Albright Way<br>Los Gatos, CA 95032-1827 | Semiconductors | Preferred Stock Warrants | 0.24% | | 46 | 1 |
| | | Preferred Stock Warrants | 0.11% | | 51 | 33 |
| | | Preferred Stock Warrants | 0.13% | | 73 | 44 |
| | | Preferred Stock Warrants | 0.61% | | 458 | 391 |
| | | Preferred Stock | 1.05% | | 490 | 940 |
| Total iWatt, Inc. | | | | | 1,118 | 1,409 |
| NEXX Systems, Inc.<br>900 Middlesex Turnpike<br>Billerica, MA 01821-3929 | Semiconductors | Preferred Stock Warrants | 2.11% | | 297 | 1,113 |
| | | Preferred Stock | 0.46% | | 277 | 704 |
| Total NEXX Systems, Inc. | | | | | 574 | 1,817 |
| Quartics, Inc.<br>15241 Laguna Canyon Road<br>Suite 200<br>Irvine, CA 92618 | Semiconductors | Preferred Stock Warrants | 0.06% | | 53 | — |
| Total Quartics, Inc. | | | | | 53 | — |
| Solarflare Communications, Inc.<br>9501 Jeronino Rd. Suite 100<br>Irvine, CA 92618 | Semiconductors | Preferred Stock Warrants | 0.00% | | 83 | — |
| | | Common Stock | 0.00% | | 642 | — |
| Total Solarflare Communications, Inc. | | | | | 725 | — |
| **Total Semiconductors (0.78%)*** | | | | | **2,627** | **3,227** |

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| Portfolio Company | Industry | Type of Investment[1] | Percentage of Class Held on a Fully Diluted Basis[9] | Principal Amount | Cost[2] | Value[3] |
|---|---|---|---|---|---|---|
| Alexza Pharmaceuticals, Inc.[4] | Drug Delivery | Senior Debt | | | | |
| 2091 Stierlin Court | | Matures October 2013 | | | | |
| Mountain View, CA 94303 | | Interest rate Prime + 6.5% or | | | | |
| | | Floor rate of 10.75% | | $ 15,000 | $ 14,526 | $ 14,472 |
| | | Preferred Stock Warrants | 0.63% | | 645 | 193 |
| Total Alexza Pharmaceuticals, Inc. | | | | | 15,171 | 14,665 |
| Labopharm USA, Inc.[5] | Drug Delivery | Senior Debt | | | | |
| 480 Armand-Frappier Blvd. | | Matures December 2012 | | | | |
| Laval, Canada H7V 4B4 | | Interest rate 10.95% | | $ 20,000 | 19,872 | 19,872 |
| | | Common Stock Warrants | 1.10% | | 635 | 329 |
| Total Labopharm USA, Inc. | | | | | 20,507 | 20,201 |
| Transcept Pharmaceuticals, Inc. | Drug Delivery | Common Stock Warrants | 0.18% | | 36 | 60 |
| 1003 W. Cutting Blvd, Suite 110 | | Common Stock Warrants | 0.27% | | 51 | 16 |
| Point Richmond, CA 94804 | | Common Stock | 0.31% | | 500 | 308 |
| Total Transcept Pharmaceuticals, Inc. | | | | | 587 | 384 |
| **Total Drug Delivery (8.54%)*** | | | | | **36,265** | **35,250** |
| BARRX Medical, Inc. | Therapeutic | Senior Debt | | | | |
| 540 Oakmead Parkway | | Mature December 2011 | | | | |
| Sunnyvale, CA 94085 | | Interest rate 11.00% | | $ 2,901 | 3,350 | 3,350 |
| | | Preferred Stock Warrants | 0.15% | | 76 | 70 |
| | | Preferred Stock | 1.46% | | 1,500 | 1,890 |
| Total BARRX Medical, Inc. | | | | | 4,926 | 5,310 |
| EKOS Corporation | Therapeutic | Preferred Stock Warrants | 0.79% | | 174 | — |
| 22030 20th Ave. Southeast, Suite 101 | | Preferred Stock Warrants | 0.39% | | 153 | — |
| Bothell, WA 98021 | | | | | | |
| Total EKOS Corporation | | | | | 327 | — |
| Gelesis, Inc.[8] | Therapeutic | Senior Debt | | | | |
| 222 Berkley Street, Suite 1040 | | Matures May 2012 | | | | |
| Boston, MA 02116 | | Interest rate Prime + 7.5% or | | | | |
| | | Floor rate of 10.75% | | $ 2,771 | 2,800 | 45 |
| Total Gelesis, Inc. | | | | | 2,800 | 45 |
| Gynesonics, Inc. | Therapeutic | Senior Debt | | | | |
| 604 5th Avenue, Suite D | | Mature October 2013 | | | | |
| Redwood City, CA 94063 | | Interest rate Prime + 8.25% or | | | | |
| | | Floor rate of 11.50% | | $ 6,500 | 6,277 | 6,277 |
| | | Preferred Stock Warrants | 1.72% | | 228 | 221 |
| | | Preferred Stock | 1.24% | | 532 | 456 |
| Total Gynesonics, Inc. | | | | | 7,037 | 6,954 |
| Light Science Oncology, Inc. | Therapeutic | Preferred Stock Warrants | 0.15% | | 99 | 26 |
| 15405 SE 37th Street, Suite 100 | | | | | | |
| Bellevue, WA 98006 | | | | | | |
| Total Light Science Oncology, Inc. | | | | | 99 | 26 |
| Novasys Medical, Inc. | Therapeutic | Preferred Stock Warrants | 0.19% | | 71 | 1 |
| 39684 Eureka Drive | | Preferred Stock Warrants | 0.05% | | 54 | 7 |
| Newark, CA 94560 | | Preferred Stock | 1.83% | | 1,000 | 1,159 |
| Total Novasys Medical, Inc. | | | | | 1,125 | 1,167 |

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| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Pacific Child & Family Associates, LLC<br>216 N. Eighth Street<br>Santa Paula, CA 93060 | Therapeutic | Senior Debt<br>Matures January 2015<br>Interest rate LIBOR + 8.0% or<br>Floor rate of 10.50% | | $ 6,539 | $ 6,392 | $ 5,802 |
| | | Senior Debt<br>Matures January 2015<br>Interest rate LIBOR + 10.50% or<br>Floor rate of 13.0% | | $ 5,900 | 5,996 | 5,996 |
| Total Pacific Child & Family Associates, LLC | | | | | 12,388 | 11,798 |
| **Total Therapeutic (6.13%)*** | | | | | **28,702** | **25,300** |
| Cozi Group, Inc.<br>506 Second Avenue, Suite 710<br>Seattle, WA 98104 | Internet Consumer & Business Services | Preferred Stock Warrants | 0.85% | | 147 | — |
| | | Preferred Stock | 0.58% | | 177 | 292 |
| Total Cozi Group, Inc. | | | | | 324 | 292 |
| Invoke Solutions, Inc.<br>375 Totten Pond Road, Suite 400<br>Waltham, MA 02451 | Internet Consumer & Business Services | Preferred Stock Warrants | 1.48% | | 56 | 74 |
| | | Preferred Stock Warrants | 0.33% | | 26 | 18 |
| Total Invoke Solutions, Inc. | | | | | 82 | 92 |
| Prism Education Group, Inc.<br>233 Needham Street<br>Newton, MA 02464 | Internet Consumer & Business Services | Preferred Stock Warrants | 0.98% | | 43 | 50 |
| Total Prism Education Group, Inc. | | | | | 43 | 50 |
| RazorGator Interactive Group, Inc.(4)<br>11150 Santa Monica Blvd.<br>Suite 500<br>Los Angeles, CA 90025 | Internet Consumer & Business Services | Revolving Line of Credit<br>Matures October 2011<br>Interest rate Prime + 9.50% or<br>Floor rate of 14.00% | | $ 2,108 | 1,855 | 1,855 |
| | | Preferred Stock Warrants | 0.90% | | 13 | — |
| | | Preferred Stock Warrants | 0.11% | | 28 | — |
| | | Preferred Stock Warrants | 1.97% | | 1,183 | — |
| | | Preferred Stock | 1.20% | | 1,000 | — |
| Total RazorGator Interactive Group, Inc. | | | | | 4,079 | 1,855 |
| Reply! Inc.(4)<br>12667 Alcosta Blvd., Suite 200<br>San Ramon, CA 94583 | Internet Consumer & Business Services | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 6.5% or<br>Floor rate of 9.75% | | $ 5,000 | 4,646 | 4,646 |
| | | Preferred Stock Warrants | 1.10% | | 320 | 320 |
| Total Reply! Inc. | | | | | 4,966 | 4,966 |
| **Total Internet Consumer & Business Services (1.76%)** | | | | | **9,494** | **7,255** |
| Lilliputian Systems, Inc.<br>36 Jonspin Road<br>Wilmington, MA 01887 | Energy | Preferred Stock Warrants | 0.07% | | 106 | 3 |
| | | Common Stock Warrants | 0.05% | | 49 | — |
| Total Lilliputian Systems, Inc. | | | | | 155 | 3 |
| **Total Energy (0.00%)*** | | | | | **155** | **3** |

| Portfolio Company | Industry | Type of Investment(1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Box.net, Inc.<br>1895 El Camino Real<br>Palo Alto, CA 94306 | Information Services | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 1.50% or<br>Floor rate of 7.50% | | $ 213 | $ 270 | $ 270 |
| | | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 0.50% or<br>Floor rate of 6.50% | | $ 127 | 139 | 139 |
| | | Preferred Stock Warrants | 0.40% | | 73 | 184 |
| | | Preferred Stock Warrants | 0.29% | | 117 | 117 |
| | | Preferred Stock | 0.57% | | 500 | 500 |
| Total Box.net, Inc. | | | | | 1,099 | 1,210 |
| Buzznet, Inc.<br>6464 Sunset Blvd., Suite 650<br>Los Angeles, CA 90028 | Information Services | Preferred Stock Warrants | 0.01% | | 9 | — |
| | | Preferred Stock | 0.15% | | 250 | 37 |
| Total Buzznet, Inc. | | | | | 259 | 37 |
| XL Education Corp.<br>185 Madison Avenue, 5th Floor<br>New York, NY 10016 | Information Services | Common Stock | 0.01% | | 880 | 880 |
| Total XL Education Corp. | | | | | 880 | 880 |
| hi5 Networks, Inc.<br>55 Second St., Suite 300<br>San Francisco, CA 94105 | Information Services | Preferred Stock Warrants | 0.10% | | 213 | — |
| | | Preferred Stock | 0.71% | | 250 | 247 |
| Total hi5 Networks, Inc. | | | | | 463 | 247 |
| Jab Wireless, Inc.<br>5350 S. Roslyn St., Suite 306<br>Greenwood Village, CO 80111 | Information Services | Preferred Stock Warrants | 0.90% | | 265 | 122 |
| Total Jab Wireless, Inc. | | | | | 265 | 122 |
| Solutionary, Inc.<br>9420 Underwood Avenue<br>3rd Floor Omaha, NE 68114 | Information Services | Preferred Stock Warrants | 0.79% | | 94 | — |
| | | Preferred Stock Warrants | 0.02% | | 2 | — |
| | | Preferred Stock | 0.35% | | 250 | 50 |
| Total Solutionary, Inc. | | | | | 346 | 50 |
| Intelligent Beauty, Inc.<br>2301 Rosecrans Ave., Suite 4100<br>Manhattan Beach, CA 90245 | Information Services | Senior Debt<br>Matures March 2013<br>Interest rate Prime + 8.0% or<br>Floor rate of 11.25% | | $ 5,812 | 5,563 | 5,557 |
| | | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 8.0% or<br>Floor rate of 11.25% | | $ 2,000 | 1,942 | 1,942 |
| | | Preferred Stock Warrants | 0.21% | | 230 | 230 |
| Total Intelligent Beauty, Inc. | | | | | 7,735 | 7,729 |
| Good Technologies, Inc.<br>101 Redwood Shores Parkway<br>Suite 400<br>Redwood Shores, CA 94065 | Information Services | Common Stock | 0.17% | | 603 | 150 |
| Total Good Technologies, Inc. | | | | | 603 | 150 |

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| Portfolio Company | Industry | Type of Investment (1) | Percentage of Class Held on a Fully Diluted Basis (9) | Principal Amount | Cost (2) | Value (3) |
|---|---|---|---|---|---|---|
| Coveroo, Inc.<br>333 Bryant Street<br>San Francisco, CA 94107 | Information Services | Preferred Stock Warrants | 0.08% | | $ 7 | $ — |
| Total Coveroo, Inc. | | | | | 7 | — |
| Zeta Interactive Corporation<br>99 Park Ave, 23rd Floor<br>New York, NY 10016 | Information Services | Preferred Stock Warrants | 1.19% | | 172 | 57 |
| | | Preferred Stock | 0.96% | | 500 | 375 |
| Total Zeta Interactive Corporation | | | | | 672 | 432 |
| **Total Information Services (2.63%)** | | | | | **12,329** | **10,857** |
| Novadaq Technologies, Inc.(5)<br>2585 Skymark Ave., Suite 306<br>Mississauga, Ontario L4W 4L5 | Diagnostic | Common Stock | 0.66% | | 1,415 | 675 |
| Total Novadaq Technologies, Inc. | | | | | 1,415 | 675 |
| Optiscan Biomedical, Corp.<br>1105 Atlantic Ave., Suite 101<br>Alameda, CA 94501 | Diagnostic | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | | $ 10,750 | 10,392 | 10,392 |
| | | Preferred Stock Warrants | 3.68% | | 1,069 | 637 |
| | | Preferred Stock | 3.06% | | 3,656 | 3,207 |
| Total Optiscan Biomedical, Corp. | | | | | 15,117 | 14,236 |
| **Total Diagnostic (3.61%)*** | | | | | **16,532** | **14,911** |
| Kamada, LTD.(5)<br>Science Park, Kiryat Weizmann,<br>Ness Ziona, Israel, 76327 | Biotechnology Tools | Preferred Stock Warrants | 0.29% | | 159 | 164 |
| | | Common Stock | 0.95% | | 752 | 1,754 |
| Total Kamada, LTD. | | | | | 911 | 1,918 |
| Labcyte, Inc.<br>1190 Borregas Avenue<br>Sunnyvale, CA 94089 | Biotechnology Tools | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 8.6% or<br>Floor rate of 11.85% | | $ 3,885 | 3,761 | 3,821 |
| | | Common Stock Warrants | 0.70% | | 192 | — |
| Total Labcyte, Inc. | | | | | 3,953 | 3,821 |
| NuGEN Technologies, Inc.<br>821 Industrial Road, Unit A<br>San Carlos, CA 94070 | Biotechnology Tools | Preferred Stock Warrants | 1.05% | | 45 | 44 |
| | | Preferred Stock Warrants | 0.15% | | 33 | 1 |
| | | Preferred Stock | 0.97% | | 500 | 203 |
| Total NuGEN Technologies, Inc. | | | | | 578 | 248 |
| **Total Biotechnology Tools (1.45%)*** | | | | | **5,442** | **5,987** |
| Crux Biomedical, Inc.<br>3274 Alpine Road<br>Portola Valley, CA 94028 | Surgical Devices | Preferred Stock Warrants | 0.14% | | 37 | — |
| | | Preferred Stock | 0.28% | | 250 | — |
| Total Crux Biomedical, Inc. | | | | | 287 | — |
| Transmedics, Inc.(4)<br>200 Minuteman Road, Suite 302<br>Andover, MA 01810 | Surgical Devices | Senior Debt<br>Matures February 2014<br>Interest rate Prime + 9.70% or<br>Floor rate of 12.95% | | $ 8,375 | 8,913 | 8,913 |
| | | Preferred Stock Warrants | 1.30% | | 224 | 159 |
| | | Preferred Stock | 2.09% | | 1,100 | 1,100 |
| Total Transmedics, Inc. | | | | | 10,237 | 10,172 |
| **Total Surgical Devices (2.47%)*** | | | | | **10,524** | **10,172** |

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| Portfolio Company | Industry | Type of Investment(1) | Percentage of Class Held on a Fully Diluted Basis(9) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|---|
| Glam Media, Inc.<br>8000 Marina Blvd., Suite 130<br>Brisbane, CA 94005 | Media/Content/ Info | Preferred Stock Warrants | 0.24% | | $ 482 | $ 283 |
| Total Glam Media, Inc. | | | | | 482 | 283 |
| Waterfront Media, Inc. (Everyday Health)<br>45 Main Street, Suite 800<br>Brooklyn, NY 11201 | | Preferred Stock Warrants | 0.31% | | 60 | 630 |
| | | Preferred Stock | 0.41% | | 1,000 | 1,310 |
| Total Waterfront Media, Inc. (Everyday Health) | | | | | 1,060 | 1,940 |
| **Total Media/Content/Info (0.54%)*** | | | | | **1,542** | **2,223** |
| BrightSource Energy, Inc.<br>1999 Harrison Street Suite 500<br>Oakland, CA 94612 | Clean Tech | Senior Debt<br>Matures December 2011<br>Interest rate Prime + 7.75% or<br>Floor rate of 11.0% | | $ 3,750 | 3,265 | 3,265 |
| | | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 9.55% or<br>Floor rate of 12.80% | | $ 4,583 | 4,156 | 4,156 |
| | | Preferred Stock Warrants | 0.13% | | 675 | 674 |
| Total BrightSource Energy, Inc. | | | | | 8,096 | 8,095 |
| Calera, Inc.<br>14600 Winchester Boulevard<br>Los Gatos, CA 95032 | Clean Tech | Senior Debt<br>Matures July 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | | $ 3,621 | 3,109 | 3,109 |
| | | Preferred Stock Warrants | 0.19% | | 513 | 527 |
| Total Calera, Inc. | | | | | 3,622 | 3,636 |
| GreatPoint Energy, Inc.<br>222 Third Street Suite 2163<br>Cambridge, MA 02142 | Clean Tech | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 8.2% or<br>Floor rate of 11.45% | | $ 5,000 | 4,322 | 4,322 |
| | | Preferred Stock Warrants | 0.34% | | 548 | 627 |
| Total GreatPoint Energy, Inc. | | | | | 4,870 | 4,949 |
| Propel Biofuels, Inc.<br>2317 Broadway Street<br>Redwood City, CA 94063 | Clean Tech | Senior Debt<br>Matures September 2013<br>Interest rate 11.0% | | $ 2,118 | 1,880 | 1,850 |
| | | Preferred Stock Warrants | 1.60% | | 211 | 192 |
| Total Propel Biofuels, Inc. | | | | | 2,091 | 2,042 |
| Solexel, Inc.<br>1530 McCarthy Blvd.<br>Milpitas, CA 95035 | Clean Tech | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 8.25% or<br>Floor rate of 11.50% | | $ 1,109 | 1,010 | 1,010 |
| | | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 7.25% or<br>Floor rate of 10.50% | | $ 6,000 | 5,519 | 5,519 |
| | | Preferred Stock Warrants | 0.09% | | 335 | 292 |
| Total Solexel, Inc. | | | | | 6,864 | 6,821 |
| Trilliant, Inc.<br>1100 Island Drive<br>Redwood City, CA 94065 | Clean Tech | Preferred Stock Warrants | 0.07% | | 88 | 99 |
| | | Preferred Stock Warrants | 0.06% | | 72 | 80 |
| Total Trilliant, Inc. | | | | | 160 | 179 |
| **Total Clean Tech (6.24%)*** | | | | | **25,703** | **25,722** |
| **Total Investments** | | | | | **480,405** | **472,032** |

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $22,458, $32,232 and $9,774, respectively. The tax cost of investments is $481,432.

(3) Except for warrants in ten publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2010 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

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

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

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

(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 25% but no more than 50% of the voting securities of the company.

(8) Debt is on non-accrual status at December 31, 2010, and is therefore considered non-income producing.

(9) 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.

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## SENIOR SECURITIES

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

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

(1) Total amount of each class of senior securities outstanding at the end of the period presented, rounded to nearest thousand.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.

(3) Not applicable because senior securities are not registered for public trading.

(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.

(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.

(6) The Company's Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

## SALES OF COMMON STOCK BELOW NET ASSET VALUE

On June 9, 2010, our common stockholders voted to allow us to issue common stock at a discount from our net asset value (NAV) per share for a period of one year ending on June 9, 2011. In connection with the receipt of such stockholder approval, we agreed to limit the number of shares that we issue at a price below net asset value pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%.

In order to sell shares pursuant to this authorization:

- a majority of our independent directors who have no financial interest in the sale must have approved the sale; and
- a majority of such directors, who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, must have determined in good faith, and as of a time immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of those shares, less any underwriting commission or discount.

Any offering of common stock below NAV per share will be designed to raise capital for investment in accordance with our investment objectives and business strategies.

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors would consider a variety of factors including:

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of our common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the proposed offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares in the offering;
- The anticipated rate of return on and quality, type and availability of investments to be funded with the proceeds from the offering, if any; and
- The leverage available to us, both before and after any offering, and the terms thereof.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different sets of investors:

- existing stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders by purchasing shares in the offering.

**Impact on Existing Stockholders who do not Participate in the Offering**

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in different hypothetical offerings of different sizes and levels of discount from NAV per share. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 3,000,000 common shares outstanding, $40,000,000 in total assets and $10,000,000 in total liabilities. The current net asset value and NAV are thus $30,000,000 and $10.00, respectively. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 300,000 shares (10% of the outstanding shares) with proceeds to the Company XYZ at $9.00 per share after offering expenses and commissions, and (2) an offering of 600,000 shares (20% of the outstanding shares) with proceeds to the Company at $0.001 per share after offering expenses and commissions (a 100% discount from net asset value).

| | | Example 1 10% Offering at 10% Discount | | Example 2 20% Offering at 100% Discount | |
|---|---|---|---|---|---|
| | Prior to Sale Below NAV | Following Sale | % Change | Following Sale | % Change |
| ***Offering Price*** | | | | | |
| Price per Share to Public(1) | — | $ 9.47 | — | $ 0.001 | — |
| Net Proceeds per Share to Issuer | — | $ 9.00 | — | $ 0.001 | — |
| ***Decrease to NAV*** | | | | | |
| Total Shares Outstanding | 3,000,000 | 3,300,000 | 10.00% | 3,600,000 | 20.00% |
| NAV per Share | $ 10.00 | $ 9.91 | (0.90)% | $ 8.33 | (16.67)% |
| ***Share Dilution to Stockholder*** | | | | | |
| Shares Held by Stockholder A | 30,000 | 30,000 | — | 30,000 | — |
| Percentage of Shares Held by Stockholder A | 1.00% | 0.91% | (9.09)% | 0.83% | (16.67)% |
| **Total Asset Values** | | | | | |
| Total NAV Held by Stockholder A | $ 300,000 | $ 297,273 | (0.90)% | $ 250,005 | (16.67)% |
| Total Investment by Stockholder A (Assumed to Be $10.00 per Share) | $ 300,000 | $ 300,000 | — | $ 300,000 | — |
| Total Dilution to Stockholder A (Change in Total NAV Held By Stockholder) | | $ (2,727) | — | $ (49,995) | — |
| **Per Share Amounts** | | | | | |
| NAV per Share Held by Stockholder A | — | $ 9.91 | — | $ 8.33 | — |
| Investment per Share Held by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale) | $ 10.00 | $ 10.00 | — | $ 10.00 | — |
| Dilution per Share Held by Stockholder A | — | $ (0.09) | — | $ (1.67) | — |
| Percentage Dilution per Share Held by Stockholder A | — | — | (0.90)% | — | (16.67)% |

(1) Assumes 5% in selling compensation and expenses paid by Company XYZ.

**Impact on Existing Stockholders who do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than their proportionate percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares purchased by such stockholder increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and the level of discount to NAV increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 3,000 shares, which is 0.5% of an offering of 600,000 shares rather than its 1.0% proportionate share) and (2) 150% of such percentage (i.e., 9,000 shares, which is 1.5% of an offering of 600,000 shares rather than its 1.0% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

| | | 50% Participation | | 150% Participation | |
|---|---|---|---|---|---|
| | Prior to Sale Below NAV | Following Sale | % Change | Following Sale | % Change |
| ***Offering Price*** | | | | | |
| Price per Share to Public[(1)] | — | $ 8.42 | — | $ 8.42 | — |
| Net Proceeds per Share to Issuer | — | $ 8.00 | — | $ 8.00 | — |
| ***Increase in Shares and Decrease to NAV*** | | | | | |
| Total Shares Outstanding | 3,000,000 | 3,600,000 | 20.00% | 3,600,000 | 20.00% |
| NAV per Share | $ 10.00 | $ 9.67 | (3.33)% | $ 9.67 | (3.33)% |
| ***Dilution/Accretion to Participating Stockholder A*** | | | | | |
| **Share Dilution/Accretion** | | | | | |
| Shares Held by Stockholder A | 30,000 | 33,000 | 10.00% | 39,000 | 30.00% |
| Percentage Outstanding Held by Stockholder A | 1.00% | 0.92% | (8.33)% | 1.08% | 8.33% |
| **NAV Dilution/Accretion** | | | | | |
| Total NAV Held by Stockholder A | $ 300,000 | $ 319,110 | 6.33% | $ 377,130 | 25.67% |
| Total Investment by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale) | — | $ 325,260 | — | $ 375,780 | — |
| Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment) | — | $ (6,150) | — | $ 1,350 | — |
| **NAV Dilution/Accretion per Share** | | | | | |
| NAV per Share Held by Stockholder A | — | $ 9.67 | — | $ 9.67 | — |
| Investment per Share Held by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale) | $ 10.00 | $ 9.86 | (1.44)% | $ 9.64 | (3.65)% |
| NAV Dilution/Accretion per Share Experienced by Stockholder A (NAV per Share Less Investment per Share) | — | $ (0.19) | — | $ 0.03 | — |
| Percentage NAV Dilution/Accretion Experienced by Stockholder A (NAV Dilution/Accretion per Share Divided by Investment per Share) | — | — | (1.93)% | — | 0.31% |

(1) Assumes 5% in selling compensation and expenses paid by Company XYZ.

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**Impact on New Investors**

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share (due to selling compensation and expenses paid by us) will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 10% and 100% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (1.00%) of the shares in the offering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus supplement pursuant to which any discounted offering is made will include a chart for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

| | | Example 1 10% Offering at 10% Discount | | Example 2 20% Offering at 100% Discount | |
|---|---|---|---|---|---|
| | Prior to Sale Below NAV | Following Sale | % Change | Following Sale | % Change |
| ***Offering Price*** | | | | | |
| Price per Share to Public[(1)] | — | $ 9.47 | — | $ 0.001 | — |
| Net Proceeds per Share to Issuer | — | $ 9.00 | — | $ 0.001 | — |
| ***Increase in Shares and Decrease to NAV*** | | | | | |
| Total Shares Outstanding | 3,000,000 | 3,300,000 | 10.00% | 3,600,000 | 20.00% |
| NAV per Share | $ 10.00 | $ 9.91 | (0.90)% | $ 8.33 | (16.67)% |
| ***Dilution/Accretion to New Investor A*** | | | | | |
| **Share Dilution** | | | | | |
| Shares Held by Investor A | — | 3,000 | — | 6,000 | — |
| Percentage Outstanding Held by Investor A | 0.00% | 0.09% | — | 0.17% | — |
| **NAV Dilution** | | | | | |
| Total NAV Held by Investor A | — | $ 29,730 | — | $ 50,001 | — |
| Total Investment by Investor A (At Price to Public) | — | $ 28,410 | — | $ 6 | — |
| Total Dilution/Accretion to Investor A (Total NAV Less Total Investment) | — | $ 1,320 | — | $ 49,995 | — |
| **NAV Dilution per Share** | | | | | |
| NAV per Share Held by Investor A | | $ 9.91 | — | $ 8.33 | — |
| Investment per Share Held by Investor A | — | $ 9.47 | — | $ 0.001 | — |
| NAV Dilution/Accretion per Share Experienced by Investor A (NAV per Share Less Investment per Share) | — | $ 0.44 | — | $ 8.33 | — |
| Percentage NAV Dilution/Accretion Experienced by Investor A (NAV Dilution/Accretion per Share Divided by Investment per Share) | — | — | 4.65% | — | 99.99% |

(1) Assumes 5% in selling compensation and expenses paid by Company XYZ.

