

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number: 814-00702

HERCULES TECHNOLOGY GROWTH
CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Jurisdiction of
Incorporation or Organization)

400 Hamilton Ave., Suite 310
Palo Alto, California
(Address of Principal Executive Offices)

743113410
(IRS Employer
Identification No.)

94301
(Zip Code)

(650) 289-3060
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On October 29, 2012, there were 52,884,820 shares outstanding of the Registrant's common stock, \$0.001 par value.

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In this Quarterly Report, the “Company,” “Hercules,” “we,” “us” and “our” refer to Hercules Technology Growth Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts unless the context otherwise requires.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
(unaudited)
(dollars in thousands, except per share data)

	September 30, 2012 <u>(unaudited)</u>	December 31, 2011
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$788,526 and \$642,038, respectively)	\$ 771,184	\$ 651,843
Affiliate investments (cost of \$4,256 and \$3,236, respectively)	3,275	—
Control investments (cost of \$0 and \$11,266, respectively)	—	1,027
Total investments, at value (cost of \$792,782 and \$656,540, respectively)	774,459	652,870
Cash and cash equivalents	107,093	64,474
Interest receivable	7,774	5,820
Other assets	20,187	24,230
Total assets	<u>\$ 909,513</u>	<u>\$ 747,394</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 9,491	\$ 10,813
Wells Fargo Loan	—	10,187
Notes Payable	159,490	—
Long-term Liabilities (Convertible Senior Notes)	71,165	70,353
Long-term SBA Debentures	200,250	225,000
Total liabilities	440,396	316,353
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	51	44
Capital in excess of par value	535,707	484,244
Unrealized depreciation on investments	(18,618)	(3,431)
Accumulated realized losses on investments	(40,993)	(43,042)
Distributions in excess of investment income	(7,030)	(6,774)
Total net assets	469,117	431,041
Total liabilities and net assets	<u>\$ 909,513</u>	<u>\$ 747,394</u>
Shares of common stock outstanding (\$0.001 par value, 100,000,000 authorized)	49,785	43,853
Net asset value per share	\$ 9.42	\$ 9.83

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2012
(unaudited)
(dollars in thousands)

<u>Portfolio Company</u>	<u>Industry</u>		<u>Type of Investment</u> ⁽¹⁾	<u>Series</u>	<u>Principal Amount</u>	<u>Cost</u> ⁽²⁾	<u>Value</u> ⁽³⁾
Anthera Pharmaceuticals Inc. ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures December 2014 Interest rate Prime + 7.30% or Floor rate of 10.55%		\$ 22,799	\$ 22,828	\$ 22,929
Aveo Pharmaceuticals, Inc. ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures September 2015 Interest rate Prime + 7.15% or Floor rate of 11.90%		\$ 26,500	26,500	27,030
Cempra, Inc. ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures December 2015 Interest rate Prime + 6.30% or Floor rate of 9.55%		\$ 10,000	9,827	9,529
Chroma Therapeutics, Ltd. ⁽⁵⁾⁽¹⁰⁾	Drug Discovery & Development	Senior Debt	Matures November 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%		\$ 4,727	5,339	3,313
Concert Pharmaceuticals, Inc. ⁽⁴⁾	Drug Discovery & Development	Senior Debt	Matures October 2015 Interest rate Prime + 3.25% or Floor rate of 8.50%		\$ 20,000	19,576	18,520
Coronado BioSciences, Inc. ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures March 2016 Interest rate Prime + 6.00% or Floor rate of 9.25%		\$ 15,000	14,684	14,684
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt	Matures January 2015 Interest rate Prime + 5.75% or Floor rate of 10.15%		\$ 10,136	9,931	9,822
Insmed, Incorporated ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures January 2016 Interest rate Prime + 4.75% or Floor rate of 9.25%		\$ 10,000	9,648	9,648
NeurogesX, Inc. ⁽³⁾	Drug Discovery & Development	Senior Debt	Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%		\$ 14,559	14,507	14,295
NextWave Pharmaceuticals, Inc. ⁽⁴⁾	Drug Discovery & Development	Senior Debt	Matures June 2015 Interest rate Prime + 4.30% or Floor rate of 9.55%		\$ 6,000	5,982	5,862
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt ⁽⁹⁾	Matures upon liquidation Interest rate Fixed 10.00%		\$ 45	45	45
		Senior Debt ⁽⁹⁾	Matures upon liquidation Interest rate Fixed 10.00%		\$ 36	31	31
Total Paratek Pharmaceuticals, Inc.						76	76
Total Debt Drug Discovery & Development (28.93%)*						<u>138,898</u>	<u>135,708</u>

See notes to consolidated financial statements (unaudited)

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September 30, 2012
(unaudited)
(dollars in thousands)

Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Bridgewave Communications	Communications & Networking	Senior Debt	Matures March 2016 Interest rate Prime + 8.75% or Floor rate of 12.00%	\$ 7,500	\$ 6,946	\$ 6,778
OpenPeak, Inc. ⁽⁴⁾	Communications & Networking	Senior Debt	Matures July 2015 Interest rate Prime + 8.75% or Floor rate of 12.00%	\$ 15,000	14,809	14,958
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt	Matures October 2013 Interest rate Prime + 7.50% or Floor rate of 12.00%	\$ 3,458	3,400	3,320
PeerApp, Inc. ⁽⁴⁾	Communications & Networking	Senior Debt	Matures April 2013 Interest rate Prime + 7.50% or Floor rate of 11.50%	\$ 834	914	914
PointOne, Inc.	Communications & Networking	Senior Debt	Matures April 2015 Interest rate Libor + 9.00% or Floor rate of 11.50%	\$ 7,333	7,195	6,881
		Senior Debt	Matures September 2015 Interest rate Libor + 9.00% or Floor rate of 11.50%	\$ 356	351	330
Total PointOne, Inc.					<u>7,546</u>	<u>7,211</u>
Total Debt Communications & Networking (7.08%)*					<u><u>33,615</u></u>	<u><u>33,181</u></u>
Box, Inc. ⁽⁴⁾	Software	Senior Debt	Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%	\$ 10,000	9,904	9,425
		Senior Debt	Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	\$ 1,165	1,216	1,205
		Senior Debt	Matures July 2016 Interest rate Prime + 5.13% or Floor rate of 8.88%	\$ 20,000	20,064	19,529
Total Box, Inc.					31,184	30,159
Caplinked	Software	Senior Debt ⁽⁹⁾	Matures May 2015 Interest rate Fixed 5.00%	\$ 50	50	50
Clickfox, Inc.	Software	Senior Debt	Matures November 2015 Interest rate Prime + 8.25% or Floor rate of 11.50%	\$ 8,000	7,213	7,453
EndPlay, Inc.	Software	Senior Debt	Matures August 2015 Interest rate Prime + 7.35% or Floor rate 10.6%	\$ 2,000	1,914	1,914
Hillcrest Laboratories, Inc	Software	Senior Debt	Matures July 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%	\$ 4,000	3,910	3,909
JackBe Corporation	Software	Senior Debt	Matures January 2016 Interest rate Prime + 7.25% or Floor rate of 10.50%	\$ 3,000	2,882	2,882

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CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
September 30, 2012
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(dollars in thousands)

Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Kxen, Inc. ⁽⁴⁾	Software	Senior Debt	Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%	\$ 2,590	\$ 2,608	\$ 2,422
Tada Innovations, Inc.	Software	Senior Debt ⁽⁹⁾	Matures November 2012 Interest rate Fixed 8.00%	\$ 100	100	100
Total Debt Software (10.42%)*					<u>49,861</u>	<u>48,889</u>
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt	Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	\$ 8,364	8,537	8,538
QuatrX Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt ⁽⁹⁾	Matures March 2014 Interest rate Fixed 8.00%	\$ 1,888	1,888	2,346
Total Debt Specialty Pharmaceuticals (2.32%)*					<u>10,425</u>	<u>10,884</u>
Achronix Semiconductor Corporation	Semiconductors	Senior Debt	Matures January 2015 Interest rate Prime + 10.60% or Floor rate of 13.85%	\$ 2,034	1,979	1,980
Kovio Inc.	Semiconductors	Senior Debt	Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 9.25%	\$ 1,216	1,194	1,106
		Senior Debt	Matures March 2015 Interest rate Prime - 3.75% or Floor rate of 9.75%	\$ 2,836	2,782	2,603
Total Kovio Inc.					<u>3,976</u>	<u>3,709</u>
Total Debt Semiconductors (1.20%)*					<u>5,955</u>	<u>5,689</u>
AcelRX Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Senior Debt	Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	\$ 9,097	8,994	8,753
		Senior Debt	Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	\$ 9,097	8,994	8,752
Total AcelRX Pharmaceuticals, Inc.					<u>17,988</u>	<u>17,505</u>
Alexza Pharmaceuticals, Inc. ⁽³⁾⁽⁴⁾	Drug Delivery	Senior Debt	Matures October 2013 Interest rate Prime + 6.50% or Floor rate of 10.75%	\$ 6,470	6,771	6,772
BIND Biosciences, Inc.	Drug Delivery	Senior Debt	Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	\$ 3,799	3,744	3,820
Intelliject, Inc. ⁽⁴⁾	Drug Delivery	Senior Debt	Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 11.00%	\$ 15,000	14,485	14,485
Revanche Therapeutics, Inc.	Drug Delivery	Senior Debt	Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	\$ 20,248	20,016	19