## MANAGEMENT

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

### Directors, Executive Officers and Key Employees

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

| Name | Age | Positions |
|---|---|---|
| ***Interested Director:*** | | |
| Manuel A. Henriquez(1) | 47 | Chairman of the Board of Directors, President and Chief Executive Officer |
| ***Independent Directors:*** | | |
| Robert P. Badavas(2)(3)(4)(5) | 58 | Director |
| Joseph W. Chow(2)(3)(4)(5) | 58 | Director |
| Allyn C. Woodward, Jr.(2)(3)(4)(5) | 70 | Director |
| ***Executive Officers:*** | | |
| Samir Bhaumik | 47 | Senior Managing Director and Technology Group Head |
| Scott Bluestein | 32 | Chief Credit Officer |
| Scott Harvey | 56 | Secretary and Chief Legal Officer |
| David M. Lund | 57 | Vice President of Finance and Chief Financial Officer |
| Parag I. Shah | 39 | Senior Managing Director and Life Sciences Group Head |

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

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

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

**Interested Director**

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

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

**Independent Directors**

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

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

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

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

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

**Allyn C. Woodward, Jr.** has served as a director since February 2004. Mr. Woodward was Vice Chairman of Adams Harkness Financial Group (AHFG-formerly Adams, Harkness & Hill) from April 2001 until January 2006 when AHFG was sold to Canaccord, Inc., an independent investment dealer. He previously served as President of AHFG from 1995 to 2001. AHFG was an independent institutional research, brokerage and investment banking firm headquartered in Boston, MA. Prior to joining AHFG, Mr. Woodward worked for Silicon Valley Bank from April 1990 to April 1995, initially as Executive Vice President and Co-founder of the Wellesley, MA office and more recently as Senior Executive Vice President and Chief Operating Officer of the parent bank in California. Silicon Valley Bank is a commercial bank, headquartered in Santa Clara, CA whose principal lending focus is directed toward the technology, healthcare and venture capital industries. Prior to joining Silicon Valley Bank, Mr. Woodward was Senior Vice President and Group Manager of the Technology group at Bank of New England, Boston, MA where he was employed from 1963-1990. Mr. Woodward is currently the Chairman of the Board of Directors and a member of the Compensation Committee of Lecroy Corporation (NASDAQ: LCRY), a leading provider of oscilloscopes, protocol analyzers and related test and measurement solutions. He is also a former Director of Viewlogic and Cayenne Software, Inc. Mr. Woodward serves on the boards of three private companies and is on the boards of advisors of five venture capital funds. Mr. Woodward holds a Masters Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing organization, and is a member of the National Association of Corporate Directors. Mr. Woodward is on the Board of Overseers and a member of the Finance Committee of Newton Wellesley Hospital, a 250 bed hospital located in Newton, MA. Mr. Woodward is on the Board of Overseers and the Investment Committee and the Finance Committee of Babson College in Babson Park, MA. Mr. Woodward graduated from Babson College with a degree in finance and accounting. He also graduated from the Stonier Graduate School of Banking at Rutgers University.

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

**Non-director Executive Officers**

**Samir Bhaumik** joined our Company in November 2004 as a Managing Director and was promoted to Senior Managing Director in June 2006. In March 2008, Mr. Bhaumik was promoted by our Board to the position of Technology Group Head. 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.

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

**Scott Harvey** is a co-founder of our Company and has been our Chief Legal Officer and Secretary since December 2003. Mr. Harvey has been our Chief Compliance Officer since February 2005. Mr. Harvey has over 24 years of legal and business experience with leveraged finance and financing public and private technology-related companies. Since July 2002, and prior to co-founding the Company, Mr. Harvey was in a diversified private law practice. Previously, Mr. Harvey was Deputy General Counsel of Comdisco, Inc., a leading technology and 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 our Company in July 2005 as Vice President of Finance and Corporate Controller, and was promoted to our Chief Financial Officer in October 2006, and is our principle financial and accounting officer. He has over 27 years of experience in finance and accounting serving companies in the technology sector. Prior to joining Hercules, Mr. Lund served as the Corporate Controller of Rainmaker, Inc., from January 2005 to July 2005; as the Corporate Controller for Centrillium Communications from January 2003 to February 2005; as the Chief Financial Officer and Vice President of Finance for APT Technologies from April 2002 to January 2003; as the Chief Financial Officer and Vice President of Scion Photonics from February 2001 to March 2002. 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.

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

## Board of Directors

The number of directors is currently fixed at four directors.

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

## Compensation of Directors

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

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

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

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

(2) As an employee director, Mr. Henriquez does not receive any compensation for his service as a director. The compensation Mr. Henriquez receives as Chief Executive Officer of the Company is disclosed in the Summary Compensation Table as set forth herein.
(3) Represents dividends paid on unvested restricted stock awards during 2010.

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

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

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

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

**Stock Ownership Guidelines**

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

## CORPORATE GOVERNANCE

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

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

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

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

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

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

### Board Leadership Structure

***Chairman and Chief Executive Officer***

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

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

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

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

***Lead Independent Director***

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

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

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

**Board Oversight of Risk**

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

The Board's Audit Committee has oversight responsibility not only for financial reporting with respect to the Company's major financial exposures and the steps management has taken to monitor and control such exposures, but also for the effectiveness of management's enterprise risk management process that monitors and manages key business risks facing the Company. In addition to the Audit Committee, the other committees of the Board consider the risks within their areas of responsibility. For example, the Compensation Committee considers the risks that may be implicated by our executive compensation program.

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

**Director Independence**

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

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

**Committees of the Board**

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

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

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

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

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

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

- evaluating the appointment, compensation and retention of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and its subsidiaries, including resolution of disagreements between management and the independent auditor regarding financial reporting;
- pre-approving any independent auditor's engagement to render audit and/or permissible non-audit services (including the fees charged and proposed to be charged by the independent auditors).
- receiving formal written statements, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company;
- at least annually, obtaining and reviewing a report from the independent auditor detailing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the independent auditor's internal quality control review, peer review; or (iii) any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm;
- obtaining from the independent auditors annually a formal written statement of the fees billed in the last fiscal year for each of the designated categories of services rendered by the independent auditors:
- monitoring the rotation of the lead (or coordinating) audit partner (or other employees of the independent auditor if required by SEC rules and regulations) having primary responsibility for the audit and the concurring (or reviewing) audit partner;
- considering the effect on the Company of:
  - any changes in accounting principles or practices proposed by management or the independent auditors;
  - any changes in service providers, such as the accountants, that could impact the Company's internal control over financial reporting; and
  - any changes in schedules (such as fiscal or tax year-end changes) or structures or transactions that required special accounting activities, services or resources
- evaluating the efficiency and appropriateness of the services provided by the independent auditors, including any significant difficulties with the audit or any restrictions on the scope of their activities or access to required records, data and information;
- interacting with the independent auditors, including reviewing and, where necessary, resolving any problems or difficulties the independent auditors may have encountered in connection with the annual audit or otherwise, any management letters provided to the Committee and the Company's responses;
- reviewing with the independent auditors the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Company;
- reviewing with independent auditor the overall scope and plans for audits;

- meeting with the Company's independent auditors at least four times during each fiscal year, including private meetings, and review written materials prepared by the independent auditors, as appropriate;
- reviewing and discussing with management and independent auditor the Company's system of internal controls (including any significant deficiencies in the design or operation of those controls which could adversely affect the Company's ability to record, process, summarize and report financial data), its financial and critical accounting practices, and policies relating to risk assessment and management;
- receiving and reviewing reports of the independent auditor discussing: (i) all critical accounting policies and practices to be used in the firm's audit of the Company's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;
- discussing with management and the independent auditor any changes in the Company's critical accounting policies and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives;
- reviewing and discussing with management and independent auditor the Company's annual and quarterly financial statements;
- reviewing the Company's earnings press releases, as well as the nature of financial information provided to analysts and rating agencies;
- reviewing material pending legal proceedings involving the Company and other contingent liabilities;
- periodically, meeting separately with management (or other personnel responsible for the internal audit function) and with independent auditors to discuss results of examinations of the Company's internal controls and procedures;
- discussing with the independent auditors the matters required to be communicated to the Audit Committee in accordance with Statement on Auditing Standards No. 61;
- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees, consultants or contractors of concerns regarding questionable accounting or accounting matters; and
- reviewing with the independent auditor any significant audit problems or difficulties and management's response.

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

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

- determining the fair value of the Company's portfolio debt and equity securities and other assets in accordance with the 1940 Act and the valuation policies and procedures adopted by the Board, as amended from time to time, in order to recommend the portfolio valuation to the full Board for approval; and

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

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

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

- assisting the Board in developing and evaluating potential candidates for executive positions (including the Chief Executive Officer) and overseeing the development of executive succession plans;
- annually, reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer and other executive officer's total compensation, evaluating the Chief Executive Officer's and other executive officers' performance to ensure that it is designed to achieve the objectives of rewarding the Company's executive officers appropriately for their contributions to corporate growth and profitability and, together with the Company's Chief Executive Officer, evaluating and approving the compensation of the Company's other executive officers;
- annually, determining and approving the compensation paid to the Company's Chief Executive Officer;
- annually, reviewing the corporation's compensation practices and the relationship among risk, risk management and compensation in light of the corporation's objectives, including its safety and soundness and the avoidance of practices that would encourage excessive risk;
- periodically, reviewing the Company's incentive compensation plans and perquisites, if any, to ensure such plans are consistent with the Company's goals and objectives and appropriately aligning executive officers' interests with those of the Company's stockholders, make recommendations to the Board regarding the adoption of new employee incentive compensation plans and equity-based plans, and administer the Company's existing incentive compensation plans and equity-based plans, including reviewing and approving stock option and restricted stock grants;
- periodically, reviewing diversity programs;
- periodically, evaluating the compensation of directors, including compensation for service on Board Committees, and making recommendations regarding adjustments to such compensation;
- producing a Committee report on executive compensation for inclusion in the Company's annual report on Form 10-K or proxy statement for the annual meeting of stockholders in accordance with Item 402 of Regulation S-K;
- annually reviewing and discussing with Company management the executive compensation disclosure to be included in the Company's annual report on Form 10-K or the Company's proxy statement for the annual meeting of stockholders, including the Compensation Discussion and Analysis ("CD&A")

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

- periodically, reviewing and assessing the adequacy of the Compensation Committee charter and submitting any changes to the Board for approval;
- reviewing such other matters as the Board or the Committee shall deem appropriate; and
- determining funding necessary for ordinary administrative expenses that are necessary or appropriate in carrying out the committee's duties.

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

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

- identifying individuals qualified to become Board members, consistent with criteria approved by the Board, receiving nominations for such qualified individuals, selecting, or recommending that the Board select, the director nominees for the next annual meeting of stockholders, taking into account each candidate's ability, judgment and experience and the overall diversity and composition of the Board;
- recommending to the Board candidates for election to the Board and evaluate the Board in accordance with criteria set forth below or determined as provided below;
- monitoring Board composition and recommend candidates as necessary to ensure that the number of independent directors serving on the Board satisfies the Nasdaq Global Select Market and SEC requirements;
- developing and periodically evaluating initial orientation guidelines and continuing education guidelines for each member of the Board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of the Board;
- establishing a policy under which stockholders of the Company may recommend a candidate to the Nominating and Corporate Governance Committee for consideration for nomination as a director;
- recommending to the Board qualified individuals to serve as committee members on the various Board committees;
- articulating to each director what is expected of their tenure on the Board, including directors' basic duties and responsibilities with respect to attendance at Board meetings and advance review of meeting materials;
- developing and periodically evaluating orientation guidelines and continuing education guidelines for each member of the Board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of the Board;
- reviewing the Company's practices and policies with respect to directors, including the size of the Board, the ratio of employee directors to non-employee directors, the meeting frequency of the Board and the structure of Board meetings and make recommendations to the Board with respect thereto;
- overseeing the maintenance and presentation to the Board of management's plans for succession to senior management positions in the Company;

- monitoring and making recommendations to the Board on matters of Company policies and practices relating to corporate governance;
- in concert with the Board, reviewing the Company's policies with respect to significant issues of corporate public responsibility, including contributions;
- considering and reporting to the Board any questions of possible conflicts of interest of Board members; and
- reviewing stockholder proposals regarding corporate governance and making recommendations to the Board.

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

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

- the appropriate size and the diversity of the Company's Board;
- whether or not the nominee is an "interested person" of the Company as defined in Section 2(a)(19) of the 1940 Act;
- the needs of the Company with respect to the particular talents and experience of its directors;
- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;
- experience with accounting rules and practices;
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and
- all applicable laws, rules, regulations, and listing standards.

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

## Communication with the Board

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

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

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

## Code of Ethics

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

## Compensation Committee Interlocks and Insider Participation

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

## Executive Compensation

## Compensation Discussion and Analysis

***Overview of the Compensation Program***

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

- Chairman and Chief Executive Officer, Manuel A. Henriquez;

- Chief Financial Officer, David M. Lund;
- Secretary and Chief Legal Officer, Scott Harvey;
- Senior Managing Director and Technology Group Head, Samir Bhaumik; and
- Senior Managing Director and Life Science Group Head, Parag I. Shah.

***Executive Summary***

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

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

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

In 2010, we delivered the following portfolio highlights:

- achieved a record year for new commitments of approximately $523.0 million, up 189% for 2009;
- funded approximately $322.0 million in investments, up 237% compared with 2009;
- grew total investment assets 26.0% year over year to approximately $472.0 million as of December 31, 2010, compared to $375.0 million as of December 31, 2009; and
- improved the credit quality of our total portfolio. On a scale of 1-5, 1 being the highest credit quality, we finished 2010 with an average credit rating of 2.21 as compared to 2.71 at the end of 2009.

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

***Compensation Philosophy***

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

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

- aligning executive compensation packages with the Company's performance; and
- ensuring that our compensation program complies with the requirements of the 1940 Act.

We have designed compensation programs based on the following:

- *Achievement of Corporate Objectives and Executive Performance Factors*—We believe that the best way to align compensation with the interests of our stockholders is to link executive compensation with individual performance and contribution along with the achievements of certain corporate objectives. The Compensation Committee determines executive compensation consistent with the achievement of certain corporate objectives and executive performance factors that have been established to achieve short-term and long-term objectives of the Company.
- *Discretionary Annual Bonus Pool*—Over the course of the year, the Compensation Committee, together with input from our Chief Executive Officer, develops a range of amounts likely to be available for the discretionary annual cash bonus pool. The range for this bonus pool is dependent upon the Company's current financial outlook and executive performance contributing to achieving our corporate objectives, does not utilize specified targets and is subject to the sole discretion of the Compensation Committee. This range is further refined during our third and fourth fiscal quarters into a specified pool to be used for discretionary annual cash bonuses for our NEOs. If executive performance exceeds expectation and performance goals established during the year, compensation levels for the NEOs may exceed the specified pool amount at the discretion of our Compensation Committee. If executive performance falls below expectations, compensation levels may fall below the specified pool amount.
- *Competitiveness and Market Alignment*—Our compensation and benefits programs are designed to be competitive with those provided by companies with whom we compete for investment professionals and to be sufficient to attract and retain the best talent for top performers within the industries in which we compete. We compete for talent with venture capital funds, private equity firms, mezzanine lenders, hedge funds and other specialty finance companies including certain specialized commercial banks. Thus, we believe that our employee compensation benefit plans should be designed to be competitive in the businesses in which we compete sufficient to attract and retain talent. Our benefit programs, which include general health and welfare benefits, consisting of life, long-term and short-term disability, health, dental, vision insurance benefits and the opportunity to participate in our defined contribution 401(k) plan, are designed to provide competitive benefits and are not based on performance. As part of its annual review process, the Compensation Committee reviews the competitiveness of the Company's current compensation levels of its NEOs relative to that of our comparative group companies identified herein with a third-party compensation consultant.
- *Alignment with Requirements of the 1940 Act*—Our compensation program must align with the requirements of the 1940 Act, which imposes certain limitations on the structure of a BDC's compensation program. For example, the 1940 Act prohibits a BDC from maintaining an incentive stock option award plan and a profit sharing arrangement simultaneously. As a result, if a BDC has an incentive stock option award plan, such as we do, it is prohibited from using specific performance measurements commonly utilized by non-BDC companies as a form of compensation or a profit sharing arrangement, such as a carried interest formula, a common form of compensation in the private equity industry. These limitations and other similar restrictions imposed by the 1940 Act limit the compensation arrangements that we can utilize in order to attract and retain our NEOs.

***Components of Total Compensation***

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

- annual base salary;

- annual cash bonus based on corporate objectives and executive performance factors; and
- long-term equity incentive and retention awards in the form of stock option and/or restricted stock awards.

***Annual Base Salary***

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

***Annual Cash Bonus***

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

***Long-Term Equity Incentive and Retention Awards***

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

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

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

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

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

***Benefits and Perquisites***

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

***Tax and Accounting Implications***

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

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

**Establishing Compensation Levels**

***Role of the Compensation Committee***

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

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

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

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

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

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

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

***Role of Management***

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

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

***Role of the Compensation Consultant***

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

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

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

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

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

***Company Compensation Policies***

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

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

***Use of Comparative Compensation Data***

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

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

***Internal Pay Equity Analysis***

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

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

***Benchmarking***

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

***Assessment of Corporate Performance***

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the U.S. federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints.

At the same time, the venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today's economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 as compared to the previous two years.

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

- total investment income;

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

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

| | Fiscal Year 2010 (in thousands) | Fiscal Year 2009 (in thousands) | Change % |
|---|---|---|---|
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| Total Assets | $ 591.2 | $ 509.0 | 16.1% |
| Total Net Assets | $ 412.5 | $ 366.5 | 12.6% |

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

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

- recorded DNOI of approximately $32.1 million, or $0.89 per share on 36.2 million basic weighted shares;
- finished 2010 in a strong liquidity position with approximately $232.0 million in available liquidity, including $107.0 million in cash, $55.0 million in SBA commitments, and $70.0 million in credit facilities;
- entered into a $20.0 million credit facility with Union Bank;
- obtained a second license to operate a Small Business Investment Company, allowing access to an additional $75.0 million of capital;
- repurchased approximately 402,833 shares of common stock at an accretive price to book value 3.7 million at the time of repurchase;
- completed an accretive capital raise resulting in gross proceeds of approximately $71.9 million; and
- distributed $0.80 per share of dividends to stockholders, 100% from earnings and profits. Total return to stockholders during 2010 was approximately 7.70%.

**Stock Ownership Guidelines**

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

**Determination of 2010 Annual Base Salaries of Our NEOs**

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

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

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

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

| | Fiscal Year 2010 Base Salary(1) | Fiscal Year 2009 Base Salary |
|---|---|---|
| Manuel A. Henriquez | $ 700,000 | $ 700,000 |
| David M. Lund | $ 250,000 | $ 250,000 |
| Scott Harvey | $ 210,000 | $ 210,000 |
| Samir Bhaumik | $ 270,000 | $ 270,000 |
| Parag I. Shah | $ 315,000 | $ 315,000 |

(1) Effective April 1, 2011, the base salaries for our Chief Executive Officer and the NEOs were increased by 5% and 7%, respectively.

**Determination of 2010 Annual Cash Bonus for Our NEOs**

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

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

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

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

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

| | 2010 Annual Cash Bonus |
|---|---|
| Manuel A. Henriquez | $ 925,000 |
| David M. Lund | — |
| Scott Harvey | $ 50,000 |
| Samir Bhaumik | $ 125,000 |
| Parag I. Shah | $ 210,000 |

**Long-term Equity Retention and Incentive Awards**

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

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

The Compensation Committee reviewed the performance of our NEOs following the end of our 2009 fiscal year relative to the long-term equity incentive and retention awards program the Compensation Committee administers. As a result of these deliberations, in March 2010, the Compensation Committee awarded the following long-term equity incentive and retention awards, in the form of restricted stock to our NEOs related to their 2009 year's performance as set forth in the table below. The value of the restricted stock was determined to be the Company's closing price on March 16, 2010 or March 24, 2010, the date of the grant. Each restricted stock award vests as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. No stock options were awarded to our NEOs for the 2009 fiscal year.

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

The Compensation Committee reviewed the performance of our NEOs following the end of our 2010 fiscal year relative to the long-term equity incentive and retention awards program the Compensation Committee administers. As a result of these deliberations, the Compensation Committee awarded the following long-term equity incentive and retention awards, in the form of restricted stock to our NEOs related to their 2010 year's performance as set forth in the table below. The value of the restricted stock for Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah was determined to be the Company's closing price on March 30, 2011, the date of their grants. Each restricted stock award vests 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. No stock options were awarded to our NEOs for the 2010 fiscal year.

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

***Potential Payments Upon Termination or Change of Control***

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

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

**Risk Assessment of the Compensation Programs**

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

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

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

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

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

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## Executive Compensation Tables

### Summary Compensation Table

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

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

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

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

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

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

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

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**Grants of Plan Based Awards**

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

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

(1) Restricted stock awards vest 25% one year after the date of grant and ratably over the succeeding 36 months. When payable, dividends are paid on a current basis on the unvested shares.
(2) The amounts reflect the aggregate grant date fair value of restricted stock awards made to our NEOs during 2010 computed in accordance with FASB ASC Topic 718.

**Outstanding Equity Awards at Fiscal Year End**

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

| | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|
| Name and Principal Position | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable(1) | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested(5) |
| Manuel A. Henriquez | 125,000 | — | $ 15.00 | 06/23/11 | — | — |
| *Chairman and Chief Executive Officer* | 605,000 | — | $ 13.00 | 06/17/12 | — | — |
| | 97,400 | — | $ 12.14 | 06/16/13 | — | — |
| | 450,000 | — | $ 14.02 | 01/25/14 | — | — |
| | 236,787 | 13,929(2) | $ 12.20 | 02/25/15 | — | — |
| | 20,834 | 104,167(4) | $ 4.21 | 03/17/16 | — | — |
| | — | — | — | — | 28,125 | $ 291,375 |
| | — | — | — | — | 56,251 | $ 582,760 |
| | — | — | — | — | 225,000 | $ 2,331,000 |
| David M. Lund | 40,000 | — | $ 13.00 | 07/15/12 | — | — |
| *Chief Financial Officer* | 45,000 | — | $ 12.14 | 06/16/13 | — | — |
| | 35,000 | — | $ 14.02 | 01/25/14 | — | — |
| | 33,827 | 1,990(2) | $ 12.20 | 02/25/15 | — | — |
| | 37,917 | 27,083(4) | $ 4.21 | 03/17/16 | — | — |
| | — | — | — | — | 8,000 | $ 82,880 |
| | — | — | — | — | 14,063 | $ 145,692 |
| | — | — | — | — | 5,000 | $ 51,800 |
| Scott Harvey | 12,821 | — | $ 15.00 | 06/23/11 | — | — |
| *Chief Legal Officer* | 141,000 | — | $ 13.00 | 06/17/12 | — | — |
| | 30,000 | — | $ 12.14 | 06/16/13 | — | — |
| | 30,000 | — | $ 14.02 | 01/25/14 | — | — |
| | 14,208 | 835(2) | $ 12.20 | 02/25/15 | — | — |
| | 2,775 | 8,325(4) | $ 4.21 | 03/17/16 | — | — |
| | — | — | — | — | 7,500 | $ 77,700 |
| | — | — | — | — | 11,250 | $ 116,550 |
| | — | — | — | — | 10,000 | $ 103,600 |
| Samir Bhaumik | 6,000 | — | $ 15.00 | 12/13/11 | — | — |
| *Senior Managing Director* | 38,000 | — | $ 13.00 | 06/17/12 | — | — |
| | 93,900 | — | $ 12.14 | 06/16/13 | — | — |
| | 12,000 | — | $ 14.02 | 01/25/14 | — | — |
| | 67,654 | 3,979(2) | $ 12.20 | 02/25/15 | — | — |
| | 4,668 | 1,332(3) | $ 10.49 | 08/15/15 | — | — |
| | 3,611 | 27,073(4) | $ 4.21 | 03/17/16 | — | — |
| | — | — | — | — | 11,500 | $ 119,140 |
| | — | — | — | — | 1,500 | $ 15,540 |
| | — | — | — | — | 16,875 | $ 174,825 |
| | — | — | — | — | 60,000 | $ 621,600 |
| Parag I. Shah | 5,500 | — | $ 15.00 | 12/13/11 | — | — |
| *Senior Managing Director* | 38,000 | — | $ 13.00 | 06/17/12 | — | — |
| | 94,400 | — | $ 12.14 | 06/16/13 | — | — |
| | 80,000 | — | $ 14.02 | 01/25/14 | — | — |
| | 192,814 | 11,341(2) | $ 12.20 | 02/25/15 | — | — |
| | 12,057 | 3,443(3) | $ 10.49 | 08/15/15 | — | — |
| | 33,401 | 104,157(4) | $ 4.21 | 03/17/16 | — | — |
| | — | — | — | — | 18,000 | $ 186,480 |
| | — | — | — | — | 2,500 | $ 25,900 |
| | — | — | — | — | 25,313 | $ 262,242 |
| | — | — | — | — | 105,000 | $ 1,087,800 |
| | — | — | — | — | 25,000 | $ 259,000 |

(1) Options expiring in 2011, 2012, 2013 and 2014 were 100% vested on the date of grant. All other options generally vest 33% one year after the date of grant and the remainder will vest ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant.
(2) The options vested 33% on February 25, 2009 and then ratably on a monthly basis ending February 25, 2011.
(3) The options vested 33% on August 15, 2009 and then ratably on a monthly basis ending August 15, 2011.
(4) The options vested 33% on March 17, 2010 and then ratably on a monthly basis ending March 17, 2012.
(5) Market value is computed by multiplying the closing market price of the Company's stock at December 31, 2009 by the number of shares.

## Options Exercised and Restricted Stock Vested

The following table sets forth certain information with respect to options exercised and the shares of restricted stock that vested during the fiscal year ended December 31, 2010 to each of our NEOs.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| **Name and Principal Position** | **Number of Shares Acquired on Exercise** | **Value Realized on Exercise** | **Number of Shares Acquired on Vesting** | **Value Realized on Vesting** |
| Manuel A. Henriquez<br>*Chairman & Chief Executive Officer* | 124,999 | $ 737,494 | 57,812 | $ 581,396 |
| David M. Lund<br>*Chief Financial Officer* | — | — | 14,937 | $ 150,028 |
| Scott Harvey<br>*Secretary and Chief Legal Officer* | 8,900 | $ 53,667 | 12,500 | $ 125,345 |
| Samir Bhaumik<br>*Senior Managing Director* | 34,316 | $ 211,730 | 19,625 | $ 196,413 |
| Parag I. Shah<br>*Senior Managing Director* | 112,442 | $ 581,815 | 29,937 | $ 299,437 |

### Equity Compensation Plan Information

The following table sets forth information as of December 31, 2010 with respect to compensation plans under which the Company's equity securities are authorized for issuance:

| **Plan Category** | **(a) Number of Securities to be issued upon exercise of outstanding options, restricted stock and warrants** | **(b) Weighted-average exercise price of outstanding options, restricted stock and warrants** | **(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))** |
|---|---|---|---|
| Equity compensation plans approved by stockholders: | | | |
| 2004 Equity Incentive Plan | 4,664,849 | $ 11.33 | 796,382 |
| 2006 Non-Employee Director Plan | 65,000 | $ 10.88 | 913,332 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 5,108,766 | $ 11.27 | 1,709,714 |

**2004 Equity Incentive Plan**

Our Board and our stockholders have approved the 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 ("ISOs"), within the meaning of Section 422 of the Code, and non-qualified stock options to employees and employee directors. The following is a summary of the material features of the 2004 Equity Incentive Plan.

Under the 2004 Equity Incentive Plan, we have authorized for issuance up to 7,000,000 shares of common stock of which 350,329 were available for issuance as of April 18, 2011. Participants in the 2004 Equity Incentive Plan may receive awards of options to purchase our common stock and/or restricted shares, 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, 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.

Under the 2004 Equity Incentive Plan, we are permitted to issue shares of restricted stock to all key employees of the Company and its affiliates consistent with such terms and conditions as the Board shall deem appropriate. Our Board determines the time or times at which such shares of restricted stock will become exercisable and the terms on which such shares will remain exercisable. Any shares of restricted stock for which forfeiture restrictions have not vested at the point at which the participant terminates his employment will terminate immediately and such shares will be returned to the Company and will be available for future awards under this plan.

Our Board 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. The Board has 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 option holder.

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.

On March 30, 2011 the Board granted 125,000 shares, 4,000 shares, 45,000 shares and 62,500 shares of restricted stock to Messrs. Henriquez, Harvey, Bhaumik and Shah, respectively.

**2006 Non-Employee Director Plan**

Our Board and our stockholders have approved the 2006 Non-Employee Director Plan. Under current SEC rules and regulations applicable to BDCs absent exemptive relief, a BDC may not grant options or shares of restricted stock 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. On May 23, 2007, we received exemptive relief from the SEC to permit us to grant shares of restricted stock 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 2006 Non-Employee Director Plan.

The Company has instituted the 2006 Non-Employee Director Plan for the purpose of advancing the interests of the Company by providing for the grant of awards under the 2006 Non-Employee Director Plan to eligible non-employee directors. Under the 2006 Non-Employee Director Plan, we have authorized for issuance up to 1,000,000 shares of common stock of which 913,332 shares were available for issuance as of April 18, 2011. The 2006 Non-Employee Director Plan authorizes the issuance to non-employee directors of non-statutory stock options (“NSOs”) to purchase shares of common stock at a specified exercise price per share and/or restricted stock. NSOs granted under the 2006 Non-Employee 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. The amount of the options that may be granted are limited by the terms of the 2006 Non-Employee Director Plan, which prohibits any grant that would cause the Company to be in violation of Section 61(a)(3) of the 1940 Act.

Under the 2006 Non-Employee Director Plan, non-employee directors will each receive an initial grant of an option to purchase 10,000 shares of stock upon initial election to such position. The options granted will vest over two years, in equal installments on each of the first two anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. In addition, each non-employee director shall automatically be granted an option to purchase 15,000 shares of stock on the date of such non-employee director’s re-election to the Board and such grant will vest over three years, in equal installments on each of the first three anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. The Compensation Committee has, subject to SEC approval, the authority to determine from time to time which of the persons eligible under the 2006 Non-Employee Director Plan shall be granted awards; when and how each award shall be granted, including the time or times when a person shall be permitted to exercise an award; and the number of shares of stock with respect to which an award shall be granted to such person. The exercise price of options granted under the 2006 Non-Employee Director Plan is set at the closing price of the Company’s market price on the Nasdaq Global Select Market as of the date of grant and 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 2006 Non-Employee Director Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Non-Employee Director Plan after that date. The 2006 Non-Employee Director Plan provides that all awards granted under the 2006 Non-Employee Director Plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act.

The Compensation Committee will determine the period during which any options granted under the 2006 Non-Employee 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 2006 Non-Employee 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.

Under the 2006 Non-Employee Director Plan, we also are permitted to issue shares of restricted stock to our non-employee directors. Upon initial election to such position, non-employee directors will automatically be granted 3,333 shares of restricted stock. The forfeiture restrictions for such initial shares of restricted stock will vest as to one-half of such shares on the first anniversary of the date of grant and as to an additional one-half of the restricted stock on the second anniversary of the date of grant. In addition, each non-employee director shall automatically be granted 5,000 shares of restricted stock on the date of such non-employee director's re-election to the Board and the forfeiture restrictions on such shares will vest as to one-third of such shares on the anniversary of such grant over three years, provided that the non-employee director remains in service on such dates.

The Compensation Committee administers the 2006 Non-Employee 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 2006 Non-Employee 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.

The Board may, subject to SEC prior approval, at any time or times amend the 2006 Non-Employee Director Plan or any outstanding award for any purpose which may at the time be permitted by law, and may at any time terminate the 2006 Non-Employee Director Plan as to any future grants of awards; provided, that except as otherwise expressly provided in the 2006 Non-Employee 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. In 2010, no options or restricted shares were granted to the Board as there were no non-employee directors re-elected to the Board.

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## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of April 18, 2011, the beneficial ownership of each current director, each nominee for director, the Company's executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (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 April 18, 2011 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 ownership is based on 43,801,344 shares of common stock outstanding as of April 18, 2011.

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 Company. Our address is 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301.

The Company's directors are divided into two groups—interested directors and independent directors. Interested directors are "interested persons" as defined in Section 2(a)(19) of the 1940 Act.

| Name and Address of Beneficial Owner | Number of Shares Owned Beneficially[1] | Percentage of Class |
|---|---|---|
| ***Principal Stockholders*** | | |
| BlackRock Inc.[2][3]<br>40 E. 52nd Street<br>New York, NY 10055 | 2,700,663 | 6.2% |
| T. Rowe Price Associates, Inc.[2][4]<br>100 E. Pratt Street<br>Baltimore, MD 21202 | 2,500,390 | 5.7% |
| ***Interested Director*** | | |
| Manuel A. Henriquez[5] | 2,789,346 | 6.4% |
| ***Independent Directors*** | | |
| Robert P. Badavas[6] | 97,661 | * |
| Joseph W. Chow[7] | 106,242 | * |
| Allyn C. Woodward, Jr.[8] | 149,905 | * |
| ***Executive Officers*** | | |
| Samir Bhaumik[9] | 459,273 | 1.0% |
| Scott Bluestein[10] | 7,500 | * |
| H. Scott Harvey[11] | 301,886 | * |
| David M. Lund[12] | 257,359 | * |
| Parag I Shah[13] | 798,439 | 1.8% |
| **Executive officers and directors as a group[14]** | 4,967,611 | 11.3% |

* Less than 1%.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934.

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

(3) Information is based on a Schedule 13G/A filed with the SEC on February 4, 2011. BlackRock, Inc. holds shares of the Company as a parent holding company or control person for BlackRock Japan Co. Ltd., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Australia Limited, BlackRock Advisors, LLC, BlackRock Investment Management, LLC and BlackRock Asset Management Ireland Limited.

(4) Information is based on a Schedule 13G/A filed with the SEC on February 10, 2011. T. Rowe Price Associates, Inc. ("Price Associates") is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940. Price Associates does not serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client's custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, the securities of the Company that are owned by Price Associates. The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients which Price Associates serves as investment adviser. Any and all discretionary authority which has been delegated to Price Associates may be revoked in whole or in part at any time.

(5) Includes 1,590,616 shares of common stock that can be acquired upon the exercise of outstanding options and 355,730 shares of restricted stock. Includes shares of our common stock held by certain trusts controlled by Mr. Henriquez.

(6) Includes 20,000 shares of common stock that can be acquired upon the exercise of outstanding options and 1,666 shares of restricted common stock.

(7) Includes 20,000 shares of common stock that can be acquired upon the exercise of outstanding options and 1,666 shares of restricted common stock.

(8) Includes 20,000 shares of common stock that can be acquired upon the exercise of outstanding options and 3,333 shares of restricted common stock.

(9) Includes 241,639 shares of common stock that can be acquired upon the exercise of outstanding options and 110,375 shares of restricted common stock.

(10) Shares of restricted common stock.

(11) Includes 234,969 shares of common stock that can be acquired upon the exercise of outstanding options and 24,626 shares of restricted common stock.

(12) Includes 204,566 shares of common stock that can be acquired upon the exercise of outstanding options and 19,626 shares of restricted common stock.

(13) Includes 511,757 shares of common stock that can be acquired upon the exercise of outstanding options and 190,876 shares of restricted common stock.

(14) Includes 2,843,547 shares of common stock that can be acquired upon the exercise of outstanding options and 715,398 shares of restricted stock.

The following table sets forth as of April 18, 2011, the dollar range of our securities owned by our directors and portfolio management employees.

| Name | Dollar Range of Equity Securities in the Company(1) |
|---|---|
| **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 |
| Scott Bluestein | over $100,000 |
| Scott Harvey | over $100,000 |
| David M. Lund | over $100,000 |
| Parag I. Shah | over $100,000 |

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the ordinary course of business, we enter into transactions with portfolio companies that may be considered related party transactions. In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with us, we have implemented certain policies and procedures whereby our executive officers screen each of our transactions for any possible affiliations, close or remote, between the proposed portfolio investment, us, companies controlled by us and our employees and directors.

The Company will not enter into any agreements unless and until we are satisfied that no affiliations prohibited by the 1940 Act exist or, if such affiliations exist, the Company has taken appropriate actions to seek Board review and approval or exemptive relief for such transaction.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain material U.S. federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership and disposition of our common stock, but does not purport to be a complete description of the income tax considerations relating thereto. 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 investors subject to special treatment under U.S. federal income tax laws, including investors subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for securities holdings, persons subject to the alternative minimum tax, United States expatriates, United States persons with a functional currency other than the U.S. dollar, persons that hold notes as part of an integrated investment (including a "straddle"), "controlled foreign corporations," "passive foreign investment companies," or corporations that accumulate earnings to avoid United States federal income tax. This summary is limited to beneficial owners of our common stock that will hold our common stock as a capital assets (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date hereof 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 (the "IRS") regarding our common stock. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Investors treated as a partnership for U.S. federal income tax purposes (or investors that are partners in such a partnership), are encouraged to consult with their own tax advisors with respect to the tax consequences relating to the purchase, ownership and disposition of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in the notes and our common stock will depend on the facts of their 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 U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in tax laws.

### Election to be Taxed as a RIC

Through December 31, 2005, we were subject to Federal income tax as an ordinary corporation under subchapter C of the Code. Effective beginning on January 1, 2006 we met the criteria specified below to qualify as a RIC, and elected to be treated as a RIC under Subchapter M of the Code with the filing of our federal income tax return for 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. On December 31, 2005, immediately before the effective date of our RIC election, we held assets with "built-in gain," which are assets whose fair market value as of the effective date of the election exceeded their tax basis as of such date. We elected to recognize all of our net built-in gains at the time of the conversion and paid tax on the built-in gain with the filing of our 2005 federal income 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 gains.

### Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and

- distribute at least 90% of our net ordinary income and realized net short-term gains in excess of realized net long-term capital losses, if any (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) that we distribute to stockholders with respect to that year. As described above, we made the election to recognize built-in gains as of the effective date of our election to be treated as a RIC and therefore will not be subject to built-in gains tax when we sell those assets. However, 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 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 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.

Pursuant to a recent revenue procedure issued by the IRS, the IRS has indicated that it will treat distributions from certain publicly traded RICs (including BDCs) that are paid part in cash and part in stock as dividends that would satisfy the RIC's annual distribution requirements and qualify for the dividends paid deduction for income tax purposes. In order to qualify for such treatment, the revenue procedure requires that at least 10% of the total distribution be paid in cash and that each shareholder have a right to elect to receive its entire distribution in cash. If the number of shareholders electing to receive cash would cause cash distributions in excess of 10%, then each shareholder electing to receive cash would receive a proportionate share of the cash to be distributed (although no shareholder electing to receive cash may receive less than 10% of such shareholder's distribution in cash). This revenue procedure applies to distributions made with respect to taxable years ending prior to January 1, 2012. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. In situations where this revenue procedure is not applicable, the Internal Revenue Service has also issued private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts using a 20% cash standard (instead of the 10% cash standard of the revenue procedure) if certain requirements are satisfied. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale.

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) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the “Excise Tax Avoidance Requirements”). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

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 back-end fee interest, 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 and the Excise Tax Avoidance 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.” We may be restricted from making distributions under the terms of our debt obligations themselves unless certain conditions are satisfied. 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. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

In addition, we will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC Distribution Requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA’s restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

Any transactions in options, futures contracts, constructive sales, hedging, straddle, conversion or similar 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 gross 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 and such net operating losses do not pass through to the RIC's stockholders. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, realized capital losses in excess of realized capital gains) to offset the RIC's investment company taxable income, but may carry forward such losses, and use them to offset capital gains indefinitely. Due to these limits on the deductibility of expenses, and net capital losses, 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.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not now known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as paid by its shareholders.

If we acquire stock in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50% of their total assets in investments producing such passive income ("passive foreign investment companies"), We could be subject to federal income tax and additional interest charges on "excess distributions" received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by us is timely distributed to our shareholders. We would not be able to pass through to our shareholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate these adverse tax consequences, but any such election requires us to recognize taxable income or gain without the concurrent receipt of cash. We intend to limit and/or manage our holdings in passive foreign investment companies to minimize our tax liability. Foreign exchange gains and losses realized by us in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our stockholders. Any such transactions that are not directly related to our investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) could, under future Treasury regulations, produce income not among the types of "qualifying income" from which a RIC must derive at least 90% of its annual gross income.

### Taxation of U.S. Stockholders

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 if (1) a court in the United States has primary supervision over its administration and one or more U.S. persons has the authority to control all substantial decisions of such trust or (2) if such trust validly elects to be treated as a U.S. person for federal income tax purposes; or
- an estate, the income of which is subject to United States federal income taxation regardless of its source.

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, 2012, 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 reported 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 reported by us as "capital gain dividends" will be taxable to a U.S. stockholder as longterm 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. 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 non-corporate stockholders on long-term capital gains, the amount of tax that non-corporate 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 the deduction for ordinary income and 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, 2012, 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. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their “net investment income,” which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). 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 reporting 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") from all 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 timely provided to the IRS.

***Dividend Reinvestment Plan*** We have adopted a dividend reinvestment plan 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 in accordance with the terms of the plan. See "Dividend Reinvestment Plan". Any distributions made to a U.S. stockholder that are reinvested under the plan will nevertheless remain taxable to the U.S. stockholder. The U.S. stockholder will have an adjusted tax basis in the additional shares of our common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

**Taxation of Non-U.S. Stockholders**

A "Non-U.S. stockholder" is a beneficial owner of shares of our common stock that is not a U.S. stockholder or a partnership (including an entity treated as a partnership) for U.S. federal income tax purposes.

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 maintained by the Non-U.S. stockholder in the United States), we will not be required to withhold federal income 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, 2012, except as provided below, we generally are not 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 report such distributions. In respect of distributions described in clause (i) above, we are required to withhold amounts with respect to distributions to a Non-U.S. stockholder:

- that had 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.

This special exemption from withholding tax on certain distributions expired on January 1, 2012. No assurance can be given as to whether this exemption will be extended for taxable years beginning on or after January 1, 2012, or whether any of our distributions will be reported as eligible for this special exemption from withholding tax. 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 This special exemption from withholding tax on certain distributions expired on January 1, 2012. No assurance can be given as to whether this exemption will be extended for taxable years beginning on or after January 1, 2012, or whether any of our distributions will be reported as eligible for this special exemption from withholding tax.

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 United States), or in the case of an individual stockholder, the stockholder is present in the United States 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 income 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.

Recently enacted legislation that becomes effective after December 31, 2012, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by

United States persons (or held by foreign entities that have United States persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their units, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their units and proceeds from the sale of their units. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

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 fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level federal taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, 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, 2012) 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 distributions 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.

A business development company 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, expansion-stage or established-stage 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; or if it has securities listed on a national securities exchange such company has a market capitalization of less than $250 million; is controlled by the business development company and has an affiliate of a business development company on its board of directors; or meets such other criteria as may be established by the SEC.

(2) 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.

(3) 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.

(4) 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.

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

Control, as defined by the 1940 Act, is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

We do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the 1940 Act), invest more than 5% of the value of our total assets in the securities of one such investment company or invest more than 10% of the value of our total assets in the securities of such investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

**Significant Managerial Assistance**

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above, a business development company must either control the issuer of the securities or must offer to make available 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 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, restricted stock 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. We have received exemptive relief from the SEC permitting us to issue stock options and restricted stock to our employees and directors subject to the above conditions, among others. For a discussion regarding the conditions of this exemptive relief, see Note 7 to the Notes to our Consolidated Financial Statements for the year ended December 31, 2009.

**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, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. 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—Risks Related to Our Business Structure and Current Economic and Market Conditions—Because we borrow money, there could be increased risk in investing in our company."

**Capital Structure**

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of the Company and our stockholders have approved the practice of making such sales. On June 9, 2010, our stockholders voted to allow us to issue up to an amount equal to 20% of our outstanding common stock at a price below our net asset value per share for a period of one year ending June 9, 2011. Our stockholders also approved a similar proposal at our 2008 and 2009 Annual Meetings of Stockholders. We have not conducted any public offering of our shares at a price below our net asset value. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

**Code of Ethics**

We have adopted and will maintain a code of ethics 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 is posted on our website at www.herculestech.com and 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 1-800-SEC-0330. 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, 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 filed a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, we requested that the SEC permit us to issue stock options to our non-employee directors as contemplated by Section 61(a)(3)(B)(i)(II) of the 1940 Act. On February 15, 2007, we received approval from the SEC on this exemptive request. In addition, in June 2007, we filed an amendment to the February 2007 order to adjust the number of shares issued to the non-employee directors. On October 10, 2007, we received approval from the SEC on this amended exemptive request.

On April 5, 2007, we received exemptive relief from the SEC that permits us to exclude the indebtedness that our wholly-owned subsidiary, HT II, which is qualified as a small business investment company, issues to the Small Business Administration from the 200% asset coverage requirement applicable to us.

On May 2, 2007, we received approval from the SEC regarding our exemptive request permitting us to issue restricted stock to our employees, officers and directors. On June 21, 2007, our shareholders approved amendments to the 2004 Equity Incentive Plan and 2006 Non-Employee Incentive Plan permitting such restricted grants.

On June 22, 2010, we received approval from the SEC regarding our exemptive request permitting our employees to exercise their stock options and restricted stock and pay any related income taxes using a cashless exercise program.

**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, as our Chief Compliance Officer who is responsible for administering these policies and procedures.

**Small Business Administration Regulations**

HT II and HT III, our wholly-owned subsidiaries, are licensed by the SBA as SBICs under Section 301(c) of the Small Business Investment Act of 1958. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital.

As of December 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. With our net investment of $75.0 million in HT II as of December 31, 2010, HT II has the current capacity to issue up to a total of $150.0 million of SBA guaranteed debentures, of which $150.0 million was outstanding. Currently, HT II has paid commitment fees of approximately $1.5 million. As of December 31, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding at December 31, 2010. Currently, HT III has paid commitment fees of approximately $750,000. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to "smaller" concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because

HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2010 as a result of having sufficient capital as defined under the SBA regulations. As of December 31, 2010, HT III could draw up to $55.0 million of additional leverage from SBA, as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT II was approximately $139.4 million with an average interest rate of approximately 5.11 %. The average amount of debentures outstanding for the year ended December 31, 2010 for HT III was approximately $13.9 million with an average interest rate of approximately 3.215%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a "change of control" or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, HT II and HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital, in accordance with SBA regulations.

Our SBIC subsidiaries are subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiaries will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiaries' assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiaries upon an event of default.

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment which was approved by the SBA.

## 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 report, we do not have any preferred stock outstanding.

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ("ASC") topic 820 Fair Value Measures and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At December 31, 2010, approximately 79.8% of our total assets represented investments in portfolio companies recorded at fair value, as determined 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 Board of Directors 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 of Directors 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.

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

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

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

(2) preliminary valuation conclusions are then documented and discussed with our investment committee;

(3) the valuation committee of the board of directors reviews the preliminary valuation of the investment committee and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments, if any; and

(4) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the valuation committee.

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

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

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

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

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

**Debt Investments**

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company's debt securities are primarily invested in equity sponsored technology, life science and clean technology companies. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

During the quarter ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. We applied a new procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method, as discussed above. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date. The Company considers each portfolio company's credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment's fair value as of the measurement date.

The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of its debt investments in accordance with ASC 820 using the new valuation procedures described above. The Company determined that if it had analyzed the fair value of its investments for the year ended December 31, 2009 using this procedure, the result to the 2009 consolidated financial statements would not have been material. During the year ended December 31, 2010, the Company recognized additional unrealized depreciation of $ 803,000 which is not material to the 2010 consolidated financial statements.

In addition, amounts previously recorded as deferred fee income ($2.4 million at December 31, 2009) and accrued back-end fees ($6.6 million at December 31, 2009) are no longer shown separately on the consolidated Balance Sheets because these amounts are a component of fair value of the investments on the consolidated Schedule of Investments. Under the new valuation methodology, the Company's process includes the examination of criteria similar to those used in its original investment decision, including, among other things, the underlying investment performance, the current portfolio company's financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors to estimate fair value, including the proceeds that would be received in a liquidation analysis.

The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a loan is doubtful or if under the in exchange premise when the value of a debt security were to be less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or if under the in exchange premise the value of a debt security were to greater than amortized cost. When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants or other equity-related securities received. Any resulting discount on the loan from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

**Equity-Related Securities and Warrants**

Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. We have a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date. The Company estimates the fair value of warrants using a Black Scholes pricing model. At each reporting date, privately held warrant and equity related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company's operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company's valuation of the warrant and equity related. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

## 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 three 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 three 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, although we have the option under the DRP to purchase shares in the market to fulfill DRP requirements. 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 Select 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 100,000,000 shares of common stock, par value $0.001 per share, of which 43,799,440 shares are outstanding as of April 27, 2011. 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 | 100,000,000 | — | 43,799,440 |

### 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.

**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.

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 2011, 2012 and 2010, respectively. Upon expiration of their current terms, directors of each class are eligible to serve for three-year terms or until their successors are duly elected and qualify. Each year one class of directors will be elected by the stockholders. A classified board may render a change in control 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.

**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.

**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 subsidiaries, HT II and HT III, have obtained SBIC licenses. The SBA prohibits, without prior SBA 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 SBIC. 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 SBIC, whether through ownership, contractual arrangements or otherwise.

## PLAN OF DISTRIBUTION

We may offer, from time to time, up to 13,000,000 shares of our common stock. We 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. 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.

We may sell shares of our common stock at a price below net asset value per share if (1) our board of directors determines that such sale is in the Company’s best interests and our stockholders, (2) our stockholders approve the sale of our common stock at a price that is less than the current net asset value, and (3) the price at which our common stock is to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any sales load). We received such stockholder approval at our annual meeting on June 9, 2010. See “Sales of Common Stock Below Net Asset Value.”

In connection with the sale of the shares of our common stock, underwriters or agents may receive compensation from us 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 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 will be described in the applicable prospectus supplement.

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

Under agreements into which we 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 shareholders 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 shareholders in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we 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 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. 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.

In compliance with the guidelines of the Financial Industry Regulatory Authority, the maximum compensation to the underwriters or dealers in connection with the sale of shares of our common stock pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

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

Because 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 where 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 Hercules, 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, 2010, 2009 and 2008 we paid approximately $41,000, $49,000 and $80,000 in brokerage commissions, respectively.

## 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

The consolidated financial statements of Hercules Technology Growth Capital, Inc. (the Company) at December 31, 2010, and for the year then ended, appearing in this Prospectus and Registration Statement have been audited by PricewaterhouseCoopers, independent registered public accounting firm, and the information under the caption "Selected Financial Data" for the year ended December 31, 2010, appearing in this Prospectus and Registration Statement have been derived from consolidated financial statements audited by PricewaterhouseCoopers, as set forth in their reports thereon appearing elsewhere herein. The consolidated financial statements of the Company at December 31, 2009, and for each of the two years in the period ended December 31, 2009, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, and the information under the caption "Selected

Financial Data" for each of the four years in the period ended December 31, 2009, appearing in this Prospectus and Registration Statement have been derived from consolidated financial statements audited by Ernst & Young LLP, as set forth in their report thereon appearing elsewhere herein. Such consolidated financial statements and selected financial data are included in reliance upon such reports given on the authority of such firms as experts in accounting and auditing.

## CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. 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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## INDEX TO FINANCIAL STATEMENTS

**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the consolidated statement of assets and liabilities, including the consolidated schedule of investments, as of December 31, 2010 and the related consolidated statements of operations, of changes in net assets, and of cash flows for the year then ended present fairly, in all material respects, the financial position of Hercules Technology Growth Capital, Inc. and its subsidiaries at December 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to valuation of debt investments existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the 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 are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**/s/ PricewaterhouseCoopers LLP**

**San Francisco, California**
**March 25, 2011**

## 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. (the Company) including the consolidated schedules of investments, as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2009, and the consolidated financial highlights for each of the five years in the period ended December 31, 2009. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2009, by correspondence with the custodian or by other appropriate auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the consolidated financial position of Hercules Technology Growth Capital, Inc. at December 31, 2009 and 2008, the consolidated results of its operations, changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2009 and the consolidated financial highlights for each of the five years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hercules Technology Growth Capital, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
March 12, 2010

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**(in thousands, except per share data)**

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Non-affiliate investments (cost of $445,782 and $357,880, respectively) | $ 428,782 | $ 340,211 |
| Affiliate investments (cost of $2,880 and $2,880, respectively) | 3,069 | 2,274 |
| Control investments (cost of $31,743 and $23,823, respectively) | 40,181 | 32,184 |
| Total investments, at value (cost of $480,405 and $384,583 respectively) | 472,032 | 374,669 |
| Cash and cash equivalents | 107,014 | 124,828 |
| Interest receivable | 4,520 | 3,757 |
| Other assets | 7,681 | 5,713 |
| Total assets | $ 591,247 | $ 508,967 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | 8,716 | 11,852 |
| Long-term SBA Debentures | 170,000 | 130,600 |
| Total liabilities | 178,716 | 142,452 |
| **Net assets:** | | |
| Common stock, par value | $ 43 | $ 35 |
| Capital in excess of par value | 477,549 | 409,036 |
| Unrealized appreciation (depreciation) on investments | (8,038) | (10,028) |
| Accumulated realized gains (losses) on investments | (51,033) | (28,129) |
| Distributions in excess of investment income | (5,990) | (4,399) |
| **Total net assets** | $ 412,531 | $ 366,515 |
| **Total liabilities and net assets** | $ 591,247 | $ 508,967 |
| **Shares of common stock outstanding ($0.001 par value, 60,000 authorized)** | 43,444 | 35,634 |
| **Net asset value per share** | $ 9.50 | $ 10.29 |

See notes to consolidated financial statements.

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## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Acceleron Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | $ 69 | $ 922 |
| | | Preferred Stock Warrants | | 35 | 189 |
| | | Preferred Stock Warrants | | 39 | 99 |
| | | Preferred Stock | | 1,341 | 2,316 |
| Total Acceleron Pharmaceuticals, Inc. | | | | 1,484 | 3,526 |
| Aveo Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures September 2013<br>Interest rate Prime + 7.15% or<br>Floor rate of 11.9% | $ 25,000 | 26,108 | 26,108 |
| | | Preferred Stock Warrants | | 190 | 686 |
| | | Preferred Stock Warrants | | 104 | 165 |
| | | Preferred Stock Warrants | | 24 | 58 |
| | | Preferred Stock Warrants | | 288 | 770 |
| | | Preferred Stock Warrants | | 236 | 630 |
| Total Aveo Pharmaceuticals, Inc. | | | | 26,950 | 28,417 |
| Dicerna Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures July 2012<br>Interest rate Prime + 9.20% or<br>Floor rate of 12.95% | $ 4,699 | 4,678 | 4,706 |
| | | Preferred Stock Warrants | | 205 | 182 |
| | | Preferred Stock Warrants | | 30 | 33 |
| | | Preferred Stock Warrants | | 28 | 25 |
| | | Preferred Stock | | 503 | 503 |
| Total Dicerna Pharmaceuticals, Inc. | | | | 5,444 | 5,449 |
| EpiCept Corporation | Drug Discovery | Common Stock Warrants | | 4 | 112 |
| | | Common Stock Warrants | | 40 | 10 |
| Total EpiCept Corporation | | | | 44 | 122 |
| Horizon Therapeutics, Inc. | Drug Discovery | Preferred Stock Warrants | | 231 | — |
| Total Horizon Therapeutics, Inc. | | | | 231 | — |
| Inotek Pharmaceuticals Corp. | Drug Discovery | Preferred Stock | | 1,500 | — |
| Total Inotek Pharmaceuticals Corp. | | | | 1,500 | — |
| Merrimack Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | 155 | 170 |
| | | Preferred Stock | | 2,000 | 1,547 |
| Total Merrimack Pharmaceuticals, Inc. | | | | 2,155 | 1,717 |
| Paratek Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | 137 | 155 |
| | | Preferred Stock | | 1,000 | 999 |
| Total Paratek Pharmaceuticals, Inc. | | | | 1,137 | 1,154 |
| PolyMedix, Inc. | Drug Discovery | Senior Debt<br>Matures September 2013<br>Interest rate Prime + 7.1% or<br>Floor rate of 12.35% | $ 10,000 | 9,605 | 9,605 |
| | | Preferred Stock Warrants | | 480 | 248 |
| Total PolyMedix, Inc. | | | | 10,085 | 9,853 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Portola Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures April 2011<br>Interest rate Prime + 2.16% | $ 1,666 | $ 2,033 | $ 2,033 |
| | | Preferred Stock Warrants | | 152 | 506 |
| Total Portola Pharmaceuticals, Inc. | | | | 2,185 | 2,539 |
| **Total Drug Discovery (12.79%)*** | | | | 51,215 | 52,777 |
| Affinity Videonet, Inc. | Communications & Networking | Preferred Stock Warrants | | 102 | 180 |
| Total Affinity Videonet, Inc. | | | | 102 | 180 |
| E-band Communications, Corp.(6) | Communications & Networking | Preferred Stock | | 2,880 | 3,069 |
| Total E-Band Communications, Corp. | | | | 2,880 | 3,069 |
| IKANO Communications, Inc. | Communications & Networking | Senior Debt<br>Matures August 2011<br>Interest rate 12.00% | $ 1,654 | 1,953 | 1,953 |
| | | Preferred Stock Warrants | | 45 | — |
| | | Preferred Stock Warrants | | 72 | — |
| Total IKANO Communications, Inc. | | | | 2,070 | 1,953 |
| Intelepeer, Inc. | Communications & Networking | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 8.125% | $ 7,624 | 7,468 | 7,459 |
| | | Preferred Stock Warrants | | 102 | 111 |
| Total Intelepeer, Inc. | | | | 7,570 | 7,570 |
| Neonova Holding Company | Communications & Networking | Preferred Stock Warrants | | 94 | 12 |
| | | Preferred Stock | | 250 | 140 |
| Total Neonova Holding Company | | | | 344 | 152 |
| Opsource, Inc.(4) | Communications & Networking | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 7.75% or<br>Floor rate of 11.00% | $ 5,000 | 4,888 | 4,888 |
| | | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 7.25% or<br>Floor rate of 10.50% | $ 2,000 | 1,944 | 1,905 |
| | | Revolving Line of Credit<br>Matures June 2011<br>Interest rate Prime + 5.25% or<br>Floor rate of 8.50% | $ 1,500 | 1,458 | 1,458 |
| | | Preferred Stock Warrants | | 223 | 105 |
| Total Opsource, Inc. | | | | 8,513 | 8,356 |

See notes to consolidated financial statements.

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## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

### December 31, 2010
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Pac-West Telecomm, Inc. | Communications & Networking | Senior Debt<br>Matures April 2014<br>Interest rate Prime + 7.5% or<br>Floor rate of 12.0% | $ 10,000 | $ 9,634 | $ 9,634 |
| | | Preferred Stock Warrants | | 121 | 147 |
| Total Pac-West Telecomm, Inc. | | | | 9,755 | 9,781 |
| PeerApp, Inc. | Communications & Networking | Senior Debt<br>Matures April 2013<br>Interest rate Prime + 7.5% or<br>Floor rate of 11.50% | $ 2,911 | 2,855 | 2,792 |
| | | Preferred Stock Warrants | | 61 | 65 |
| Total PeerApp, Inc. | | | | 2,916 | 2,857 |
| Peerless Network, Inc. | Communications & Networking | Preferred Stock Warrants | | 95 | 138 |
| | | Preferred Stock | | 1,000 | 1,930 |
| Total Peerless Network, Inc. | | | | 1,095 | 2,068 |
| Ping Identity Corporation | Communications & Networking | Preferred Stock Warrants | | 52 | 6 |
| Total Ping Identity Corporation | | | | 52 | 6 |
| Purcell Systems, Inc. | Communications & Networking | Preferred Stock Warrants | | 123 | 330 |
| Total Purcell Systems, Inc. | | | | 123 | 330 |
| Seven Networks, Inc. | Communications & Networking | Preferred Stock Warrants | | 174 | 40 |
| Total Seven Networks, Inc. | | | | 174 | 40 |
| Stoke, Inc.(4) | Communications & Networking | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | $ 4,000 | 3,883 | 3,883 |
| | | Preferred Stock Warrants | | 53 | 210 |
| | | Preferred Stock Warrants | | 65 | 133 |
| | | Preferred Stock | | 500 | 500 |
| Total Stoke, Inc. | | | | 4,501 | 4,726 |
| Tectura Corporation | Communications & Networking | Senior Debt<br>Matures December 2012<br>Interest rate 11% | $ 5,625 | 5,512 | 5,512 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate 11% | $ 17,477 | 18,488 | 18,488 |
| | | Preferred Stock Warrants | | 50 | 10 |
| Total Tectura Corporation | | | | 24,050 | 24,010 |
| **Total Communications & Networking (15.78%)*** | | | | 64,145 | 65,098 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

### December 31, 2010
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Atrenta, Inc. | Software | Preferred Stock Warrants | | $ 102 | $ 46 |
| | | Preferred Stock Warrants | | 34 | 15 |
| | | Preferred Stock Warrants | | 95 | 22 |
| | | Preferred Stock | | 250 | 143 |
| Total Atrenta, Inc. | | | | 481 | 226 |
| Blurb, Inc. | Software | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.50% or<br>Floor rate of 8.5% | $ 1,162 | 1,392 | 1,392 |
| | | Preferred Stock Warrants | | 25 | 349 |
| | | Preferred Stock Warrants | | 299 | 228 |
| Total Blurb, Inc. | | | | 1,716 | 1,969 |
| Braxton Technologies, LLC. | Software | Preferred Stock Warrants | | 188 | — |
| Total Braxton Technologies, LLC. | | | | 188 | — |
| Bullhorn, Inc. | Software | Preferred Stock Warrants | | 43 | 234 |
| Total Bullhorn, Inc. | | | | 43 | 234 |
| Clickfox, Inc. | Software | Senior Debt<br>Matures July 2013<br>Interest rate Prime + 6.00% or<br>Floor rate of 11.25% | $ 6,000 | 5,801 | 5,801 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate Prime + 5.00% or<br>Floor rate of 12.00% | $ 2,000 | 1,997 | 1,996 |
| | | Preferred Stock Warrants | | 177 | 643 |
| | | Preferred Stock Warrants | | 152 | 643 |
| Total Clickfox, Inc. | | | | 8,127 | 9,083 |
| Forescout Technologies, Inc. | Software | Preferred Stock Warrants | | 99 | 14 |
| Total Forescout Technologies, Inc. | | | | 99 | 14 |
| GameLogic, Inc. | Software | Preferred Stock Warrants | | 92 | — |
| Total GameLogic, Inc. | | | | 92 | — |
| HighJump Acquisition, LLC. | Software | Senior Debt<br>Matures May 2013<br>Interest rate Libor + 9.25% or<br>Floor rate of 12.50% | $ 17,500 | 17,386 | 17,386 |
| Total HighJump Acquisition, LLC. | | | | 17,386 | 17,386 |
| HighRoads, Inc. | Software | Preferred Stock Warrants | | 44 | 65 |
| Total HighRoads, Inc. | | | | 44 | 65 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Infologix, Inc. (7) | Software | Senior Debt Matures November 2013 Interest rate 18.00% | $ 5,500 | $ 5,162 | $ 5,162 |
| | | Convertible Senior Debt Matures November 2014 Interest rate 12.00% | | 1,111 | 1,127 |
| | | Revolving Line of Credit Matures May 2011 Interest rate 12.00% | $12,317 | 12,317 | 12,317 |
| | | Senior Debt Matures December 2010 Interest rate 18.00% | $2,178 | 2,178 | 2,178 |
| | | Senior Debt Matures April 2013 Interest rate 8.00% | $1,350 | 1,350 | 1,350 |
| | | Senior Debt Matures September 2011 Interest rate 10.00% | $500 | 509 | 509 |
| | | Preferred Stock Warrants | | 725 | 1,394 |
| | | Common Stock | | 5,000 | 9,620 |
| | | Common Stock | | 36 | 69 |
| | | Common Stock | | 3,355 | 6,455 |
| Total Infologix, Inc. | | | | 31,743 | 40,181 |
| PSS Systems, Inc. | Software | Preferred Stock Warrants | | 51 | 17 |
| Total PSS Systems, Inc. | | | | 51 | 17 |
| Rockyou, Inc. | Software | Preferred Stock Warrants | | 117 | 186 |
| Total Rockyou, Inc. | | | | 117 | 186 |
| Sportvision, Inc. | Software | Preferred Stock Warrants | | 39 | — |
| Total Sportvision, Inc. | | | | 39 | — |
| Unify Corporation | Software | Senior Debt Matures June 2015 Interest rate Libor + 8.50% or Floor rate of 10.50% | $ 24,000 | 22,248 | 22,968 |
| | | Revolving Line of Credit Matures June 2015 Interest rate Libor + 7.50% or Floor rate of 9.50% | $3,750 | 3,731 | 3,476 |
| | | Preferred Stock Warrants | | 1,434 | 693 |
| Total Unify Corporation | | | | 27,413 | 27,137 |
| WildTangent, Inc. | Software | Preferred Stock Warrants | | 238 | 10 |
| Total WildTangent, Inc. | | | | 238 | 10 |
| **Total Software (23.39%)*** | | | | 87,777 | 96,508 |
| Luminus Devices, Inc. | Electronics & Computer Hardware | Senior Debt Matures December 2011 Interest rate 11.875% | $ 540 | 540 | 540 |
| | | Preferred Stock Warrants | | 183 | — |
| | | Preferred Stock Warrants | | 84 | — |
| | | Preferred Stock Warrants | | 334 | — |
| Total Luminus Devices, Inc. | | | | 1,141 | 540 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Maxvision Holding, LLC. | Electronics & Computer Hardware | Senior Debt Matures October 2012 Interest rate Prime + 7.25% or Floor rate of 10.75% | $ 5,000 | $ 5,377 | $ 377 |
| | | Senior Debt Matures April 2012 Interest rate Prime + 5.0% or Floor rate of 8.5% | $ 3,409 | 3,382 | 3,382 |
| | | Revolving Line of Credit Matures April 2012 Interest rate Prime + 5.0% or Floor rate of 8.5% | $ 3,100 | 3,163 | 3,163 |
| | | Common Stock | | 81 | — |
| Total Maxvision Holding, LLC. | | | | 12,003 | 6,922 |
| Shocking Technologies, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 63 | 90 |
| Total Shocking Technologies, Inc. | | | | 63 | 90 |
| Spatial Photonics, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 129 | — |
| | | Preferred Stock | | 767 | 267 |
| Total Spatial Photonics, Inc. | | | | 896 | 267 |
| VeriWave, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 54 | — |
| | | Preferred Stock Warrants | | 46 | — |
| Total VeriWave, Inc. | | | | 100 | — |
| **Total Electronics & Computer Hardware (1.90%)*** | | | | 14,203 | 7,819 |
| Aegerion Pharmaceuticals, Inc. | Specialty Pharmaceuticals | Preferred Stock Warrants | | 69 | 761 |
| | | Preferred Stock | | 1,475 | 2,206 |
| Total Aegerion Pharmaceuticals, Inc. | | | | 1,544 | 2,967 |
| Althea Technologies, Inc. | Specialty Pharmaceuticals | Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95% | $ 12,000 | 11,661 | 11,661 |
| | | Preferred Stock Warrants | | 309 | 276 |
| Total Althea Technologies, Inc. | | | | 11,970 | 11,937 |
| Chroma Therapeutics, Ltd.(5) | Specialty Pharmaceuticals | Senior Debt Matures September 2013 Interest rate Prime + 7.75% or Floor rate of 12.00% | $ 10,000 | 9,797 | 10,021 |
| | | Preferred Stock Warrants | | 490 | 632 |
| Total Chroma Therapeutics, Ltd. | | | | 10,287 | 10,653 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Pacira Pharmaceuticals, Inc. (4) | Specialty Pharmaceuticals | Senior Debt<br>Matures May 2014<br>Interest rate Prime + 6.25% or<br>Floor rate of 10.25% | $ 11,250 | $ 11,105 | $ 11,105 |
| | | Senior Debt<br>Matures May 2014<br>Interest rate Prime + 8.65% or<br>Floor rate of 12.65% | $ 15,000 | 13,749 | 13,749 |
| | | Preferred Stock Warrants | | 1,086 | 1,255 |
| Total Pacira Pharmaceuticals, Inc. | | | | 25,940 | 26,109 |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Senior Debt<br>Matures October 2011<br>Interest rate Prime + 8.90% or<br>Floor rate of 12.15% | $ 9,306 | 9,474 | 9,474 |
| | | Convertible Senior Debt<br>Interest Rate of 8.0%<br>Matures March 2012 | $ 1,888 | 1,888 | 2,467 |
| | | Preferred Stock Warrants | | 220 | — |
| | | Preferred Stock Warrants | | 307 | — |
| | | Preferred Stock | | 751 | — |
| Total QuatRx Pharmaceuticals Company | | | | 12,640 | 11,941 |
| **Total Specialty Pharmaceuticals (15.42%)*** | | | | 62,381 | 63,607 |
| Annie's, Inc. | Consumer & Business Products | Preferred Stock Warrants | | 321 | 75 |
| Total Annie's, Inc. | | | | 321 | 75 |
| IPA Holdings, LLC. (4) | Consumer & Business Products | Senior Debt<br>Matures November 2012<br>Interest rate Prime + 6.75% or<br>Floor rate of 11.0% | $ 8,250 | 8,505 | 8,160 |
| | | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 9.75% or<br>Floor rate of 14.0% | $ 6,500 | 7,019 | 6,995 |
| | | Revolving Line of Credit<br>Matures November 2012<br>Interest rate Prime + 6.25% or<br>Floor rate of 10.50% | $ 856 | 761 | 761 |
| | | Preferred Stock Warrants | | 275 | — |
| | | Common Stock | | 500 | — |
| Total IPA Holdings, LLC. | | | | 17,060 | 15,916 |
| Market Force Information, Inc. | Consumer & Business Products | Preferred Stock Warrants | | 24 | 60 |
| | | Preferred Stock | | 500 | 439 |
| Total Market Force Information, Inc. | | | | 524 | 499 |
| Trading Machines, Inc. (8) | Consumer & Business Products | Senior Debt<br>Matures January 2014<br>Interest rate Prime + 10.25% or<br>Floor rate of 13.50% | $ 9,812 | 8,644 | 4,000 |
| | | Preferred Stock Warrants | | 878 | — |
| | | Preferred Stock | | 50 | — |
| Total Trading Machines, Inc. | | | | 9,572 | 4,000 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Velocity Technology Solutions, Inc. | Consumer & Business Products | Senior Debt Matures February 2015 Interest rate LIBOR + 8% or Floor rate of 11.00% | $ 15,417 | $ 15,072 | $ 14,574 |
| | | Senior Debt Matures February 2015 Interest rate LIBOR + 10% or Floor rate of 13.00% | $ 8,333 | 8,317 | 8,526 |
| Total Velocity Technology Solutions, Inc. | | | | 23,389 | 23,100 |
| Wageworks, Inc. | Consumer & Business Products | Preferred Stock Warrants | | 253 | 1,443 |
| | | Preferred Stock | | 250 | 283 |
| Total Wageworks, Inc. | | | | 503 | 1,726 |
| **Total Consumer & Business Products (10.98%)*** | | | | 51,369 | 45,316 |
| Enpirion, Inc. | Semiconductors | Preferred Stock Warrants | | 157 | 1 |
| Total Enpirion, Inc. | | | | 157 | 1 |
| iWatt, Inc. | Semiconductors | Preferred Stock Warrants | | 46 | 1 |
| | | Preferred Stock Warrants | | 51 | 33 |
| | | Preferred Stock Warrants | | 73 | 44 |
| | | Preferred Stock Warrants | | 458 | 391 |
| | | Preferred Stock | | 490 | 940 |
| Total iWatt, Inc. | | | | 1,118 | 1,409 |
| NEXX Systems, Inc. | Semiconductors | Preferred Stock Warrants | | 297 | 1,113 |
| | | Preferred Stock | | 277 | 704 |
| Total NEXX Systems, Inc. | | | | 574 | 1,817 |
| Quartics, Inc. | Semiconductors | Preferred Stock Warrants | | 53 | — |
| Total Quartics, Inc. | | | | 53 | — |
| Solarflare Communications, Inc. | Semiconductors | Preferred Stock Warrants | | 83 | — |
| | | Common Stock | | 642 | — |
| Total Solarflare Communications, Inc. | | | | 725 | — |
| **Total Semiconductors (0.78%)*** | | | | 2,627 | 3,227 |
| Alexza Pharmaceuticals, Inc. (4) | Drug Delivery | Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75% | $ 15,000 | 14,526 | 14,472 |
| | | Preferred Stock Warrants | | 645 | 193 |
| Total Alexza Pharmaceuticals, Inc. | | | | 15,171 | 14,665 |
| Labopharm USA, Inc. (5) | Drug Delivery | Senior Debt Matures December 2012 Interest rate 10.95% | $ 20,000 | 19,872 | 19,872 |
| | | Common Stock Warrants | | 635 | 329 |
| Total Labopharm USA, Inc. | | | | 20,507 | 20,201 |

See notes to consolidated financial statements.

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## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Transcept Pharmaceuticals, Inc. | Drug Delivery | Common Stock Warrants | | $ 36 | $ 60 |
| | | Common Stock Warrants | | 51 | 16 |
| | | Common Stock | | 500 | 308 |
| Total Transcept Pharmaceuticals, Inc. | | | | 587 | 384 |
| **Total Drug Delivery (8.54%)*** | | | | 36,265 | 35,250 |
| BARRX Medical, Inc. | Therapeutic | Senior Debt<br>Mature December 2011<br>Interest rate 11.00% | $ 2,901 | 3,350 | 3,350 |
| | | Preferred Stock Warrants | | 76 | 70 |
| | | Preferred Stock | | 1,500 | 1,890 |
| Total BARRX Medical, Inc. | | | | 4,926 | 5,310 |
| EKOS Corporation | Therapeutic | Preferred Stock Warrants | | 174 | — |
| | | Preferred Stock Warrants | | 153 | — |
| Total EKOS Corporation | | | | 327 | — |
| Gelesis, Inc.(8) | Therapeutic | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 7.5% or<br>Floor rate of 10.75% | $ 2,771 | 2,800 | 45 |
| Total Gelesis, Inc. | | | | 2,800 | 45 |
| Gynesonics, Inc. | Therapeutic | Senior Debt<br>Mature October 2013<br>Interest rate Prime + 8.25% or<br>Floor rate of 11.50% | $ 6,500 | 6,277 | 6,277 |
| | | Preferred Stock Warrants | | 228 | 221 |
| | | Preferred Stock | | 532 | 456 |
| Total Gynesonics, Inc. | | | | 7,037 | 6,954 |
| Light Science Oncology, Inc. | Therapeutic | Preferred Stock Warrants | | 99 | 26 |
| Total Light Science Oncology, Inc. | | | | 99 | 26 |
| Novasys Medical, Inc. | Therapeutic | Preferred Stock Warrants | | 71 | 1 |
| | | Preferred Stock Warrants | | 54 | 7 |
| | | Preferred Stock | | 1,000 | 1,159 |
| Total Novasys Medical, Inc. | | | | 1,125 | 1,167 |
| Pacific Child & Family Associates, LLC. | Therapeutic | Senior Debt<br>Matures January 2015<br>Interest rate LIBOR + 8.0% or<br>Floor rate of 10.50% | $ 6,539 | 6,392 | 5,802 |
| | | Senior Debt<br>Matures January 2015<br>Interest rate LIBOR + 10.50% or<br>Floor rate of 13.0% | $ 5,900 | 5,996 | 5,996 |
| Total Pacific Child & Family Associates, LLC. | | | | 12,388 | 11,798 |
| **Total Therapeutic (6.13%)*** | | | | 28,702 | 25,300 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Cozi Group, Inc. | Internet Consumer & Business Services | Preferred Stock Warrants | | $ 147 | $ — |
| | | Preferred Stock | | 177 | 292 |
| Total Cozi Group, Inc. | | | | 324 | 292 |
| Invoke Solutions, Inc. | Internet Consumer & Business Services | Preferred Stock Warrants | | 56 | 74 |
| | | Preferred Stock Warrants | | 26 | 18 |
| Total Invoke Solutions, Inc. | | | | 82 | 92 |
| Prism Education Group, Inc. | Internet Consumer & Business Services | Preferred Stock Warrants | | 43 | 50 |
| Total Prism Education Group, Inc. | | | | 43 | 50 |
| RazorGator Interactive Group, Inc. (4) | Internet Consumer & Business Services | Revolving Line of Credit<br>Matures October 2011<br>Interest rate Prime + 9.50% or<br>Floor rate of 14.00% | $ 2,108 | 1,855 | 1,855 |
| | | Preferred Stock Warrants | | 13 | — |
| | | Preferred Stock Warrants | | 28 | — |
| | | Preferred Stock Warrants | | 1,183 | — |
| | | Preferred Stock | | 1,000 | — |
| Total RazorGator Interactive Group, Inc. | | | | 4,079 | 1,855 |
| Reply! Inc. (4) | Internet Consumer & Business Services | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 6.5% or<br>Floor rate of 9.75% | $ 5,000 | 4,646 | 4,646 |
| | | Preferred Stock Warrants | | 320 | 320 |
| Total Reply! Inc. | | | | 4,966 | 4,966 |
| **Total Internet Consumer & Business Services (1.76%) *** | | | | 9,494 | 7,255 |
| Lilliputian Systems, Inc. | Energy | Preferred Stock Warrants | | 106 | 3 |
| | | Common Stock Warrants | | 49 | — |
| Total Lilliputian Systems, Inc. | | | | 155 | 3 |
| **Total Energy (0.00%)*** | | | | 155 | 3 |
| Box.net, Inc. | Information Services | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 1.50% or<br>Floor rate of 7.50% | $ 213 | 270 | 270 |
| | | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 0.50% or<br>Floor rate of 6.50% | $ 127 | 139 | 139 |
| | | Preferred Stock Warrants | | 73 | 184 |
| | | Preferred Stock Warrants | | 117 | 117 |
| | | Preferred Stock | | 500 | 500 |
| Total Box.net, Inc. | | | | 1,099 | 1,210 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

### December 31, 2010
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Buzznet, Inc. | Information Services | Preferred Stock Warrants | | $ 9 | $ — |
| | | Preferred Stock | | 250 | 37 |
| Total Buzznet, Inc. | | | | 259 | 37 |
| XL Education Corp. | Information Services | Common Stock | | 880 | 880 |
| Total XL Education Corp. | | | | 880 | 880 |
| hi5 Networks, Inc. | Information Services | Preferred Stock Warrants | | 213 | — |
| | | Preferred Stock | | 250 | 247 |
| Total hi5 Networks, Inc. | | | | 463 | 247 |
| Jab Wireless, Inc. | Information Services | Preferred Stock Warrants | | 265 | 122 |
| Total Jab Wireless, Inc. | | | | 265 | 122 |
| Solutionary, Inc. | Information Services | Preferred Stock Warrants | | 94 | — |
| | | Preferred Stock Warrants | | 2 | — |
| | | Preferred Stock | | 250 | 50 |
| Total Solutionary, Inc. | | | | 346 | 50 |
| Intelligent Beauty, Inc. | Information Services | Senior Debt<br>Matures March 2013<br>Interest rate Prime + 8.0% or<br>Floor rate of 11.25% | $ 5,812 | 5,563 | 5,557 |
| | | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 8.0%<br>or Floor rate of 11.25% | $ 2,000 | 1,942 | 1,942 |
| | | Preferred Stock Warrants | | 230 | 230 |
| Total Intelligent Beauty, Inc. | | | | 7,735 | 7,729 |
| Good Technologies, Inc. | Information Services | Common Stock | | 603 | 150 |
| Total Good Technologies, Inc. | | | | 603 | 150 |
| Coveroo, Inc. | Information Services | Preferred Stock Warrants | | 7 | — |
| Total Coveroo, Inc. | | | | 7 | — |
| Zeta Interactive Corporation | Information Services | Preferred Stock Warrants | | 172 | 57 |
| | | Preferred Stock | | 500 | 375 |
| Total Zeta Interactive Corporation | | | | 672 | 432 |
| **Total Information Services (2.63%)*** | | | | 12,329 | 10,857 |
| Novadaq Technologies, Inc.(5) | Diagnostic | Common Stock | | 1,415 | 675 |
| Total Novadaq Technologies, Inc. | | | | 1,415 | 675 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Optiscan Biomedical Corp. | Diagnostic | Senior Debt<br>Matures December 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | $ 10,750 | $ 10,392 | $ 10,392 |
| | | Preferred Stock Warrants | | 1,069 | 637 |
| | | Preferred Stock | | 3,656 | 3,207 |
| Total Optiscan Biomedical Corp. | | | | 15,117 | 14,236 |
| **Total Diagnostic (3.61%)*** | | | | 16,532 | 14,911 |
| Kamada, LTD.(5) | Biotechnology Tools | Preferred Stock Warrants | | 159 | 164 |
| | | Common Stock | | 752 | 1,754 |
| Total Kamada, LTD. | | | | 911 | 1,918 |
| Labcyte, Inc. | Biotechnology Tools | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 8.6% or<br>Floor rate of 11.85% | $ 3,885 | 3,761 | 3,821 |
| | | Common Stock Warrants | | 192 | — |
| Total Labcyte, Inc. | | | | 3,953 | 3,821 |
| NuGEN Technologies, Inc. | Biotechnology Tools | Preferred Stock Warrants | | 45 | 44 |
| | | Preferred Stock Warrants | | 33 | 1 |
| | | Preferred Stock | | 500 | 203 |
| Total NuGEN Technologies, Inc. | | | | 578 | 248 |
| **Total Biotechnology Tools (1.45%)*** | | | | 5,442 | 5,987 |
| Crux Biomedical, Inc. | Surgical Devices | Preferred Stock Warrants | | 37 | — |
| | | Preferred Stock | | 250 | — |
| Total Crux Biomedical, Inc. | | | | 287 | — |
| Transmedics, Inc. (4) | Surgical Devices | Senior Debt<br>Matures February 2014<br>Interest rate Prime + 9.70% or<br>Floor rate of 12.95% | $ 8,375 | 8,913 | 8,913 |
| | | Preferred Stock Warrants | | 224 | 159 |
| | | Preferred Stock | | 1,100 | 1,100 |
| Total Transmedics, Inc. | | | | 10,237 | 10,172 |
| **Total Surgical Devices (2.47%)*** | | | | 10,524 | 10,172 |
| Glam Media, Inc. | Media/Content/ Info | Preferred Stock Warrants | | 482 | 283 |
| Total Glam Media, Inc. | | | | 482 | 283 |
| Everyday Health, Inc. | Media/Content/ Info | Preferred Stock Warrants | | 60 | 630 |
| | | Preferred Stock | | 1,000 | 1,310 |
| Total Everyday Health, Inc. | | | | 1,060 | 1,940 |
| **Total Media/Content/Info (0.54%)*** | | | | 1,542 | 2,223 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| BrightSource Energy, Inc. (4) | Clean Tech | Senior Debt<br>Matures December 2011<br>Interest rate Prime + 7.75% or<br>Floor rate of 11.0% | $ 3,750 | $ 3,265 | $ 3,265 |
| | | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 9.55% or<br>Floor rate of 12.80% | $ 4,583 | 4,156 | 4,156 |
| | | Preferred Stock Warrants | | 675 | 674 |
| Total BrightSource Energy, Inc. | | | | 8,096 | 8,095 |
| Calera, Inc. | Clean Tech | Senior Debt<br>Matures July 2013<br>Interest rate Prime + 7.0% or<br>Floor rate of 10.25% | $ 3,621 | 3,109 | 3,109 |
| | | Preferred Stock Warrants | | 513 | 527 |
| Total Calera, Inc. | | | | 3,622 | 3,636 |
| GreatPoint Energy, Inc. | Clean Tech | Senior Debt<br>Matures October 2013<br>Interest rate Prime + 8.2% or<br>Floor rate of 11.45% | $ 5,000 | 4,322 | 4,322 |
| | | Preferred Stock Warrants | | 548 | 627 |
| Total GreatPoint Energy, Inc. | | | | 4,870 | 4,949 |
| Propel Biofuels, Inc. | Clean Tech | Senior Debt<br>Matures September 2013<br>Interest rate 11.0% | $ 2,118 | 1,880 | 1,850 |
| | | Preferred Stock Warrants | | 211 | 192 |
| Total Propel Biofuels, Inc. | | | | 2,091 | 2,042 |
| Solexel, Inc. | Clean Tech | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 8.25% or<br>Floor rate of 11.50% | $ 1,109 | 1,010 | 1,010 |
| | | Senior Debt<br>Matures June 2013<br>Interest rate Prime + 7.25% or<br>Floor rate of 10.50% | $ 6,000 | 5,519 | 5,519 |
| | | Preferred Stock Warrants | | 335 | 292 |
| Total Solexel, Inc. | | | | 6,864 | 6,821 |
| Trilliant, Inc. | Clean Tech | Preferred Stock Warrants | | 88 | 99 |
| | | Preferred Stock Warrants | | 72 | 80 |
| Total Trilliant, Inc. | | | | 160 | 179 |
| **Total Clean Tech (6.24%)*** | | | | 25,703 | 25,722 |
| Total Investments | | | | $ 480,405 | $ 472,032 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2010**
**(dollars in thousands)**

| | |
|---|---|
| * | Value as a percent of net assets |
| (1) | Preferred and common stock, warrants, and equity interests are generally non-income producing. |
| (2) | Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $22,458, $32,232 and $9,774 respectively. The tax cost of investments is $481,432 |
| (3) | Except for warrants in ten publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2010 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies. |
| (4) | Debt investments of this portfolio company have been pledged as collateral under the Wells Facility. |
| (5) | Non-U.S. company or the company's principal place of business is outside the United States. |
| (6) | Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 5% but not more than 25% of the voting securities of the company. |
| (7) | Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners as least 25% but no more than 50% of the voting securities of the company |
| (8) | Debt is on non-accrual status at December 31, 2010, and is therefore considered non-income producing. |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Acceleron Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | $ 69 | $ 1,157 |
| | | Preferred Stock Warrants | | 35 | 215 |
| | | Preferred Stock | | 1,243 | 2,508 |
| Total Acceleron Pharmaceuticals, Inc. | | | | 1,347 | 3,880 |
| Aveo Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures May 2012<br>Interest rate 11.13% | $ 14,564 | 15,121 | 15,121 |
| | | Preferred Stock Warrants | | 190 | 725 |
| | | Preferred Stock Warrants | | 104 | 219 |
| | | Preferred Stock Warrants | | 24 | 76 |
| Total Aveo Pharmaceuticals, Inc. | | | | 15,439 | 16,141 |
| Dicerna Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures April 2012<br>Interest rate Prime + 9.20% or<br>Floor rate of 12.95% | $ 6,603 | 6,412 | 6,412 |
| | | Preferred Stock Warrants | | 206 | 128 |
| | | Preferred Stock Warrants | | 31 | 22 |
| Total Dicerna Pharmaceuticals, Inc. | | | | 6,649 | 6,562 |
| Elixir Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures October 2011<br>Interest rate Prime + 9.25% or<br>Floor rate of 12.5% | $ 8,067 | 8,603 | 8,603 |
| | | Preferred Stock Warrants | | 217 | — |
| Total Elixir Pharmaceuticals, Inc. | | | | 8,820 | 8,603 |
| EpiCept Corporation | Drug Discovery | Common Stock Warrants | | 8 | 38 |
| | | Common Stock Warrants | | 40 | 201 |
| | | Common Stock | | — | — |
| Total EpiCept Corporation | | | | 48 | 239 |
| Horizon Therapeutics, Inc. | Drug Discovery | Senior Debt<br>Matures July 2011<br>Interest rate Prime + 1.50% | $ 4,699 | 4,740 | 4,740 |
| | | Preferred Stock Warrants | | 231 | — |
| Total Horizon Therapeutics, Inc. | | | | 4,971 | 4,740 |
| Inotek Pharmaceuticals Corp. | Drug Discovery | Preferred Stock | | 1,500 | 353 |
| Total Inotek Pharmaceuticals Corp. | | | | 1,500 | 353 |
| Merrimack Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | 155 | 269 |
| | | Preferred Stock | | 2,000 | 1,699 |
| Total Merrimack Pharmaceuticals, Inc. | | | | 2,155 | 1,968 |
| Paratek Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | 137 | 55 |
| | | Preferred Stock | | 1,000 | 1,000 |
| Total Paratek Pharmaceuticals, Inc. | | | | 1,137 | 1,055 |
| Portola Pharmaceuticals, Inc. | Drug Discovery | Senior Debt<br>Matures April 2011<br>Interest rate Prime + 2.16% | $ 6,666 | 6,893 | 6,893 |
| | | Preferred Stock Warrants | | 152 | 288 |
| Total Portola Pharmaceuticals, Inc. | | | | 7,045 | 7,181 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Recoly, N.V. (5) | Drug Discovery | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 4.25% | $ 2,576 | $ 2,544 | $ 2,544 |
| Total Recoly, N.V. | | | | 2,544 | 2,544 |
| **Total Drug Discovery (14.53%)*** | | | | 51,655 | 53,266 |
| Affinity Videonet, Inc. (4) | Communications & Networking | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 8.75% or<br>Floor rate of 12.00% | $ 2,318 | 2,306 | 2,306 |
| | | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 14.75% or<br>Floor rate of 18.00% | $ 2,000 | 2,030 | 2,030 |
| | | Revolving Line of Credit<br>Matures June 2012<br>Interest rate Prime + 9.75% or<br>Floor rate of 13.00% | $ 500 | 495 | 495 |
| | | Preferred Stock Warrants | | 102 | 83 |
| Total Affinity Videonet, Inc. | | | | 4,933 | 4,914 |
| E-Band Communications Corp. (6) | Communications & Networking | Preferred Stock | | 2,880 | 2,274 |
| Total E-Band Communications Corp. | | | | 2,880 | 2,274 |
| IKANO Communications, Inc. | Communications & Networking | Senior Debt<br>Matures August 2011<br>Interest rate 12.00% | $ 6,472 | 6,682 | 6,682 |
| | | Preferred Stock Warrants | | 45 | — |
| | | Preferred Stock Warrants | | 72 | — |
| Total IKANO Communications, Inc. | | | | 6,799 | 6,682 |
| Neonova Holding Company | Communications & Networking | Preferred Stock Warrants | | 94 | 42 |
| | | Preferred Stock | | 250 | 247 |
| Total Neonova Holding Company | | | | 344 | 289 |
| Peerless Network, Inc. | Communications & Networking | Preferred Stock Warrants | | 95 | — |
| | | Preferred Stock | | 1,000 | 800 |
| Total Peerless Network, Inc. | | | | 1,095 | 800 |
| Ping Identity Corporation | Communications & Networking | Preferred Stock Warrants | | 52 | 168 |
| Total Ping Identity Corporation | | | | 52 | 168 |
| Purcell Systems, Inc. | Communications & Networking | Preferred Stock Warrants | | 123 | 386 |
| Total Purcell Systems, Inc. | | | | 123 | 386 |
| Rivulet Communications, Inc. (4) | Communications & Networking | Senior Debt<br>Matures March 2010<br>Interest rate Prime + 8.00% or<br>Floor rate of 12% | $ 1,063 | 1,059 | 1,059 |
| | | Preferred Stock Warrants | | 146 | — |
| | | Common Stock | | 250 | — |
| Total Rivulet Communications, Inc. | | | | 1,455 | 1,059 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Seven Networks, Inc. | Communications & Networking | Preferred Stock Warrants | | $ 174 | $ 11 |
| Total Seven Networks, Inc. | | | | 174 | 11 |
| Stoke, Inc. | Communications & Networking | Preferred Stock Warrants | | 53 | 81 |
| Total Stoke, Inc. | | | | 53 | 81 |
| Tectura Corporation | Communications & Networking | Senior Debt<br>Matures September 2010<br>Interest rate Prime + 10.75% or<br>Floor rate of 14.00% | $ 1,875 | 1,875 | 1,875 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate Prime + 10.75% or<br>Floor rate of 14.00% | $ 9,908 | 10,239 | 10,239 |
| | | Revolving Line of Credit<br>Matures July 2011<br>Interest rate Prime + 10.75% or<br>Floor rate of 14.00% | $ 5,000 | 5,156 | 5,156 |
| | | Preferred Stock Warrants | | 51 | — |
| Total Tectura Corporation | | | | 17,321 | 17,270 |
| Zayo Bandwidth, Inc. | Communications & Networking | Senior Debt<br>Matures November 2013<br>Interest rate Libor + 5.25% | $ 24,750 | 24,539 | 24,105 |
| Total Zayo Bandwith, Inc. | | | | 24,539 | 24,105 |
| **Total Communications & Networking (15.84)*** | | | | 59,768 | 58,039 |
| Atrenta, Inc. | Software | Preferred Stock Warrants | | 102 | 99 |
| | | Preferred Stock Warrants | | 34 | 32 |
| | | Preferred Stock Warrants | | 95 | 159 |
| | | Preferred Stock | | 250 | 375 |
| Total Atrenta, Inc. | | | | 481 | 665 |
| Blurb, Inc. | Software | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.50% or<br>Floor rate of 8.5% | $ 3,329 | 3,400 | 3,400 |
| | | Preferred Stock Warrants | | 25 | 128 |
| | | Preferred Stock Warrants | | 299 | 69 |
| Total Blurb, Inc. | | | | 3,724 | 3,597 |
| Braxton Technologies, LLC. | Software | Preferred Stock Warrants | | 188 | 116 |
| Total Braxton Technologies, LLC. | | | | 188 | 116 |
| Bullhorn, Inc. | Software | Preferred Stock Warrants | | 43 | 248 |
| Total Bullhorn, Inc. | | | | 43 | 248 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
### December 31, 2009
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Clickfox, Inc. | Software | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 5.00% or<br>Floor rate of 10.25% | $ 3,754 | $ 3,628 | $ 3,628 |
| | | Revolving Line of Credit<br>Matures July 2010<br>Interest rate Prime + 8.50% or<br>Floor rate of 13.5% | $ 2,000 | 1,965 | 1,965 |
| | | Preferred Stock Warrants | | 177 | 143 |
| Total Clickfox, Inc. | | | | 5,770 | 5,736 |
| Forescout Technologies, Inc. | Software | Preferred Stock Warrants | | 99 | 77 |
| Total Forescout Technologies, Inc. | | | | 99 | 77 |
| GameLogic, Inc. | Software | Preferred Stock Warrants | | 92 | 1 |
| Total GameLogic, Inc. | | | | 92 | 1 |
| HighJump Acquisition, LLC. | Software | Senior Debt<br>Matures May 2013<br>Interest rate Libor + 8.75% or<br>Floor rate of 12.00% | $ 15,000 | 14,758 | 14,758 |
| Total HighJump Acquisition, LLC. | | | | 14,758 | 14,758 |
| HighRoads, Inc. | Software | Preferred Stock Warrants | | 44 | 13 |
| Total HighRoads, Inc. | | | | 44 | 13 |
| Infologix, Inc. (4)(7) | Software | Senior Debt<br>Matures November 2013<br>Interest rate 12.00% | $ 5,500 | 5,500 | 5,500 |
| | | Convertible Senior Debt<br>Matures November 2014<br>Interest rate 12.00% | $ 5,000 | 5,004 | 10,060 |
| | | Revolving Line of Credit<br>Matures May 2011<br>Interest rate 12.00% | $ 7,559 | 7,559 | 7,559 |
| | | Common Stock Warrants | | 760 | 1,494 |
| | | Common Stock | | 5,000 | 7,571 |
| Total Infologix, Inc. | | | | 23,823 | 32,184 |
| Intelliden, Inc. | Software | Preferred Stock Warrants | | 18 | — |
| Total Intelliden, Inc. | | | | 18 | — |
| PSS Systems, Inc. | Software | Preferred Stock Warrants | | 51 | 71 |
| Total PSS Systems, Inc. | | | | 51 | 71 |
| Rockyou, Inc. | Software | Preferred Stock Warrants | | 117 | 140 |
| Total Rockyou, Inc. | | | | 117 | 140 |
| Savvion, Inc. (4) | Software | Senior Debt<br>Matures February 2011<br>Interest rate Prime + 7.75% or<br>Floor rate of 11.00% | $ 2,117 | 2,085 | 2,085 |
| | | Revolving Line of Credit<br>Matures May 2010<br>Interest rate Prime + 6.75% or<br>Floor rate of 10.00% | $ 1,500 | 1,516 | 1,516 |
| | | Preferred Stock Warrants | | 52 | 183 |
| Total Savvion, Inc. | | | | 3,653 | 3,784 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Sportvision, Inc. | Software | Preferred Stock Warrants | | $ 39 | $ 47 |
| Total Sportvision, Inc. | | | | 39 | 47 |
| WildTangent, Inc. | Software | Preferred Stock Warrants | | 238 | 77 |
| Total WildTangent, Inc. | | | | 238 | 77 |
| **Total Software (16.78%)*** | | | | 53,138 | 61,514 |
| Luminus Devices, Inc. | Electronics & Computer Hardware | Senior Debt<br>Matures December 2011<br>Interest rate 12.875% | $ 1,062 | 1,062 | 1,062 |
| | | Preferred Stock Warrants | | 183 | — |
| | | Preferred Stock Warrants | | 84 | — |
| | | Preferred Stock Warrants | | 334 | — |
| Total Luminus Devices, Inc. | | | | 1,663 | 1,062 |
| Maxvision Holding, LLC. | Electronics & Computer Hardware | Senior Debt<br>Matures October 2012<br>Interest rate Prime + 5.50% | $ 5,000 | 5,192 | 5,192 |
| | | Senior Debt<br>Matures April 2012<br>Interest rate Prime + 2.25% | $ 4,409 | 4,378 | 4,378 |
| | | Revolving Line of Credit<br>Matures April 2012<br>Interest rate Prime + 2.25% | $ 2,500 | 2,584 | 2,584 |
| Maxvision Holding, LLC. | Electronics & Computer Hardware | Common Stock | | 81 | 170 |
| Total Maxvision Holding, LLC. | | | | 12,235 | 12,324 |
| Shocking Technologies, Inc. | Electronics & Computer Hardware | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 2.50% | $ 1,867 | 1,854 | 1,854 |
| | | Preferred Stock Warrants | | 63 | 119 |
| Total Shocking Technologies, Inc. | | | | 1,917 | 1,973 |
| Spatial Photonics, Inc. | Electronics & Computer Hardware | Senior Debt<br>Matures April 2011<br>Interest rate 10.066% | $ 1,980 | 2,102 | 2,101 |
| | | Senior Debt<br>Mature April 2011<br>Interest rate 9.217% | $ 197 | 197 | 197 |
| | | Preferred Stock Warrants | | 129 | — |
| | | Preferred Stock | | 500 | 129 |
| Total Spatial Photonics Inc. | | | | 2,928 | 2,427 |
| VeriWave, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 54 | — |
| | | Preferred Stock Warrants | | 46 | — |
| Total VeriWave, Inc. | | | | 100 | — |
| **Total Electronics & Computer Hardware (4.85%)*** | | | | 18,843 | 17,786 |

See notes to consolidated financial statements.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Aegerion Pharmaceuticals, Inc. (4) | Specialty Pharmaceuticals | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 2.50% or<br>Floor rate of 11.00% | $ 5,481 | $ 5,786 | $ 5,786 |
| | | Convertible Senior Debt<br>Matures December 2010 | $ 279 | 279 | 279 |
| | | Preferred Stock Warrants | | 69 | 253 |
| | | Preferred Stock | | 1,000 | 1,019 |
| Total Aegerion Pharmaceuticals, Inc. | | | | 7,134 | 7,337 |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Senior Debt<br>Matures October 2011<br>Interest rate Prime + 8.90% or<br>Floor rate of 12.15% | $ 15,417 | 15,422 | 15,422 |
| | | Convertible Senior Debt<br>Matures March 2010 | $ 1,888 | 1,888 | 2,861 |
| | | Preferred Stock Warrants | | 220 | — |
| | | Preferred Stock Warrants | | 307 | — |
| | | Preferred Stock | | 750 | — |
| Total QuatRx Pharmaceuticals Company | | | | 18,587 | 18,283 |
| **Total Specialty Pharmaceuticals (6.99%)*** | | | | 25,721 | 25,620 |
| Annie's, Inc. | Consumer & Business Products | Senior Debt -<br>Second Lien<br>Matures April 2011<br>Interest rate LIBOR + 6.50% or<br>Floor rate of 10.00% | $ 6,000 | 6,005 | 6,005 |
| | | Preferred Stock Warrants | | 321 | 113 |
| Total Annie's, Inc. | | | | 6,326 | 6,118 |
| IPA Holdings, LLC. (4) | Consumer & Business Products | Senior Debt<br>Matures November 2012<br>Interest rate Prime + 8.25% or<br>Floor rate of 12.5% | $ 9,500 | 9,432 | 9,432 |
| | | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 11.25% or<br>Floor rate of 15.5% | $ 6,500 | 6,684 | 6,684 |
| | | Revolving Line of Credit<br>Matures November 2012<br>Interest rate Prime + 7.75% or<br>Floor rate of 12.00% | $ 856 | 786 | 786 |
| | | Preferred Stock Warrants | | 275 | — |
| | | Common Stock | | 500 | 120 |
| Total IPA Holdings, LLC. | | | | 17,677 | 17,022 |
| Market Force Information, Inc. | Consumer & Business Products | Preferred Stock Warrants | | 24 | — |
| | | Preferred Stock | | 500 | 267 |
| Total Market Force Information, Inc. | | | | 524 | 267 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| OnTech Operations, Inc. (8) | Consumer & Business Products | Senior Debt | | | |
| | | Matures June 2010 | | | |
| | | Interest rate 16.00% | $ 106 | $ 106 | $ — |
| | | Preferred Stock Warrants | | 452 | — |
| | | Preferred Stock Warrants | | 218 | — |
| | | Preferred Stock | | 1,000 | — |
| Total OnTech Operations, Inc. | | | | 1,776 | — |
| Wageworks, Inc. | Consumer & Business Products | Preferred Stock Warrants | | 252 | 1,425 |
| | | Preferred Stock | | 250 | 368 |
| Total Wageworks, Inc. | | | | 502 | 1,793 |
| **Total Consumer & Business Products (6.88%)*** | | | | 26,805 | 25,200 |
| Custom One Design, Inc. (8) | Semiconductors | Senior Debt | | | |
| | | Matures September 2010 | | | |
| | | Interest rate 11.50% | $ 426 | 409 | 109 |
| | | Common Stock Warrants | | 18 | — |
| Total Custom One Design, Inc. | | | | 427 | 109 |
| Enpirion, Inc. | Semiconductors | Senior Debt | | | |
| | | Matures August 2011 | | | |
| | | Interest rate Prime + 2.00% or | | | |
| | | Floor rate of 7.625% | $ 5,094 | 5,359 | 5,359 |
| | | Preferred Stock Warrants | | 157 | 2 |
| Total Enpirion, Inc. | | | | 5,516 | 5,361 |
| iWatt, Inc. | Semiconductors | Preferred Stock Warrants | | 46 | — |
| | | Preferred Stock Warrants | | 51 | — |
| | | Preferred Stock Warrants | | 73 | — |
| | | Preferred Stock Warrants | | 458 | — |
| | | Preferred Stock | | 490 | 950 |
| Total iWatt, Inc. | | | | 1,118 | 950 |
| NEXX Systems, Inc. (4) | Semiconductors | Senior Debt | | | |
| | | Matures March 2010 | | | |
| | | Interest rate Prime + 3.50% or | | | |
| | | Floor rate of 11.25% | $ 565 | 547 | 547 |
| | | Revolving Line of Credit | | | |
| | | Matures June 2010 | | | |
| | | Interest rate Prime + 8.00% or | | | |
| | | Floor rate of 13.25% | $ 3,000 | 3,102 | 3,102 |
| | | Revolving Line of Credit | | | |
| | | Matures June 2010 | | | |
| | | Interest rate Prime + 8.00% or | | | |
| | | Floor rate of 17.50% | $ 500 | 500 | 500 |
| | | Preferred Stock Warrants | | 562 | 784 |
| | | Preferred Stock | | 6 | 332 |
| Total NEXX Systems, Inc. | | | | 4,717 | 5,265 |
| Quartics, Inc. | Semiconductors | Senior Debt | | | |
| | | Matures May 2010 | | | |
| | | Interest rate 10.00% | $ 139 | 131 | 131 |
| | | Preferred Stock Warrants | | 53 | — |
| Total Quartics, Inc. | | | | 184 | 131 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

### December 31, 2009
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Solarflare Communications, Inc. | Semiconductors | Senior Debt<br>Matures August 2010<br>Interest rate 11.75% | $ 197 | $ 166 | $ 166 |
| | | Preferred Stock Warrants | | 83 | — |
| | | Common Stock | | 641 | — |
| Total Solarflare Communications, Inc. | | | | 890 | 166 |
| **Total Semiconductors (3.27%)*** | | | | 12,852 | 11,982 |
| Labopharm USA, Inc. (5) | Drug Delivery | Senior Debt<br>Matures June 2012<br>Interest rate 10.95% | $ 20,000 | 19,704 | 19,704 |
| | | Common Stock Warrants | | 687 | 1,307 |
| Total Labopharm USA, Inc. | | | | 20,391 | 21,011 |
| Transcept Pharmaceuticals, Inc. | Drug Delivery | Common Stock Warrants | | 36 | 94 |
| | | Common Stock Warrants | | 51 | 91 |
| | | Common Stock | | 500 | 283 |
| Total Transcept Pharmaceuticals, Inc. | | | | 587 | 468 |
| **Total Drug Delivery (5.86%)*** | | | | 20,978 | 21,479 |
| BARRX Medical, Inc. | Therapeutic | Senior Debt<br>Mature December 2011<br>Interest rate 11.00% | $ 5,481 | 5,697 | 5,697 |
| | | Revolving Line of Credit<br>Matures May 2010<br>Interest rate 10.00% | $ 1,000 | 1,000 | 1,000 |
| | | Preferred Stock Warrants | | 76 | 111 |
| | | Preferred Stock | | 1,500 | 2,303 |
| Total BARRX Medical, Inc. | | | | 8,273 | 9,111 |
| EKOS Corporation | Therapeutic | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 2.00% | $ 2,677 | 3,193 | 3,193 |
| | | Preferred Stock Warrants | | 175 | — |
| | | Preferred Stock Warrants | | 153 | — |
| Total EKOS Corporation | | | | 3,521 | 3,193 |
| Gelesis, Inc. (8) | Therapeutic | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 7.5% or<br>Floor rate of 10.75% | $ 2,847 | 2,852 | 41 |
| | | Preferred Stock Warrants | | 58 | — |
| Total Gelesis, Inc. | | | | 2,910 | 41 |
| Gynesonics, Inc. | Therapeutic | Preferred Stock Warrants | | 18 | 5 |
| | | Preferred Stock | | 250 | 627 |
| Total Gynesonics, Inc. | | | | 268 | 632 |
| Light Science Oncology, Inc. | Therapeutic | Preferred Stock Warrants | | 99 | 26 |
| Total Light Science Oncology, Inc. | | | | 99 | 26 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
## December 31, 2009
## (dollars in thousands)

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Novasys Medical, Inc. (4) | Therapeutic | Senior Debt<br>Matures January 2010<br>Interest rate 9.70% | $ 295 | $ 529 | $ 529 |
| | | Preferred Stock Warrants | | 71 | — |
| | | Preferred Stock Warrants | | 54 | — |
| | | Preferred Stock | | 1,000 | 1,000 |
| Total Novasys Medical, Inc. | | | | 1,654 | 1,529 |
| **Total Therapeutic (3.96%)*** | | | | 16,725 | 14,532 |
| Cozi Group, Inc. | Internet Consumer & Business Services | Preferred Stock Warrants | | 148 | — |
| | | Preferred Stock | | 177 | 7 |
| Total Cozi Group, Inc. | | | | 325 | 7 |
| Invoke Solutions, Inc. | Internet Consumer & Business Services | Preferred Stock Warrants | | 56 | 129 |
| | | Preferred Stock Warrants | | 26 | 29 |
| Total Invoke Solutions, Inc. | | | | 82 | 158 |
| Prism Education Group, Inc. | Internet Consumer & Business Services | Senior Debt<br>Matures December 2010<br>Interest rate 11.25% | $ 801 | 777 | 777 |
| | | Preferred Stock Warrants | | 43 | 104 |
| Total Prism Education Group, Inc. | | | | 820 | 881 |
| RazorGator Interactive Group, Inc. (4) | Internet Consumer & Business Services | Revolving Line of Credit<br>Matures May 2010<br>Interest rate Prime + 6.00% or<br>Floor rate of 12.00% | $ 10,000 | 9,989 | 9,989 |
| | | Preferred Stock Warrants | | 14 | 223 |
| | | Preferred Stock Warrants | | 28 | 33 |
| | | Preferred Stock | | 1,000 | 1,037 |
| Total RazorGator Interactive Group, Inc. | | | | 11,031 | 11,282 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Spa Chakra, Inc. (8) | Internet Consumer & Business Services | Senior Debt<br>Matures October 2011<br>Interest rate 16.45% | $ 10,000 | $10,222 | $ 5,444 |
| | | Senior Debt<br>Matures April 2010<br>Interest rate 16.45% | $ 850 | 850 | 850 |
| | | Senior Debt<br>Matures December 2009<br>Interest rate 16.45% | $ 250 | 250 | 250 |
| | | Senior Debt<br>Matures February 2010<br>Interest rate 17% | $ 1,225 | 1,225 | 1,225 |
| | | Senior Debt<br>Matures February 2010<br>Interest rate 17% | $ 157 | 157 | 157 |
| | | Preferred Stock Warrants | | 1 | — |
| Total Spa Chakra, Inc. | | | | 12,705 | 7,926 |
| **Total Internet Consumer & Business Services (5.53%)*** | | | | 24,963 | 20,254 |
| Lilliputian Systems, Inc. | Energy | Preferred Stock Warrants | | 107 | 104 |
| | | Common Stock Warrants | | 48 | — |
| Total Lilliputian Systems, Inc. | | | | 155 | 104 |
| **Total Energy (0.03%)*** | | | | 155 | 104 |
| Box.net, Inc. | Information Services | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 1.50% | $ 676 | 687 | 687 |
| | | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 0.50% | $ 287 | 300 | 300 |
| | | Preferred Stock Warrants | | 73 | 53 |
| Total Box.net, Inc. | | | | 1,060 | 1,040 |
| Buzznet, Inc. | Information Services | Preferred Stock Warrants | | 9 | — |
| | | Preferred Stock | | 250 | 74 |
| Total Buzznet, Inc. | | | | 259 | 74 |
| XL Education Corp. | Information Services | Common Stock | | 880 | 880 |
| Total XL Education Corp. | | | | 880 | 880 |
| hi5 Networks, Inc. | Information Services | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 2.5% | $ 1,357 | 1,347 | 1,347 |
| | | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 0.5% | $ 3,603 | 4,305 | 4,305 |
| | | Preferred Stock Warrants | | 213 | — |
| Total hi5 Networks, Inc. | | | | 5,865 | 5,652 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Jab Wireless, Inc. | Information Services | Senior Debt<br>Matures November 2012<br>Interest rate Prime + 3.50% or Floor rate of 9.5% | $ 14,750 | $14,594 | $14,594 |
| | | Revolving Line of Credit<br>Matures October 2010<br>Interest rate Prime + 3.50% or Floor rate of 9.5% | $ 2,500 | 2,492 | 2,492 |
| | | Preferred Stock Warrants | | 265 | 151 |
| Total Jab Wireless, Inc. | | | | 17,351 | 17,237 |
| Solutionary, Inc. | Information Services | Preferred Stock Warrants | | 94 | — |
| | | Preferred Stock Warrants | | 2 | — |
| | | Preferred Stock | | 250 | 83 |
| Total Solutionary, Inc. | | | | 346 | 83 |
| Ancestry.com, Inc. (The Generation Networks, Inc.) | Information Services | Common Stock | | 452 | 880 |
| Total Ancestry.com, Inc. | | | | 452 | 880 |
| Good Technologies, Inc. (Visto Corporation) | Information Services | Common Stock | | 603 | 603 |
| Total Visto Corporation | | | | 603 | 603 |
| Coveroo, Inc. | Information Services | Preferred Stock Warrants | | 7 | — |
| Total Coveroo, Inc. | | | | 7 | — |
| Zeta Interactive Corporation | Information Services | Senior Debt<br>Matures November 2012<br>Interest rate 9.50% | $ 4,731 | 4,649 | 4,649 |
| | | Senior Debt<br>Matures November 2012<br>Interest rate 10.50% | $ 6,484 | 6,719 | 6,719 |
| | | Preferred Stock Warrants | | 172 | — |
| | | Preferred Stock | | 500 | 310 |
| Total Zeta Interactive Corporation | | | | 12,040 | 11,678 |
| **Total Information Services (10.40%)*** | | | | 38,863 | 38,127 |
| Novadaq Technologies, Inc. | Diagnostic | Common Stock | | 1,567 | 542 |
| Total Novadaq Technologies, Inc. | | | | 1,567 | 542 |
| Optiscan Biomedical Corp. | Diagnostic | Senior Debt<br>Matures June 2011<br>Interest rate 10.25% | $ 7,696 | 8,040 | 8,040 |
| | | Preferred Stock Warrants | | 760 | 342 |
| | | Preferred Stock | | 3,000 | 3,000 |
| Total Optiscan Biomedical Corp. | | | | 11,800 | 11,382 |
| **Total Diagnostic (3.25%)*** | | | | 13,367 | 11,924 |
| Kamada, LTD.(5) | Biotechnology Tools | Common Stock Warrants | | 159 | 149 |
| | | Common Stock | | 794 | 1,161 |
| Total Kamada, LTD. | | | | 953 | 1,310 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**

**December 31, 2009**
**(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment(1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Labcyte, Inc. | Biotechnology Tools | Senior Debt<br>Matures November 2012<br>Interest rate Prime + 8.6% or<br>Floor rate of 11.85% | $ 3,500 | $ 3,282 | $ 3,282 |
| | | Common Stock Warrants | | 192 | 235 |
| Total Labcyte, Inc. | | | | 3,474 | 3,517 |
| NuGEN Technologies, Inc. | Biotechnology Tools | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 3.45% or<br>Floor rate of 6.75% | $ 785 | 917 | 917 |
| | | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 1.70% or<br>Floor rate of 6.75% | $ 442 | 442 | 442 |
| | | Preferred Stock Warrants | | 45 | 391 |
| | | Preferred Stock Warrants | | 33 | 41 |
| | | Preferred Stock | | 500 | 587 |
| Total NuGEN Technologies, Inc. | | | | 1,937 | 2,378 |
| Solace Pharmaceuticals, Inc.(4) | Biotechnology Tools | Senior Debt<br>Matures August 2012<br>Interest rate Prime + 4.25% or<br>Floor rate of 9.85% | $ 2,617 | 2,521 | 2,521 |
| | | Preferred Stock Warrants | | 42 | — |
| | | Preferred Stock Warrants | | 54 | — |
| Total Solace Pharmaceuticals, Inc. | | | | 2,617 | 2,521 |
| **Total Biotechnology Tools (2.65%)*** | | | | 8,981 | 9,726 |
| Crux Biomedical, Inc. | Surgical Devices | Preferred Stock Warrants | | 37 | — |
| | | Preferred Stock | | 250 | 26 |
| Total Crux Biomedical, Inc. | | | | 287 | 26 |
| Transmedics, Inc. (8) | Surgical Devices | Senior Debt<br>Matures December 2011<br>Interest rate Prime + 5.25% or<br>Floor rate of 10.50% | $ 9,475 | 9,715 | 2,715 |
| | | Preferred Stock Warrants | | 225 | — |
| Total Transmedics, Inc. | | | | 9,940 | 2,715 |
| **Total Surgical Devices (0.75%)*** | | | | 10,227 | 2,741 |

See notes to consolidated financial statements.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

### December 31, 2009
### (dollars in thousands)

| Portfolio Company | Industry | Type of Investment (1) | Principal Amount | Cost(2) | Value(3) |
|---|---|---|---|---|---|
| Glam Media, Inc. | Media/Content/Info | Preferred Stock Warrants | | $ 482 | $ 283 |
| Total Glam Media, Inc. | | | | 482 | 283 |
| Waterfront Media Inc. | | Preferred Stock Warrants | | 60 | 592 |
| | | Preferred Stock | | 1,000 | 1,500 |
| Total Waterfront Media Inc. | | | | 1,060 | 2,092 |
| **Total Media/Content/Info (0.65%)*** | | | | 1,542 | 2,375 |
| Total Investments | | | | $384,583 | $374,669 |

* Value as a percent of net assets
(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $17,409, $30,495 and $13,086, respectively. The tax cost of investments is $379,600.
(3) Except for warrants in six publicly traded companies and common stock in four publicly traded companies, all investments are restricted at December 31, 2009 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
(5) Non-U.S. company or the company's principal place of business is outside the United States.
(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners as least 25% but no more than 50% of the voting securities of the company.
(8) Debt is on non-accrual status at December 31, 2009, and is therefore considered non-income producing.

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Dollars in thousands, except per share data)**

| | For the Years Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| **Investment Income:** | | | |
| Interest income | | | |
| Non Control/Non Affiliate investments | $ 51,417 | $ 61,781 | $ 67,080 |
| Affiliate investments | — | 153 | 203 |
| Control investments | 3,283 | 266 | — |
| Total interest income | 54,700 | 62,200 | 67,283 |
| Fees | | | |
| Non Control/Non Affiliate investments | 5,045 | 10,883 | 8,533 |
| Affiliate investments | — | 19 | 19 |
| Control investments | (271) | 1,175 | — |
| Total fees | 4,774 | 12,077 | 8,552 |
| Total investment income | 59,474 | 74,277 | 75,835 |
| **Operating expenses:** | | | |
| Interest | 8,572 | 9,387 | 13,121 |
| Loan fees | 1,259 | 1,880 | 2,649 |
| General and administrative | 7,086 | 7,281 | 6,899 |
| Employee Compensation: | | | |
| Compensation and benefits | 10,474 | 10,737 | 11,595 |
| Stock-based compensation | 2,709 | 1,888 | 1,590 |
| Total employee compensation | 13,183 | 12,625 | 13,185 |
| Total operating expenses | 30,100 | 31,173 | 35,854 |
| **Net investment income** | 29,374 | 43,104 | 39,981 |
| **Net realized (losses) gains on investments** | | | |
| Non Control/Non Affiliate investments | (28,873) | (26,501) | 2,643 |
| Affiliate investments | — | (4,300) | — |
| Control investments | 2,491 | — | — |
| Total net realized (loss) gain on investments | (26,382) | (30,801) | 2,643 |
| Provision for excise tax | — | — | (203) |
| **Net increase (decrease) in unrealized appreciation on investments** | | | |
| Non Control/Non Affiliate investments | 1,118 | (12,426) | (18,082) |
| Affiliate investments | 795 | 5,334 | (3,344) |
| Control investments | 77 | 8,361 | — |
| Total net unrealized (depreciation) appreciation on investments | 1,990 | 1,269 | (21,426) |
| **Total net realized and unrealized gains (losses)** | (24,392) | (29,532) | (18,986) |
| **Net increase in net assets resulting from operations** | $ 4,982 | $ 13,572 | $ 20,995 |
| Net investment income per common share: | | | |
| Basic | $ 0.80 | $ 1.25 | $ 1.23 |
| Net increase in net assets resulting from operations per common share: | | | |
| Basic | $ 0.12 | $ 0.38 | $ 0.64 |
| Diluted | $ 0.12 | $ 0.37 | $ 0.64 |
| Weighted average shares outstanding | | | |
| Basic | 36,156 | 34,486 | 32,619 |
| Diluted | 36,870 | 34,891 | 32,619 |

See notes to consolidated financial statements.

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## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
### (in thousands)

| | Common Stock | | Capital in excess of par value | Unrealized Appreciation on Investments | Accumulated Realized Gains (Losses) on Investments | Distributions in Excess of Investment Income | Provision for Income Taxes on Investment Gains | Net Assets |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | | |
| Balance at December 31, 2007 | 32,541 | $ 33 | $393,452 | $ 10,129 | $ 819 | $ (3,557) | $ (139) | $400,737 |
| Net increase in net assets resulting from operations | — | — | — | (21,426) | 2,643 | 39,981 | (203) | 20,995 |
| Issuance of common stock | 7 | — | 70 | — | — | — | — | 70 |
| Issuance of common stock from exercise of warrants | 88 | — | 934 | — | — | — | — | 934 |
| Issuance of common stock under restricted stock plan | 238 | — | — | — | — | — | — | — |
| Issuance of common stock under dividend reinvestment plan | 222 | — | 1,414 | — | — | — | — | 1,414 |
| Dividends declared | — | — | — | — | — | (43,282) | — | (43,282) |
| Tax Reclassification of stockholders' equity | — | — | (1,700) | — | 444 | 1,256 | — | — |
| Stock-based compensation | — | — | 1,590 | — | — | — | — | 1,590 |
| Balance at December 31, 2008 | 33,096 | $ 33 | $395,760 | $ (11,297) | $ 3,906 | $ (5,602) | $ (342) | $382,458 |
| Net increase in net assets resulting from operations | — | $ — | $ — | $ 1,269 | $ (30,801) | $ 43,104 | $ — | $ 13,572 |
| Issuance of common stock | 3 | — | 22 | — | — | — | — | 22 |
| Issuance of common stock under restricted stock plan | 307 | — | — | — | — | — | — | — |
| Issuance of common stock under dividend reinvestment plan | 307 | — | 2,862 | — | — | — | — | 2,862 |
| Issuance of common stock dividend in first quarter of 2009 | 1,921 | 2 | 9,530 | | | | | 9,532 |
| Dividends declared | — | — | — | — | — | (43,914) | — | (43,914) |
| Stock-based compensation | — | — | 1,983 | — | | | — | 1,983 |
| Tax Reclassification of stockholders' equity | | | (1,121) | | (1,234) | 2,355 | | — |
| Balance at December 31, 2009 | 35,634 | $ 35 | $409,036 | $ (10,028) | $ (28,129) | $ (4,057) | $ (342) | $366,515 |
| Net increase in net assets resulting from operations | — | $ — | $ — | $ 1,990 | $ (26,382) | $ 29,374 | $ — | $ 4,982 |
| Issuance of common stock | 531 | 1 | 2,661 | — | — | — | — | 2,662 |
| Issuance of common stock under restricted stock plan | 485 | — | — | — | — | — | — | — |
| Acquisition of common stock under repurchase plan | (403) | — | (3,699) | — | — | — | — | (3,699) |
| Issuance of common stock under dividend reinvestment plan | 199 | — | 1,927 | — | — | — | — | 1,927 |
| Retired shares from net issuance | (189) | — | (1,934) | — | — | — | — | (1,934) |
| Public Offering | 7,187 | 7 | 68,097 | — | — | — | — | 68,104 |
| Dividends declared | — | — | — | — | — | (28,816) | — | (28,816) |
| Stock-based compensation | — | — | 2,790 | — | — | — | — | 2,790 |
| Tax Reclassification of stockholders' equity | | | (1,329) | | 3,478 | (2,149) | | — |
| Balance at December 31, 2010 | 43,444 | $ 43 | $477,549 | $ (8,038) | $ (51,033) | $ (5,648) | $ (342) | $412,531 |

See notes to consolidated financial statements.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | For the Years Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net increase in net assets resulting from operations | $ 4,982 | $ 13,572 | $ 20,995 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities: | | | |
| Purchase of investments | (322,331) | (89,188) | (304,666) |
| Principal payments received on investments | 196,119 | 274,819 | 222,668 |
| Proceeds from sale of investments | 7,613 | 5,769 | 20,170 |
| Net unrealized (appreciation) depreciation on investments | (1,990) | (1,269) | 21,426 |
| Net realized (gain) loss on investments | 26,382 | 30,801 | (2,643) |
| Net unrealized appreciation on investments due to lender | (13) | 29 | 143 |
| Accretion of paid-in-kind principal | (3,246) | (2,959) | (954) |
| Accretion of loan discounts | (4,526) | (5,463) | (7,239) |
| Accretion of loan exit fees | 437 | (4,649) | (1,588) |
| Depreciation | 400 | 367 | 306 |
| Stock-based compensation | 2,790 | 1,983 | 1,590 |
| Common stock issued in lieu of Director compensation | 105 | 22 | 70 |
| Change in deferred loan origination revenue | 4,185 | (4,446) | 279 |
| Change in operating assets and liabilities: | | | |
| Interest and fees receivable | (1,200) | 1,478 | (830) |
| Prepaid expenses and other assets | 263 | 2,844 | 506 |
| Accounts payable | 350 | (70) | 302 |
| Income tax receivable (payable) | (41) | — | — |
| Accrued liabilities | (3,529) | 2,484 | 1,840 |
| Excise tax payable | — | (196) | 98 |
| Net cash provided by (used in) operating activities | (93,250) | 225,928 | (27,527) |
| **Cash flows from investing activities:** | | | |
| Purchases of capital equipment | (244) | (134) | (606) |
| Other long-term assets | 350 | (360) | (6) |
| Net cash provided by (used in) investing activities | 106 | (494) | (612) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of common stock, net | 68,727 | — | 934 |
| Stock repurchase program | (3,699) | — | — |
| Dividends paid | (26,889) | (31,519) | (41,868) |
| Borrowings of credit facilities | 39,400 | 98,988 | 252,499 |
| Repayments of credit facilities | — | (185,170) | (169,967) |
| Fees paid for credit facilities and debentures | (2,209) | (147) | (4,073) |
| Net cash provided by (used) in financing activities | 75,330 | (117,848) | 37,525 |
| Net increase in cash | (17,814) | 107,586 | 9,386 |
| Cash and cash equivalents at beginning of period | 124,828 | 17,242 | 7,856 |
| Cash and cash equivalents at end of period | $ 107,014 | $ 124,828 | $ 17,242 |
| **Supplemental disclosures:** | | | |
| Interest paid | $ 8,274 | $ 9,386 | $ 10,880 |
| Income taxes paid | 39 | 228 | 139 |
| Stock dividend | — | 9,532 | — |

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 companies at various stages of development, which include select publicly listed companies and lower middle market companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts and Boulder, Colorado. 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).

The Company formed Hercules Technology II, L.P. ("HT II"), which was licensed on September 27, 2006, and Hercules Technology III, L.P. ("HT III") which was licensed on May 26, 2010, to operate as Small Business Investment Companies ("SBIC") under the authority of the Small Business Administration ("SBA"). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. The Company also formed Hercules Technology SBIC Management, LLC ("HTM"), a limited liability company. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HT III, and HTM is the general partner (see Note 4).

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

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany 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***

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ("ASC") topic 820 Fair Value Measurements and Disclosures, (formerly known as SFAS No. 157, Fair

Value Measurements). At December 31, 2010, approximately 79.8% of the Company's total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company's debt securities are primarily invested in equity sponsored technology, life science and clean technology companies. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

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

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

(2) preliminary valuation conclusions are then documented and discussed with our investment committee;

(3) the valuation committee of the board of directors reviews the preliminary valuation of the investment committee and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments, if any; and

(4) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the valuation committee.

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

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

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

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

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

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company's debt securities are primarily invested in equity sponsored technology, life science and clean technology companies. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

During the quarter ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. We applied a new procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method, as discussed above. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date. The Company considers each portfolio company's credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment's fair value as of the measurement date.

The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of its debt investments in accordance with ASC 820 using the new valuation procedures described above. The Company determined that if it had analyzed the fair value of its investments for the year ended December 31, 2009 using this procedure, the result to the 2009 consolidated financial statements would not have been material. During the year ended December 31, 2010, the Company recognized additional unrealized depreciation of $803,000 which is not material to the 2010 consolidated financial statements.

In addition, amounts previously recorded as deferred fee income ($2.4 million at December 31, 2009) and accrued back-end fees ($6.6 million at December 31, 2009) are no longer shown separately on the consolidated Balance Sheets because these amounts are a component of fair value of the investments on the consolidated Schedule of Investments.

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

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

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

Equity-Related Securities and Warrants

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2010 and 2009:

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

| | | Investments at Fair Value as of December 31, 2009 | | |
|---|---|---|---|---|
| (in thousands) Description | 12/31/2009 | Quoted Prices In Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Senior secured debt | $319,129 | $ — | $ — | $ 319,129 |
| Senior debt-second lien | 6,005 | — | — | 6,005 |
| Preferred stock | 22,875 | — | — | 22,875 |
| Common stock | 12,210 | 1,986 | 8,451 | 1,773 |
| Warrants | 14,450 | — | 3,374 | 11,076 |
| | $374,669 | $ 1,986 | $ 11,825 | $ 360,858 |

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the year ended December 31, 2010 and 2009

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

| (in thousands) | Balance, January 1, 2009 | Net Realized Gains (losses) (1) | Net change in unrealized appreciation or depreciation (2) | Purchases, sales, repayments, and exit, net | Transfer in & out of Level 3 | Balances, December 31, 2009 |
|---|---|---|---|---|---|---|
| Senior Debt | $534,230 | $ (27,192) | $ 4,698 | $(192,607) | $ — | $ 319,129 |
| Senior Debt-Second Lien | 5,824 | — | — | 181 | — | 6,005 |
| Preferred Stock | 21,249 | (3,000) | 4,373 | 661 | (408) | 22,875 |
| Common Stock | 1,894 | (105) | (749) | 1,204 | (471) | 1,773 |
| Warrants | 14,952 | (1,150) | (4,116) | 1,390 | — | 11,076 |
| Total | $578,149 | $ (31,447) | $ 4,206 | $(189,171) | $ (879) | $ 360,858 |

(1) Includes net realized gains /(losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.
(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statements of operations.

Transfers out of Level 3 Senior Debt resulted from four distinct transactions totaling approximately $7.1 million, the majority of which relates to the conversion of InfoLogix, Inc. debt to public equity. Further transfers out of Level 3 Warrants resulted from three distinct transactions totaling approximately $1.7 million, the majority of which relates to the Aveo Pharmaceutical IPO. Transfers in to Preferred Stock Level 3 resulted from four distinct transactions totaling approximately $1.4 million, the majority of which resulted from the conversion of Transmedics, Inc. debt to equity.

For the year ended December 31, 2010 approximately $3.1 million, $3.0 million and $461,000 in unrealized depreciation was recorded for debt equity and warrant Level 3 investments.

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, 2010, we had one Control Investment, InfoLogix, Inc. Approximately $3.0 million in investment income was derived from the debt investment in this software and internet consumer portfolio company during the period ended December 31, 2010. See "—Subsequent Events." At December 31, 2009, the Company had an investment in one portfolio company deemed to be a Control Investment and $1.4 million in investment income was derived from the debt investment in this portfolio company. No investments in 2008 were deemed to be Control Investments.

Approximately $2.5 million of realized gains and net unrealized appreciation of approximately $77,000 on the Control Investment were recognized during the period ended December 31, 2010. No realized gains or losses related to Control Investments were recognized during the years ended December 31, 2009 and 2008. We recognized unrealized appreciation of approximately $8.4 million on Control Investments in 2009. No unrealized appreciation or depreciation was recognized on Control Investments during the year end December 31, 2008.

At December 31, 2010 and 2009, the Company had one investment in a portfolio company deemed to be an Affiliate. No income was derived from this investment as this is a non-income producing equity investment. At December 31, 2008, the Company had three portfolio companies deemed to be Affiliates. For the year ended December 31, 2008, income derived from these investments was $199,000 in interest income and $18,000 related to commitment and facility fee amortization. One company that was an Affiliate in 2008 performed a capital raise in 2009 which resulted in the company no longer being an Affiliate and one investment was disposed of in 2009.

There were no realized gains or losses related to Affiliates during the years ended December 31, 2010 and 2008. During 2009, the Company recognized a realized loss of approximately $4.0 million in a portfolio company that was an affiliate prior to the disposal of the investment. During the years ended December 31, 2010 and 2009, we recognized unrealized appreciation of approximately $795,000 and $5.3 million, respectively, and in unrealized depreciation in 2008 of $3.3 million related to Affiliates.

***Income Recognition***

Interest income is recorded on the accrual basis to the extent it is expected to be collected. Original Issue Discount ("OID"), represents the estimated fair 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 and interest has been brought current through payment. However, Hercules may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. There were two loans on non-accrual status as of December 31, 2010 with an aggregated cost of $11.4 million and fair values of $4.0 million. There were five loans on non-accrual as of December 31, 2009 with an aggregate cost of $25.5 million and fair value of approximately $10.5 million.

Contractual paid-in-kind ("PIK") interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company will generally cease accruing PIK interest if there is insufficient value to support the accrual or if it does not expect the portfolio company to be able to pay all principal and interest due. To maintain its status as a RIC, PIK income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the years ended December 31, 2010, 2009 and 2008, the Company recognized approximately $2.3 million, $2.9 million and $1.0 million in PIK income, respectively.

Effective January 1, 2011, the Company will recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount (OID) related to early loan pay-off or material modification of the specific debt outstanding.

During its quarter ended December 31, 2010, the Company corrected its method of accounting for nonrecurring fees related to loan modifications. The Company previously recognized these fees upon modification of loans. The Company's audited consolidated financial statements for the year ended December 31, 2010 reflect the correct accounting and recognize fee income in accordance with the procedures described in the preceding paragraph. The Company determined that if it had analyzed the one-time fees for the year ended December 31, 2009 using these procedures, the result to the 2009 consolidated financial statements would not have been material. In addition, the change in method of accounting for nonrecurring fees related to loan modifications has no impact on taxable income. During the year ended December 31, 2010, the Company deferred one-time fee revenue that was recognized in previous periods as income of approximately $1.0 million which is not material to the 2010 consolidated financial statements.

In addition, the Company has considered the aggregated impact of the out of period adjustments recorded in 2010 related to the application of ASC 820 as discussed above under "Debt Investments" and the one-time fee recognition, and concluded that the aggregated impact would not be material to the 2010 or previously issued consolidated financial statements.

Loan origination, commitment and nonrecurring fees received in full at the inception of a loan or upon modification 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. The Company had approximately $6.6 million, $2.4 million and $6.9 million of unamortized fees at December 31, 2010, 2009 and 2008, respectively, and approximately $5.1 million, $6.6 million $3.6 million in exit fees receivable at December 31, 2010, 2009 and 2008, 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 2010, 2009 and 2008.

***Financing costs***

Debt financing costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing and are recognized as prepaid expenses and amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, were as follows:

| | As of December 31 | |
|---|---|---|
| **(in thousands)** | **2010** | **2009** |
| Wells Facility | $ 250 | $ 325 |
| SBA Debenture | 4,917 | 3,622 |
| | $5,167 | $3,947 |

***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.

***Stock Based Compensation***

The Company recognizes share based compensation in accordance with ASC Topic 718, formerly known as FAS 123R, Share-Based Payment. Under ASC 718, compensation expense associated with stock based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

***Earnings Per Share (EPS)***

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

***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." Taxable income includes our net taxable interest, dividend and fee income, as well as our net realized capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. In addition, taxable income generally excludes any unrealized appreciation or depreciation in our investments, because gains and losses are not included in taxable income until they are realized and required to be recognized. Taxable income includes certain income, such as contractual payment-in-kind interest and amortization of discounts and fees that is required to be accrued for tax purposes even though cash collections of such income are generally deferred until repayment of the loans or debt securities that gave rise to such income.

We have distributed and currently intend to distribute sufficient dividends to eliminate taxable income. We are subject to a nondeductible federal excise tax of 4% if we do not distribute at least 98% of our investment company taxable income in any calendar year and 98.2% of our capital gain net income for each one year period ending on October 31. We did not record an excise tax provision for the years ended December 31, 2010 and 2009. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines.

***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 an "opt out" 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 who 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 2010 and 2009, the Company issued approximately 199,000 and 307,000 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

***Segments***

The Company lends to and invests in portfolio companies in various technology-related companies, including clean technology, life sciences, and lower middle market companies. 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***

In January 2010, the FASB issued ASU No. 2010-01,*Accounting for Distributions to Shareholders with Components of Stock and Cash*("ASU 2001-01"), which addresses the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can receive in the aggregate. ASU 2010-01 clarifies that the stock portion of such a distribution is considered a share issuance reflected prospectively in earnings per share. ASU 2010-01 is effective for interim and annual periods ending after December 15, 2009 and should be applied on a prospective basis. The Company adopted the requirements of ASU 2010-01 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

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

In February 2010, the FASB issued ASU 2010-09,*Subsequent Events* ("ASU 2010-09"), which amends ASC 855 to address certain implementation issues, including (1) eliminating the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, (2) clarifying the period through which conduit bond obligors must evaluate subsequent events, and (3) refining the scope of the disclosure requirements for reissued financial statements. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

**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 3 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, 2010 and 2009 at fair value is shown as follows:

| (in thousands) | December 31, 2010 Investments at Fair Value | December 31, 2010 Percentage of Total Portfolio | December 31, 2009 Investments at Fair Value | December 31, 2009 Percentage of Total Portfolio |
|---|---|---|---|---|
| Senior secured debt with warrants | $ 357,963 | 75.8% | $ 226,391 | 60.4% |
| Senior secured debt | 59,251 | 12.6% | 107,075 | 28.6% |
| Preferred stock | 26,813 | 5.7% | 22,875 | 6.1% |
| Senior debt-second lien with warrants | 8,094 | 1.7% | 6,118 | 1.6% |
| Common Stock | 19,911 | 4.2% | 12,210 | 3.3% |
| | $ 472,032 | 100.0% | $ 374,669 | 100% |

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

| (in thousands) | December 31, 2010 Investments at Fair Value | December 31, 2010 Percentage of Total Portfolio | December 31, 2009 Investments at Fair Value | December 31, 2009 Percentage of Total Portfolio |
|---|---|---|---|---|
| United States | $ 438,585 | 92.9% | $ 349,262 | 93.2% |
| Canada | 20,876 | 4.4% | 21,553 | 5.8% |
| England | 10,653 | 2.3% | — | 0.0% |
| Israel | 1,918 | 0.4% | 1,310 | 0.3% |
| Netherlands | — | 0.0% | 2,544 | 0.7% |
| | $ 472,032 | 100.0% | $ 374,669 | 100% |

The following table shows the fair value of our portfolio by industry sector as of December 31, 2010 and 2009 (excluding unearned income):

| (in thousands) | December 31, 2010 Investments at Fair Value | December 31, 2010 Percentage of Total Portfolio | December 31, 2009 Investments at Fair Value | December 31, 2009 Percentage of Total Portfolio |
|---|---|---|---|---|
| Software | $ 96,508 | 20.4% | $ 61,514 | 16.5% |
| Communications & Networking | 65,098 | 13.8% | 58,039 | 15.6% |
| Specialty Pharma | 63,607 | 13.5% | 25,628 | 6.8% |
| Drug Discovery | 52,777 | 11.2% | 53,266 | 14.2% |
| Consumer & Business Products | 45,316 | 9.6% | 25,200 | 6.7% |
| Drug Delivery | 35,250 | 7.5% | 21,479 | 5.7% |
| Clean Tech | 25,722 | 5.4% | — | 0.0% |
| Therapeutic | 25,300 | 5.4% | 14,532 | 3.9% |
| Diagnostic | 14,911 | 3.2% | 11,924 | 3.2% |
| Information Services | 10,857 | 2.3% | 38,127 | 10.2% |
| Surgical Devices | 10,172 | 2.1% | 2,741 | 0.7% |
| Electronics & Computer Hardware | 7,819 | 1.6% | 17,778 | 4.7% |
| Internet Consumer & Business Services | 7,255 | 1.5% | 20,254 | 5.4% |
| Biotechnology Tools | 5,987 | 1.3% | 9,726 | 2.6% |
| Semiconductors | 3,227 | 0.7% | 11,982 | 3.2% |
| Media/Content/Info | 2,223 | 0.5% | 2,375 | 0.6% |
| Energy | 3 | 0.0% | 104 | 0.0% |
| | $ 472,032 | 100.0% | $ 374,669 | 100% |

During the years ended December 31, 2010 and 2009, the Company made investments in debt securities totaling $320.4 and $86.3 million, respectively, and made investments in equity securities of approximately $2.3 and $2.9 million, respectively. In addition, during the year ended December 31, 2010, the Company converted approximately $7.1 million of debt to equity in four portfolio companies. No single portfolio investment represents more than 10% of the fair value of the investments as of December 31, 2010 and 2009.

**3. Fair Value of Financial Instruments**

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. As of December 31, 2010, calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of its SBIC debentures would be approximately $175.5 million, compared to carrying amount of $170.0 million as of December 31, 2010.

See the accompanying consolidated schedule of investments for the fair value of the Company's investments. The methodology for the determination of the fair value of the Company's investment is discussed in Note 1.

**4. Borrowings**

*Citibank Credit Facility*

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the "Citibank Credit Facility") with Citigroup Global Markets Realty Corp. which expired under the normal terms. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $481,000 as of December 31, 2010 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

*Long-term SBA Debentures*

On September 27, 2006, HT II and on May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of December 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. With our net investment of $75.0 million in HT II as of December 31, 2010, HT II has the current capacity to issue up to a total of $150.0 million of SBA guaranteed debentures, of which $150.0 million was outstanding. Currently, HT II has paid commitment fees of approximately $1.5 million. As of December 31, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. As of December 31, 2010, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of December 31, 2010, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $20.0 million was outstanding at December 31, 2010. Currently, HT III has paid commitment fees of approximately $750,000. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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

HT II and HT III are periodically examined and audited by the SBA’s staff to determine its compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II’s or HT III’s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC’s leverage as of December 31, 2010 as a result of having sufficient capital as defined under the SBA regulations. As of December 31, 2010, HT III could draw up to $55.0 million of additional leverage from SBA, as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT II was approximately $139.4 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the year ended December 31, 2010 for HT III was approximately $13.9 million with an average interest rate of approximately 3.215%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

See Note 16 regarding the payment of the Company’s SBIC debentures.

*Wells Facility*

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at December 31, 2010.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of $250 million, contingent upon our total commitments under all lines of credit not exceeding $250 million. To the extent our total commitments exceeds $250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. Based on the net proceeds from the equity raise we completed in November 2010 the adjusted minimum tangible net worth at December 31, 2010 would be approximately $311.0 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2010.

*Union Bank Facility*

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the "Union Bank Facility"). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. At December 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a nonuse fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011.

At December 31, 2010 and December 31, 2009, the Company had the following borrowing capacity and outstandings:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (in thousands) | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Union Bank Facility | $ 20,000 | $ — | $ — | $ — |
| Wells Facility | 50,000 | — | 50,000 | — |
| SBA Debenture(1) | 225,000 | 170,000 | 150,000 | 130,600 |
| Total | $ 295,000 | $ 170,000 | $ 200,000 | $ 130,600 |

(1) The Company has the ability to borrow $55.0 million in SBA debentures under HT III, subject to SBA approval.

**5. Income Taxes**

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

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. 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, 2010 and 2009, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to accelerated revenue recognition for income tax purposes, respectively, as follows:

| (in thousands) | 2010 | 2009 |
|---|---|---|
| Distributions in excess of investment income | $(2,149) | $ 2,355 |
| Accumulated realized gains (losses) | 3,478 | (1,234) |
| Additional paid-in capital | (1,329) | (1,121) |

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 years ended December 31, 2010 and 2009 was as follows:

| (in thousands) | 2010 | 2009 |
|---|---|---|
| Ordinary Income[(a)] | $28,816 | $43,914 |
| Capital Gains | — | — |
| Return of Capital | — | — |
| | $28,816 | $43,914 |

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

The aggregate gross unrealized appreciation of our investments over cost for federal income tax purposes was $22.4 million and $17.4 million as of December 31, 2010 and 2009, respectively. The aggregate gross unrealized depreciation of our investments under cost for federal income tax purposes was $32.2 million and $30.5 million as of December 31, 2010 and 2009, respectively. The net unrealized depreciation over cost for federal income tax purposes was $9.8 million as of December 31, 2010 and net unrealized depreciation over cost for federal income tax purposes was $13.1 million as of December 31, 2009. The aggregate cost of securities for federal income tax purposes was $481.4 million and $379.6 million as of December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company's Statement of Net Assets and Liabilities by temporary book/ tax differences primarily arising from the treatment of loan related yield enhancements.

| (in thousands) | 2010 | 2009 |
|---|---|---|
| Accumulated Capital Gains (Losses) | $(50,057) | $(27,153) |
| Other Temporary Differences | (6,260) | (6,974) |
| Undistributed Ordinary Income | 220 | 849 |
| Unrealized Appreciation (Depreciation) | (8,963) | (9,278) |
| Components of Distributable Earnings | $(65,060) | $(42,556) |

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, which is codified in FASB ASC Topic 740, *Income Taxes* ("ASC 740"), on January 1, 2007. ASC 740 clarifies the accounting for income taxes by prescribing the minimum recognition threshold that an uncertain tax position is required to meet before tax benefits associated with such uncertain tax position are recognized in the consolidated financial statements. The adoption of ASC 740 did not require a cumulative effect adjustment to the January 1, 2007 undistributed net realized earnings. The Company will classify interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes.

Based on an analysis of our tax position, there are no uncertain tax positions that met the recognition or measurement criteria of ASC 740. The Company is currently not undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2007, 2008 and 2009 federal tax years for the Company remain subject to examination by the IRS. The 2006, 2007, 2008 and 2009 state tax years for the Company remain subject to examination by the California Franchise Tax Board.

**6. Shareholders' 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 conjunction with a June 2004 private placement, the Company issued warrants to purchase one share of common stock within five years (the "Five Year Warrants"). Warrants for 88,323 shares were exercised in 2008 for net proceeds of approximately $934,000 and 283,614 warrants expired in June of 2009.

On November 10, 2010, the Company raised approximately $68.1 million, net of issuance costs, in a public offering of 7,187,500 shares of its common stock.

During 2010, 2009 and 2008 the Board of Directors elected to receive approximately $105,000, $22,000 and $70,000 respectively, of their compensation in the form of common stock and the Company issued 10,479, 3,334 and 6,668 shares, respectively, to the directors based on the closing prices of the common stock on the specified election dates.

The Company has issued stock options for common stock subject to future issuance, of which, 4,729,849 and 4,924,405 were outstanding at December 31, 2010 and 2009, respectively.

**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 October 10, 2007.

On June 21, 2007, the shareholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company's stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by Hercules during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company's outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company's outstanding warrants, options and rights issued to Hercules directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

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

In 2010, 2009 and 2008, the Company issued 491,500, 306,500 and 248,650 restricted shares, respectively, pursuant to the 2004 Plan. There were 1,018,103 restricted shares outstanding as of December 31, 2010. The shares granted in 2010 and 2009 vest 25% on the first anniversary of the grant and ratably over the succeeding 36 months. The shares granted in 2008 vest 25% per year on an annual basis from the date of grant. Share based compensation cost will be recognized ratably over the four year vesting period. No restricted stock was granted pursuant to the 2004 Plan prior to 2008. The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the years ended December 31, 2010, 2009 and 2008 was approximately $5.1 million, $1.3 million and $3.0 million, respectively. During the years ended December 31, 2010, 2009 and 2008, approximately $2.0 million, $1.0 million and $600,000 of share-based cost was expensed, respectively. As of December 31, 2010, there was $5.6 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.8 years.

A summary of restricted stock activity under the Company's 2006 and 2004 Plans for each of the three periods ended December 31, 2010 is as follows:

| | 2006 Plan | 2004 Plan |
|---|---|---|
| Outstanding at December 31, 2007 | 6,668 | — |
| Granted | 10,000 | 248,650 |
| Cancelled | — | (20,500) |
| Outstanding at December 31, 2008 | 16,668 | 228,150 |
| Granted | 5,000 | 306,500 |
| Cancelled | — | (4,175) |
| Outstanding at December 31, 2009 | 21,668 | 530,475 |
| Granted | — | 491,500 |
| Cancelled | — | (3,872) |
| Outstanding at December 31, 2010 | 21,668 | 1,018,103 |

In conjunction with stock options issued in 2004, the Company issued warrants to purchase one share of common stock within five years. The warrants expired in June 2009.

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A summary of common stock options and warrant activity under the Company's 2006 and 2004 Plans for each of the three periods ended December 31, 2010 is as follows:

| | Common Stock Options | Five-Year Warrants |
|---|---|---|
| Outstanding at December 31, 2007 | 2,900,513 | 10,692 |
| Granted | 1,319,086 | — |
| Exercised | — | — |
| Cancelled | (288,072) | — |
| Outstanding at December 31, 2008 | 3,931,527 | 10,692 |
| Granted | 1,357,000 | — |
| Exercised | — | — |
| Cancelled | (364,122) | (10,692) |
| Outstanding at December 31, 2009 | 4,924,405 | — |
| Granted | 575,250 | — |
| Exercised | (520,666) | — |
| Cancelled | (249,140) | — |
| Outstanding at December 31, 2010 | 4,729,849 | — |
| Weighted-average exercise price at December 31, 2010 | $ 11.33 | $ — |

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, 2010, options for approximately 3.6 million shares were exercisable at a weighted average exercise price of approximately $12.43 per share with weighted average of remaining contractual term of 2.86. The Company determined that the fair value of options and warrants granted under the 2006 and 2004 Plans during the years ended December 31, 2010, 2009 and 2008 was approximately $1.0 million, $746,000 and $1.2 million, respectively. During the years ended December 31, 2010, 2009 and 2008, approximately $719,000, $977,000 and $1.0 million, of share-based cost was expensed, respectively. As of December 31, 2010, there was $1.1 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.2 years. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the three periods ended December 31, 2010:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Expected Volatility | 46.39% | 31.52%-45.88% | 23% |
| Expected Dividends | 10% | 10% | 8%-10% |
| Expected term (in years) | 4.5 | 4.5 | 4.5 |
| Risk-free rate | 0.89%-2.51% | 1.77%-2.22% | 2.27%-3.18% |

The following table summarizes stock options outstanding and exercisable at December 31, 2010:

| (Dollars in thousands, except exercise price) | Options outstanding | | | | Options exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number of shares | Weighted average remaining contractual life | Aggregate intrinsic value | Weighted average exercise price | Number of shares | Weighted average remaining contractual life | Aggregate intrinsic value | Weighted average exercise price |
| $4.21-$6.74 | 653,116 | 5.18 | $ 4,014 | $ 4.21 | 196,332 | 5.15 | $ 1,207 | $ 4.21 |
| $8.49-$12.84 | 2,157,470 | 4.44 | 248 | 11.48 | 1,487,726 | 3.60 | 25 | 12.04 |
| $13.00-$15.00 | 1,919,263 | 2.06 | — | 13.57 | 1,919,263 | 2.06 | — | 13.57 |
| $4.21-$15.00 | 4,729,849 | 3.58 | $ 4,262 | $ 11.33 | 3,603,321 | 2.86 | $ 1,232 | $ 12.43 |

**8. Earnings per Share**

In June 2008, the FASB issued ASC 260 (formerly known as FASB EITF 03-6-1). Under this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, such as our restricted stock issued under the 2004 Plan and 2006 Plan, are considered participating securities for purposes of calculating change in net assets per share. Under the two-class method, a portion of net increase in net assets resulting from operations is allocated to these participating securities and therefore is excluded from the calculation of change in net assets per share allocated to common stock, as shown in the table below. This standard requires retrospective application for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. This standard was effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this standard beginning with financial statements ended March 31, 2009. The adoption of the standard did not change the previously reported basic change in net assets per share and diluted change in net assets per share for the years ended December 31, 2008.

Computation and reconciliation of change in net assets per common share are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| **(in thousands, except per share data)** | **2010** | **2009** | **2008** |
| Numerator | | | |
| Net increase in net assets resulting from operations | $ 4,982 | $ 13,572 | $ 20,995 |
| Less: Dividends declared-common and restricted shares | (28,816) | (43,914) | (43,281) |
| Undistributed earnings | (23,834) | (30,342) | (22,286) |
| Undistributed earnings-common shares | (23,834) | (30,342) | (22,286) |
| Add: Dividend declared-common shares | 28,228 | 43,377 | 43,048 |
| **Numerator for basic and diluted change in net assets per common share** | 4,394 | 13,035 | 20,762 |
| Denominator | | | |
| **Basic weighted average common shares outstanding** | 36,156 | 34,486 | 32,619 |
| Common shares issuable | 714 | 405 | — |
| **Weighted average common shares outstanding assuming dilution** | 36,870 | 34,891 | 32,619 |
| **Change in net assets per common share** | | | |
| Basic | $ 0.12 | $ 0.38 | $ 0.64 |
| Diluted | $ 0.12 | $ 0.37 | $ 0.64 |

The calculation of change in net assets resulting from operations per common share—assuming dilution, excludes all anti-dilutive shares. For the years ended December 31, 2010, 2009 and 2008, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 5,168,022; 4,124,000; and 3,844,000 shares, respectively.

**9. Commitments and Contingencies**

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the Company's portfolio companies. The balance of unfunded commitments to extend credit at December 31, 2010 totaled approximately $117.2 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 $1.0 million, $966,000 and $957,000 during the years ended December 31, 20010, 2009 and 2008, respectively.

Future commitments under the credit facility and operating leases were as follows at December 31, 2010:

| | Payments due by period (in thousands) | | | | |
|---|---|---|---|---|---|
| Contractual Obligations(1)(2) | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Borrowings(3) | $170,000 | $ — | $ — | $— | $170,000 |
| Operating Lease Obligations(4) | 3,367 | 1,202 | 2,165 | — | — |
| Total | $173,367 | $ 1,202 | $2,165 | $— | $170,000 |

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.
(3) Includes borrowings under the SBA debentures. There were no outstanding borrowings under the Wells Facility or Union Bank facility at December 31, 2010.
(4) Long-term facility leases.

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

As of December 31, 2010, the Company was not a party to any material legal proceedings. However, 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.

**10. 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.

**11. Concentrations of Credit Risk**

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

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

For years ended December 31, 2010 and 2009, our ten largest portfolio companies represented approximately 57.5% and 51.9% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2010 and 2009, we had six and three investments, respectively, that represented 5% or more of our net assets. At December 31, 2010, we had three equity investments representing approximately 48.0% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2009, we had five equity investments which represented approximately 50.3% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

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**12. Financial Highlights**

Following is a schedule of financial highlights for five years ended December 31, 2010.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**FINANCIAL HIGHLIGHTS**
**(in thousands, except per share data)**

| | For the Years Ended December 31, 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Per share data: | | | | | |
| Net asset value at beginning of period | $ 10.29 | $ 11.56 | $ 12.31 | $ 11.65 | $ 11.67 |
| Net investment income(1) | 0.81 | 1.25 | 1.23 | 1.15 | 0.78 |
| Net realized gain (loss) on investments | (0.73) | 0.03 | 0.07 | 0.09 | (0.12) |
| Net unrealized appreciation (depreciation) on investments | 0.06 | (0.90) | (0.66) | 0.26 | 0.19 |
| Total from investment operations | 0.14 | 0.38 | 0.64 | 1.50 | 0.85 |
| Net increase/(decrease) in net assets from capital share transactions | (0.21) | (0.44) | (0.12) | 0.32 | 0.28 |
| Distributions | (0.80) | (1.26) | (1.32) | (1.20) | (1.20) |
| Stock-based compensation expense included in investment income(2) | 0.08 | 0.05 | 0.05 | 0.04 | 0.05 |
| Net asset value at end of period | $ 9.50 | $ 10.29 | $ 11.56 | $ 12.31 | $ 11.65 |
| Ratios and supplemental data: | | | | | |
| Per share market value at end of period | $ 10.36 | $ 10.39 | $ 7.92 | $ 12.42 | $ 14.25 |
| Total return(3) | 7.70% | 45.63% | (25.60)% | (4.42)% | 28.86% |
| Shares outstanding at end of period | 43,444 | 35,634 | 33,096 | 32,541 | 21,927 |
| Weighted average number of common shares outstanding | 36,156 | 34,486 | 32,619 | 28,295 | 13,352 |
| Net assets at end of period | $412,531 | $366,515 | $382,458 | $400,737 | $255,413 |
| Ratio of operating expense to average net assets | 8.25% | 8.23% | 8.85% | 6.46% | 13.11% |
| Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets | 8.05% | 11.38% | 9.86% | 9.81% | 7.93% |
| Average debt outstanding | $142,410 | $147,446 | $196,928 | $ 66,334 | $ 77,795 |
| Weighted average debt per common share | $ 3.94 | $ 4.28 | $ 6.04 | $ 2.34 | $ 5.83 |
| Portfolio turnover | 1.82% | 1.38% | 3.39% | 0.42% | 1.50% |

(1) For 2010, 2009 and 2008, basic net income per share are calculated as net investment income divided by the basic and diluted weighted average shares outstanding. Basic net income per share calculated under the two class methods are $0.12 and $0.38 and $0.64 for 2010, 2009 and 2008, respectively. There is no difference of net investment income calculated under the two class method and as disclosed above for 2007 and 2006.

(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(3) The total return for the period ended December 31, 2010, 2009, 2008, 2007 and 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.

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**13. Senior Securities**

Information about Company's senior securities is shown in the following table for the periods as of December 31, 2010, 2009, 2008, 2007, 2006, 2005 and 2004.

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

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

**14. Selected Quarterly Data (Unaudited)**

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2010. 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 | | | |
|---|---|---|---|---|
| (in thousands, except per share data) | 3/31/2010 | 6/30/2010 | 9/30/2010 | 12/31/2010 |
| Total investment income | $12,520 | $ 14,501 | $15,646 | $ 16,807 |
| Net investment income before provision for income taxes and investment gains and losses | 5,612 | 6,863 | 8,148 | 8,751 |
| Net increase (decrease) in net assets resulting from operations | 5,714 | (4,630) | (7,823) | 11,721 |
| Change in net assets resulting from operations per common share (basic) | 0.16 | (0.14) | (0.23) | 0.30 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | 3/31/2009 | 6/30/2009 | 9/30/2009 | 12/31/2009 |
| Total investment income | $20,450 | $ 19,480 | $17,681 | $ 16,666 |
| Net investment income before provision for income taxes and investment gains and losses | 11,558 | 11,821 | 10,347 | 9,377 |
| Net increase (decrease) in net assets resulting from operations | 4,482 | (13,059) | 13,690 | 8,459 |
| Change in net assets resulting from operations per common share (basic) | 0.14 | (0.38) | 0.39 | 0.24 |

As discussed in Note 1, the Company corrected the valuation process to refine its application of ASC 820. The new procedure applied during the three month period ended December 31, 2010 resulted in a $282,000 out of period reduction in net unrealized (depreciation) appreciation on investments and net increase in net assets resulting from operations. The Company has concluded that the out of period effect of these adjustments is not material to any of its previously issued condensed consolidated financial statements. In addition, as discussed in Note 1, the Company has corrected its accounting for one-time fees. This resulted in a $776,000 out of period reduction in total investment income and net increase in net assets resulting from operations during the three month period ended December 31, 2010.

**15. Subsequent Events**

*Dividend Declaration*

On March 1, 2011 the Board of Directors increased the quarterly dividend by 10.0% and declared a cash dividend of $0.22 per share that was paid on March 24, 2011 to shareholders of record as of March 10, 2011. This dividend would represent the Company's twenty-second consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $6.03 per share.

*Share Repurchase Program*

On January 27, 2011, The Company approved the extension of the stock repurchase plan as previously approved on February 8, 2010 under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock set to expire on February 11, 2011 for an additional six month period with a new expiration date of August 26, 2011.

*Liquidity and Capital Resources*

In January 2011, the Company repaid $25.0 million of SBA debentures under its first license, priced at approximately 6.63%, including annual fees. In February 2011, the Company submitted a request to the SBA to borrow $25.0 million under a new capital commitment which is subject to SBA approval.

In February 2011, the Company extended the termination date under the credit facility with Union Bank from May 1, 2011 to July 31, 2011. Terms and conditions under the agreement remain the same through the extension period.

In January 2011, the Company's portfolio company InfoLogix, Inc, a leading provider of enterprise mobile solutions for the healthcare and commercial industries, completed the sale of all of its shares to Stanley Black & Decker, Inc. (NYSE: SWK). The transaction was valued at approximately $61.2 million prior to transaction fees, closing costs, and working capital adjustments.

In February 2011, portfolio company Pacira, an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of novel pharmaceutical products, priced its initial public offering ("IPO") on Nasdaq-GM under the symbol ("PCRX").

In February 2011, the Company sold part of its equity position in portfolio company Kamada (Tel Aviv: KMDA.TA), a publicly traded Israeli-based biopharmaceutical company, and expects to recognize a realized gain of approximately $1.2 million in Q1 2011.

Schedule 12-14

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES As of and for the year ended December 31, 2010**
**(in thousands)**

| Portfolio Company | Investment(1) | Amount of Interest Credited to Income(2) | As of December 31, 2009 Fair Value | Gross Additions(3) | Gross Reductions(4) | As of December 31, 2010 Fair Value |
|---|---|---|---|---|---|---|
| **Control Investments** | | | | | | |
| Infologix, Inc. | Senior Debt | $ 1,393 | $ 5,500 | $ 3,865 | $ 166 | $ 9,199 |
| | Convertible Senior Debt | 615 | 10,060 | 1,108 | 10,041 | 1,127 |
| | Revolving Line of Credit | 1,275 | 7,559 | 6,588 | 1,830 | 12,317 |
| | Common stock warrants | | 1,494 | 14 | 114 | 1,394 |
| | Common stock | | 7,571 | 10,218 | 1,645 | 16,144 |
| | | 3,283 | 32,184 | 21,793 | 13,796 | 40,181 |
| **Affiliate Investments** | | | | | | |
| E-band Communications, Inc. | Preferred Stock | — | 2,274 | 795 | — | 3,069 |
| **Total Control and Affiliate Investments** | | $ 3,283 | $ 34,458 | $ 22,588 | $ 13,796 | $ 43,250 |

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of December 31, 2010.
(2) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was an affiliate or control investment.
(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increase in unrealized appreciation or net decreases in unrealized depreciation.
(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increase in unrealized depreciation or net decreases in unrealized appreciation.

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## 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



FINANCIAL STATEMENT SCHEDULE:



2. *Exhibits*

| Exhibit Number | Description |
|---|---|
| a.1 | Articles of Amendment and Restatement.[2] |
| a.2 | Articles of Amendment, dated March 6, 2007.[12] |
| a.3 | Articles of Amendment, dated April 5, 2011.[23] |
| 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] |

| 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 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 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 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 by and among Hercules Technology Growth Capital, Inc. and Citigroup Global Markets Realty Corp., dated as of May 2, 2007. (15) |
| f.18 | Amended and Restated Note Purchase Agreement by and among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc. and Citigroup Global Markets, Inc. dated as of May 2, 2007.(15) |
| f.19 | First Amendment to Amended and Restated Note Purchase Agreement by and among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc. and Citigroup Global Markets, Inc. dated as of May 7, 2008.(17) |
| f.20 | Second Amendment to Amended and Restated Sale and Servicing Agreement 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., Citigroup Global Markets Inc., and Deutsche Bank AG dated as of May 7, 2008.(17) |
| f.21 | Form of SBA Debenture.(18) |

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| Exhibit Number | Description |
|---|---|
| f.22 | Loan and Security Agreement by and among Hercules Funding II, LLC and Wells Fargo Foothill, LLC, dated as of August 25, 2008.(19) |
| f.23 | Sales and Servicing Agreement among Hercules Funding II, LLC, Hercules Technology Growth Capital, Inc., Lyon Financial Services, Inc. and Wells Fargo Foothill, LLC, dated as of August 25, 2008.(19) |
| f.24 | First Amendment to Loan and Security Agreement by and among Hercules Funding II, LLC and Wells Fargo Foothill, LLC, dated as of April 30, 2009.(20) |
| f.25 | Loan and Security Agreement by Hercules Technology Growth Capital, Inc. and Union Bank, N.A. dated February 10, 2010(22) |
| f.26 | Indenture between Hercules Technology Growth Capital, Inc. and U.S. Bank National Association, dated as of April 15, 2011.(24) |
| f.27 | Form of Note under the Indenture. (24) |
| h.1* | Form of Underwriting Agreement. |
| i.1 | Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan (2007 Amendment and Restatement)(11) |
| i.2 | Hercules Technology Growth Capital, Inc. 2006 Non-Employee Director Plan (2007 Amendment and Restatement)(16) |
| i.3 | Form of Incentive Stock Option Award under the 2004 Equity Incentive Plan(2) |
| i.4 | Form of Nonstatutory Stock Option Award under the 2004 Equity Incentive Plan(2) |
| i.5 | Form of Restricted Stock Award under the 2004 Equity Incentive Plan(18) |
| 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) |
| k.2 | Warrant Agreement dated June 22, 2004 between the Company and American Stock Transfer & Trust Company, as warrant agent(1) |
| 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 PricewaterhouseCoopers, LLP. |
| n.2* | Consent of Ernst & Young LLP. |
| n.3* | Consent of Sutherland Asbill & Brennan LLP (included in Exhibit l). |
| n.4* | Report of PricewaterhouseCoopers, LLP. |
| n.5* | Consent of Venture Source. |
| p | Subscription Agreement dated February 2, 2004 between the Company and the subscribers named therein(2) |
| r | Code of Ethics.(2) |

* Filed herewith.

(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 Securities to be Offered to Employees in Employee Benefit Plans on Form S-8, as filed June 22, 2007.
(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.
(15) Previously filed as part of the Pre-Effective Amendment No. 1, as filed May 15, 2007 (File No. 333-141828), to the Registration Statement on Form N-2 of the Company.
(16) Previously filed as part of the Securities to be Offered to Employees in Employee Benefit Plans on Form S-8, as filed October, 10, 2007.
(17) Previously filed as part of the Pre-Effective Amendment No. 2, as filed June 5, 2008 (File No. 333-150403), to the Registration Statement on Form N-2 of the Company.
(18) Previously filed as part of the Annual Report on Form 10-K of the Company, as filed on March 16, 2009.
(19) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 27, 2008.
(20) Previously filed as part of the Quarterly Report on Form 10-Q of the Company, as filed on May 11, 2009.
(21) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on February 17, 2010.
(22) Previously filed as part of the Registration Statement on Form N-2 (File No. 333-171368), as filed on December 22, 2010.
(23) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 11, 2011.
(24) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 18, 2011.

**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 | $ 9,468 |
| FINRA filing fee | 13,780 |
| Nasdaq listing fee | 65,000 |
| Accounting fees and expenses | 150,000 |
| Legal fees and expenses | 250,000 |
| Printing expenses | 100,000 |
| Miscellaneous | 31,752 |
| Total | $ 620,000 |

The amounts set forth above, except for the SEC and FINRA 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., Hercules Technology III, LP and Hercules Technology IV, LP and the Company owns substantially all of the limited partnership interests in Hercules Technology II, L.P. Hercules Technology III, L.P. and Hercules Funding II LLC, Hercules Technology Management Co. II, Inc., Hercules Technology Management Co. III, Inc., Hercules Technology Management Co. IV, Inc., Hercules Technology Management Co. V, Inc., Hercules Technology Management Company VI, Inc., Hercules Technology I, LLC, Hercules Technology II, LLC, Hydra Ventures LLC, Hydra Management Co., Inc., Hydra Management LLC and InfoLogix Liquidation Co., LLC are wholly owned subsidiaries of the Company. Spa Chakra SBIC Management Corp is a wholly owned subsidiary of Hercules Technology II, L.P. Spa Chakra Acquisition Corp. and Spa Chakra Trademark, LLC are wholly owned subsidiaries of Spa Chakra SBIC Management Corp. Accordingly, the Company may be deemed to control, directly or indirectly, the following entities:

| Name | Jurisdiction of Organization |
|---|---|
| Hercules Technology II, L.P. | Delaware |
| Hercules Technology III, LP | Delaware |
| Hercules Technology IV, LP | Delaware |
| Hercules Technology SBIC Management, LLC | Delaware |
| Hercules Funding II, LLC | Delaware |
| Hercules Technology Management Co II, Inc. | Delaware |
| Hercules Technology Management Co III, Inc. | Delaware |
| Hercules Technology Management Co IV, Inc. | Delaware |
| Hercules Technology Management Co V, Inc. | Delaware |
| Hercules Technology Management Company VI, Inc. | Delaware |
| Hercules Technology I, LLC | Delaware |
| Hercules Technology II LLC | Delaware |
| Hydra Ventures LLC | Delaware |
| Hydra Management Co., Inc. | Delaware |
| Hydra Management LLC | Delaware |
| Spa Chakra Acquisition Corp. | Indiana |
| Spa Chakra SBIC Management Corp. | Delaware |
| Spa Chakra Trademark, LLC | Delaware |
| InfoLogix Liquidation Co., LLC | Delaware |

### Item 29. Number of Holder of Securities

The following table sets forth the approximate number of shareholders of the Company’s common stock as of April 26, 2011:

| Title of Class | Number of Record Holders |
|---|---|
| Common stock, par value $.001 per share | 15,000 |

### 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.

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**

The Registrant undertakes:

1. to suspend the offering of shares until the prospectus is amended if (a) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement or (b) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

2. Not applicable.

3. Not applicable.

4.

   a. 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;

      ii. to reflect in the prospectus any facts or events arising 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.

b. that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof;

c. 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;

d. that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectus filed in reliance on Rule 430A under the Securities Act, 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, supercede 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;

e. that for the purpose of determining liability of the Registrant under the Securities Act 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;

    ii. the portion of any advertisement pursuant to Rule 482 under the Securities Act 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.

5. Not applicable.

6. Not applicable.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, and State of California, on the 29th day of April, 2011.

**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<br>**Manuel A. Henriquez** | Chairman of the Board, President and Chief Executive Officer (principal executive officer) | April 29, 2011 |
| /S/ DAVID M. LUND<br>**David M. Lund** | Chief Financial Officer (principal financial and accounting officer) | April 29, 2011 |
| *<br>**Allyn C. Woodward, Jr.** | Director | April 29, 2011 |
| *<br>**Joseph W. Chow** | Director | April 29, 2011 |
| *<br>**Robert P. Badavas** | Director | April 29, 2011 |

* Signed by Manuel A. Henriquez as attorney-in-fact.

**Exhibit h.1**

[—] Shares

Hercules Technology Growth Capital, Inc.

Common Stock

**UNDERWRITING AGREEMENT**

[—], 2010

[Underwriters]

Ladies and Gentlemen:

Hercules Technology Growth Capital, Inc., a Maryland corporation (the "**Company**"), proposes to issue and sell to [—] (the "**Representatives**"), along with the several Underwriters named in Schedule I hereto (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 [—], 2010, included in the Registration Statement at the time it became effective on [—], 2010, (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 [—], 2010, 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 [—] p.m. (New York City time) on the date hereof 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 and 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, it being understood and agreed that the only such information furnished by any Underwriter consists of the following information in the Prospectus Supplement furnished on behalf of each Underwriter: [—] under the caption "Underwriting."

(ii) The Registration Statement has become effective; the Commission 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 regulated by the Commission as a business development company under the Investment Company Act of 1940, as amended (the "**Investment Company Act**"), and has not withdrawn that election, and the Commission has not ordered that such election be withdrawn nor to the best of the Company's knowledge have proceedings to effectuate such withdrawal been initiated or threatened by the Commission. All required action has or will have been taken under the Securities Act and the rules and regulations, 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) Intentionally Omitted.

(v) 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, and PricewaterhouseCoopers LLP were and are an independent registered accounting firm as required by the Securities Act and the Securities Act Rules and Regulations and the rules and regulations of the Public Company Accounting Oversight Board.

(vi) 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 results of operations and financial condition of the Company and its Subsidiaries (as defined below) as of the dates indicated and the results of their operations for the respective periods specified, and are prepared in conformity with U.S. 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.

(vii) 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, and Illinois and these are the only jurisdictions where the Company is required to be qualified or licensed or in good standing 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”).

(viii) The Company has eighteen wholly owned subsidiaries, Hercules Technology II, L.P., Hercules Technology III, L.P., Hercules Technology I, LLC, Hercules Technology II, LLC, Hercules Technology SBIC Management, LLC, Hercules Funding II, LLC, Hydra Ventures LLC, Hydra Management LLC, Hydra Management Co., Inc., Hercules Technology Management Co. II Inc., Hercules Technology Management Co. III Inc., Hercules Technology Management Co. IV Inc., Hercules Technology Management Co. V Inc., Hercules Technology Management Co. VI Inc., Infologix Liquidation Co., LLC Spa Chakra Acquisition Corp., Spa Chakra SBIC Management Corp. and Spa Chakra Trademark LLC (the “Subsidiaries”). 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 and Massachusetts. Hercules Technology III, 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, Illinois and Massachusetts. Hercules Technology 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. Hercules Technology II, 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. 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, Massachusetts and Illinois. Hercules Funding II LLC is a limited liability company duly formed and existing under the laws of the State of Delaware and is in good standing under the Delaware Limited Liability Company Act, as amended and is duly licensed or qualified to do business in California. Hydra Ventures 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. Hydra 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. Hydra Management Co., Inc. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California. Hercules Technology Management Co. II, Inc. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California, New Jersey and Pennsylvania. Hercules Technology Management Co. III, Inc. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California and Georgia. Hercules Technology Management Co. IV, Inc. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California. Hercules Technology Management Co. V, Inc. is a corporation duly formed and existing under the laws of the State of Delaware is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California. Hercules Technology Management Co. VI, Inc. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware Corporation Law and is duly licensed or qualified to do business in California. InfoLogix Liquidation Co. LLC is a limited liability company duly formed and existing under the laws of the

State of Delaware and is in good standing under the Delaware Limited Liability Company Act, as amended, and is duly licensed or qualified to do business in California. Spa Chakra Acquisition Corp. is a corporation duly formed and existing under the laws of the State of Indiana, is in good standing under the Indiana General Business Corporation Law and is duly licensed or qualified to do business in California, New York, Illinois and Florida. Spa Chakra SBIC Management Corp. is a corporation duly formed and existing under the laws of the State of Delaware, is in good standing under the Delaware General Corporation Law and is duly licensed or qualified to do business in California, New York, Illinois and Florida. Spa Chakra Trademark LLC is a limited liability company duly formed and existing under the laws of the State of Delaware and is in good standing under the Delaware Limited Liability Company Act, as amended, and is duly licensed or qualified to do business in California, New York, Illinois and Florida. These are the only jurisdictions where such Subsidiaries are required to be licensed or qualified to do business or in good standing 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.

(ix) 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.

(x) 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 and, when the Shares are delivered and paid for pursuant to this Agreement on Closing Date and the Option Closing Date such Shares will have been validly issued and fully paid and non-assessable. The stockholders of the Company have no preemptive rights with respect to the Shares and none of the outstanding shares of capital stock of the Company have been issued in violation of any preemptive rights of any security holder.

(xi) 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 and its Subsidiaries have 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 and its Subsidiaries taken as a whole, (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, property or results of operations of the Company and its Subsidiaries taken as a whole (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 and its Subsidiaries have not incurred any short-term debt or long-term debt that is, in either case, material with respect to the Company and its Subsidiaries taken as a whole (excluding debt resulting from a draw down on the Company's credit facilities).

(xii) There is no pending or, to the knowledge of the Company, threatened action, suit or proceeding, legal or governmental, to which the Company or any of its Subsidiaries 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.

(xiii) There are no contracts, agreements or understandings of the Company or any of its Subsidiaries 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.

(xiv) This Agreement has been duly authorized, executed and delivered by the Company.

(xv) 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 or any of its Subsidiaries pursuant to, any agreement, indenture, mortgage, lease or other instrument to which the Company or any of its Subsidiaries 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 or any of its Subsidiaries' 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 Subsidiaries or any of their respective properties.

(xvi) 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 or any of its Subsidiaries 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 FINRA (as defined below) or the securities laws of any jurisdiction outside of the United States in connection with the offer and sale of the Shares.

(xvii) This Agreement complies as to form in all material respects with all applicable provisions of the Investment Company Act.

(xviii) Except as disclosed in the Registration Statement, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement.

(xix) There are no material restrictions, limitations or regulations with respect to the ability of the Company or its Subsidiaries to invest its assets as described in the Registration Statement, Pre-Pricing Prospectus or Prospectus, other than as described therein.

(xx) Any third-party statistical and market-related data included in the Registration Statement, Pre-Pricing Prospectus or the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate.

(xxi) The Shares have been authorized for listing on the Nasdaq Global Select Market ("**Nasdaq**"), subject to official notice of issuance or sale of the Shares, as the case may be.

(xxii) 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 or any of its Subsidiaries, 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.

(xxiii) Except as disclosed in the Prospectus under the caption "Certain Relationships and Related Transactions," the Company and its Subsidiaries have 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.

(xxiv) 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.

(xxv) 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.

(xxvi) The Common Stock is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended ("**Exchange Act**"), and is listed on the Nasdaq, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the Nasdaq, nor has the Company received any notification that the Commission or the Nasdaq is contemplating terminating such registration or listing.

(xxvii) 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.

(xxviii) 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 requirements to be taxed as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended ("**Subchapter M of the Code**").

(xxix) 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.

(xxx) 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.

(xxxi) 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 U.S. 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.

(xxxii) 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.

(xxxiii) 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.

(xxxiv) Neither the Company 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.

(xxxv) Neither the Company nor the Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or the Subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("**OFAC**"); and neither the Company nor any of its subsidiaries will, directly or indirectly, use the proceeds of the offering of the Shares hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xxxvi) Neither the Company nor any of the Subsidiaries nor, to the knowledge of the Company, any employee or agent of the Company or any of the Subsidiaries, has made any payment of funds of the Company or any of the Subsidiaries or received or retained any funds in violation of any applicable law, rule or regulation, including without limitation the "know your customer" and anti-money laundering laws of any applicable jurisdiction.

(xxxvii) The Subsidiaries of the Company do not have employees or employ personnel.

(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, agrees to purchase, severally and not jointly, from the Company the number of Firm Shares set forth opposite the name of each Underwriter on Schedule A 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 30 (thirty) days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by each Underwriter 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 5 (five) 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 [—] a.m., New York City time, on [—], 2010, 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 [—] a.m., 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 [—] a.m., 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 following 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 [—] a.m. 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 Representatives, 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 issuances of Common Stock pursuant to any employee or director compensation, dividend reinvestment, savings, or benefit plan, or distributions to the Company's directors upon that individual's election to receive shares of the company's Common Stock in lieu of a cash retainer.

Notwithstanding anything herein to the contrary, if (i) during the last 17 days of the foregoing [—] day period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the foregoing [—] day period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the foregoing [—] day period, the foregoing restrictions shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(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, however,* 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 memo, (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 Financial Industry Regulatory Authority, Inc. ("**FINRA**"), 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 and in 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.

(m) To make generally available to the Company's security holders and to you, as soon as reasonably practicable, an earning statement for the purposes of and to provide the benefits contemplated by Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

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:

(i) 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;

(ii) Such opinion or opinions, dated the Closing Date and the Option Closing Date, as the case may be, of Fried, Frank, Harris, Shriver & Jacobson LLP, counsel for the Underwriters, 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.

(c) 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 in all material respects as of the date of the Agreement (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, results of operations or prospects of, the Company and its Subsidiaries taken as a whole (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.

(d) On each the date hereof, the Closing Date and the Option Closing Date, as the case may be, the Underwriters shall have received from each of Ernst & Young LLP and PricewaterhouseCoopers 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, however,* 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" of not more than three business days prior to the Option Closing Date.

(e) 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 (d) 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.

(f) 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.

(g) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between the Underwriters and certain executive officers and directors 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.

(h) 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.

(i) The Shares shall have been approved for listing on the Nasdaq, subject only to notice of issuance at or prior to the Closing Date or the Option Closing Date, as the case may be.

(j) All filings with the Commission required by Rule 497 of the Securities Act to have been filed by the Closing Date or the Option Closing Date, as the case may be, shall have been made within the applicable time period prescribed for such filing by Rule 497.

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) The Company will indemnify and hold harmless each Underwriter, its partners, members, directors, officers, employees, agents, affiliates and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each, an "**Indemnified Party**"), against any and all losses, claims, damages or liabilities, joint or several, to which such Indemnified Party may become subject, under the Securities Act, the Exchange Act, other Federal or state statutory law or regulation or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any part of the Registration Statement, the Pre-Pricing Prospectus, or the

Prospectus, or arise out of or are based upon the omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Indemnified Party for any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending against any loss, claim, damage, liability, action, litigation, investigation or proceeding whatsoever (whether or not such Indemnified Party is a party thereto), whether threatened or commenced, and in connection with the enforcement of this provision with respect to any of the above as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage or liability arises out or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by an Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection (b) below.

(b) Each Underwriter will severally and not jointly indemnify and hold harmless the Company, each of its directors and each of its officers who signs a Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each, an "**Underwriter Indemnified Party**"), against any losses, claims, damages or liabilities to which such Underwriter Indemnified Party may become subject, under the Securities Act, the Exchange Act, other Federal or state statutory law or regulation or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any part of the Registration Statement, the Pre-Pricing Prospectus, or the Prospectus, or arise out of or are based upon the omission or alleged omission of 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 omissions or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by such Underwriter Indemnified Party in connection with investigation or defending against any such loss, claim, damage, liability, action, litigation, investigation or proceeding whatsoever (whether or not such Underwriter Indemnified Party is a party thereto), whether threatened or commenced, based upon any such untrue statement or omission, or any such alleged untrue statement or omission as such expenses are incurred, it being understood and agreed that the only such information furnished by any Underwriter consists of the following information in the Prospectus Supplement furnished on behalf of each Underwriter: the third paragraph and the twenty-first paragraph under the caption "Underwriting."

(c) *Actions against Parties; Notification.* Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the failure to notify the indemnifying party shall not relieve it from any liability that it may have under subsection (a) or (b) above, except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party.

(d) *Contribution.* If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) 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 from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault 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 or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which 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 Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint. 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 which does not take account of the equitable considerations referred to in Section 7(d).

(e) 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 there shall have occurred (i) any change, or any development or event involving a prospective change, in the condition (financial or otherwise), results of operations, business, net worth, or properties of the Company and its Subsidiaries taken as a whole which, in the judgment of the Representatives, is material and adverse and makes it impractical or inadvisable to market the Shares; (ii) any change in U.S. or international financial, political or economic conditions or currency exchange rates or exchange controls the effect of which is such as to make it, in the judgment of the Representatives, impractical to market or to enforce contracts for the sale of the Shares, whether in the primary market or in respect of dealings in the secondary market; (iii) any suspension or material limitation of trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq, or any setting of minimum or maximum prices for trading on such exchange; (iv) any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (v) any banking moratorium declared by any U.S. federal or New York authorities; (vi) any major disruption of settlements of securities, payment, or clearance services in the United States; or (vii) any attack on, outbreak or escalation of hostilities or act of terrorism involving the United States, any declaration of war by Congress or any other national or international calamity or emergency if, in the judgment of the Representatives, the effect of any such attack, outbreak, escalation, act, declaration, calamity or emergency is such as to make it impractical or inadvisable to market the Shares or to enforce contracts for the sale of the Shares.

9. *Default of Underwriters.*

(a) If any Underwriter or Underwriters default in their obligations to purchase Shares hereunder on the Closing Date or the Option Closing Date and the number of Shares that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of Shares the Underwriters are obligated to purchase on such Closing Date or Option Closing Date, the Representatives may make arrangements satisfactory to the Company for the purchase of such Shares by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date or Option Closing Date, the non-defaulting Underwriters shall be obligated severally in proportion to their respective commitments hereunder, to purchase the Shares that such defaulting Underwriters agreed but failed to purchase on such Closing Date or Option Closing Date. If any Underwriter or Underwriters so default and the aggregate number of Shares with respect to which such default or defaults occur exceeds 10% of the total number of Shares that the Underwriters are obligated to purchase on such Closing Date or Option Closing Date, and arrangements satisfactory to the Representatives and the Company for the purchase of such Shares by other persons are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company, except as provided in Section 10 (provided that if such default occurs with respect to Shares after the Closing Date or Option Closing Date, this Agreement will not terminate as to the Firm Shares or any Additional Shares purchased prior to termination). As used in this Agreement, the term "**Underwriter**" includes any person substituted for an Underwriter under this Section. Nothing herein will relieve a defaulting Underwriter from liability for its default.

10. *Survival of Certain Representations and Obligations.*

(a) The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect regardless of any investigation or statement as to the results thereof, made by or on behalf of any Underwriter, the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Shares. If the purchase of the Shares by the Underwriters is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 9 hereof, Section 8(a)(ii), Section 8(a)(iii), Section 8(a)(v), Section 8(a)(vi) or Section 8(a)(vii), the Company will reimburse the Underwriters for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Shares, and the respective obligations of the Company and the Underwriters pursuant to Section 7 hereof shall also remain in effect. In addition, if any Shares have been purchased hereunder, the representations and warranties in Section 1 and all obligations under Section 5 shall remain in effect.

11. *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:

[—]
as Representatives of the Several Underwriters

and if sent to the Company:

Hercules Technology Growth Capital, Inc.
400 Hamilton Avenue
Suite 310
Palo Alto, CA 94301
Attention: Scott Harvey

12. *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.

13. *Absence of Fiduciary Relationship.* The Company acknowledges and agrees that:

(a) *No Other Relationship.* The Representatives have been retained solely to act as underwriters in connection with the sale of the Shares and that no fiduciary, advisory or agency relationship between the Company and the Representatives have been created in respect of any of the transactions contemplated by this Agreement or the Prospectus, irrespective of whether the Representatives have advised or is advising the Company on other matters;

(b) *Arms' Length Negotiations.* The price of the Shares set forth in this Agreement was established by the Company following discussions and arms-length negotiations with the Representatives and the Company is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated by this Agreement;

(c) *Absence of Obligation to Disclose.* The Company has been advised that the Representatives and their affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that the Representatives have no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship; and

(d) *Waiver*. The Company waives, to the fullest extent permitted by law, any claims it may have against the Representatives for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Representatives shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, employees or creditors of the Company. 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.

14. *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.

15. *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.

16. *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.

17. *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.

(a) 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 [—]
as Representatives of the Several
Underwriters listed on Schedule I hereto

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

**Exhibit l**

SUTHERLAND ASBILL & BRENNAN LLP
1275 Pennsylvania Ave., NW
Washington, DC 20004-2415
202.383.0100 Fax 202.637.3593
www.sutherland.com

SUTHERLAND

**CYNTHIA M. KRUS**
DIRECT LINE: 202.383.0218
E-mail: Cynthia.krus@sutherland.com

April 29, 2011

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 the offering by the Company from time to time, pursuant to Rule 415 under the Securities Act of 1933, as amended (the ***"Securities Act"***), of up to 13,000,000 shares (the ***"Shares"***) of the Company's common stock, par value $0.001 per share (the ***"Common Stock"***). Such offering will be made pursuant to a registration statement on Form N-2 (No. 333-171368) filed under the Securities Act (the ***"Registration Statement"***).

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined the originals or copies, certified or otherwise identified to our satisfaction as being true copies of such records, documents or other instruments as we in our judgment have deemed to be necessary or appropriate to enable us to render the opinions hereinafter expressed including, without limitation, the following:

i. The Articles of Amendment and Restatement of the Company, certified as of a recent date by the State Department of Assessments and Taxation of the State of Maryland (the ***"Articles of Incorporation"***);

ii. The Amended and Restated Bylaws of the Company, certified as of the date hereof by an officer of the Company (the ***"Bylaws"***);

iii. A Certificate of Good Standing with respect to the Company issued by the State Department of Assessments and Taxation of the State of Maryland as of a recent date (the ***"Certificate of Good Standing"***); and

iv. The resolutions of the board of directors of the Company (the ***"Board"***) relating to, among other things, (a) the authorization and approval of the preparation and filing of the Registration Statement, and (b) the authorization, issuance, offer and sale of the Shares pursuant to the Registration Statement, certified as of the date hereof by an officer of the Company (collectively, the ***"Resolutions"***).

With respect to such examination and our opinions expressed herein, we have assumed, without any independent investigation or verification, (i) the genuineness of all signatures on all documents submitted to us for examination, (ii) the legal capacity of all natural persons, (iii) the authenticity of all documents submitted to us as originals, (iv) the conformity to original documents of all documents submitted to us as conformed or reproduced copies and the authenticity of the originals of such copied documents, and (v) that all certificates issued by public officials have been properly issued. We also have assumed without independent investigation or verification the accuracy and completeness of all corporate records made available to us by the Company.

Where factual matters material to this opinion letter were not independently established, we have relied with your approval upon certificates of public officials (which we have assumed remain accurate as of the date of this opinion), upon certificates and/or representations of officers and employees of the Company, upon such other certificates as we deemed appropriate, and upon such other data as we have deemed to be appropriate under the circumstances. Except as otherwise stated herein, we have undertaken no independent investigation or verification of factual matters. We have also made such examination of law as we have considered necessary for the purposes of the opinions hereinafter expressed.

This opinion letter is limited to the effect of the General Corporation Law of the State of Maryland (the ***"MGCL"***), as in effect on the date hereof, and we express no opinion as to the applicability or effect of any other laws of such jurisdiction or the laws of any other jurisdictions. Without limiting the preceding sentence, we express no opinion as to any state securities or broker dealer laws or regulations thereunder relating to the offer, issuance and sale of the Shares.

On the basis of and subject to the foregoing, and in reliance thereon, and subject to the limitations and qualifications set forth in this opinion letter, and assuming that (i) the issuance, offer and sale of the Shares from time to time and the final terms and conditions of such issuance, offer and sale, including those relating to the price and amount of the Shares to be issued, offered and sold, have been duly authorized and determined or otherwise established by proper action of the Board in accordance with the MGCL, the Company's Articles of Incorporation and Bylaws, and the Resolutions, (ii) the Shares have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (iii) upon issuance of the Shares, the total number of shares of Common Stock issued and outstanding does not exceed the total number of shares of Common Stock that the Company is then authorized to issue under the Articles of Incorporation, and (iv) the Certificate of Good Standing remains accurate, we are of the opinion that the Shares will be duly authorized, validly issued, fully paid and nonassessable.

This opinion letter is limited to the matters expressly set forth herein, and no opinion may be implied or inferred beyond those expressly stated. Our opinions and other statements expressed herein are as of the date hereof, and we have no obligation to update this opinion letter or to advise you of any changes in applicable law or any other matters that may come to our attention after the date hereof.

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 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.

Very truly yours,
Sutherland Asbill & Brennan LLP

/s/ CYNTHIA M. KRUS

**Cynthia M. Krus, a partner**

CMK/smh

**EXHIBIT n.1**

## Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in this Registration Statement on Form N-2 of Hercules Technology Growth Capital, Inc. of our report dated March 25, 2011 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting of Hercules Technology Growth Capital, Inc., which appear in such Registration Statement. We also consent to the references to us under the headings “Experts”, “Selected Consolidated Financial Data”, and “Senior Securities” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
April 29, 2011

**EXHIBIT n.2**

## Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the captions “Experts”, “Selected Consolidated Financial Data” and “Senior Securities” and to the use of our report dated March 12, 2010, with respect to the consolidated financial statements, including the consolidated schedules of investments in the Registration Statement (Form N-2) and related Prospectus of Hercules Technology Growth Capital, Inc. for the registration of 13,000,000 shares of its common stock.

/s/ Ernst & Young LLP
San Francisco, California
April 27. 2011

**EXHIBIT n.4**

**Report of Independent Registered Public Accounting Firm on Financial Statement Schedule**

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

Our audit of the consolidated financial statements as of and for the year ended December 31, 2010 and of the effectiveness of internal control over financial reporting as of December 31, 2010 referred to in our report dated March 25, 2011 (which contains an adverse opinion on the effectiveness of internal control over financial reporting) appearing in the accompanying registration statement on Form N-2 of Hercules Technology Growth Capital, Inc. also included an audit of the senior securities table as of December 31, 2010 appearing on page 103. In our opinion, the senior securities table as of December 31, 2010 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
April 29, 2011

EXHIBIT n.5

HERCULES
TECHNOLOGY GROWTH CAPITAL

April 29, 2011

**Gabriela Martes**
**Global Venture Capital Services**
**VentureSource / FIS / Dow Jones & Co.**
**201 California Street, 10th Floor**
**San Francisco, CA 94111**

Dear Gabriela,

Hercules would like the consent of VentureSource/Dow Jones to use the following paragraphs in our upcoming Filing. If acceptable, please sign and fax to me at 866.811.3908.

Thank you,
Sally Borg

***Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies.*** Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In the first nine months of 2010, venture capital backed companies received, in approximately 2,799 transactions, equity financing in an aggregate amount of approximately $26.3 billion, representing a 11.4% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during 2010 was approximately $4.5 million, down from $5.0 million in 2009. Overall, seed- and first round deals made up 37% of the deal flow and later-stage deals made up roughly 42% of all capital invested.

| | |
|---|---|
| /S/ GABRIELA MARTES | Gabriela Martes, Global Venture Capital Service |
| April 29, 2011 | Date |

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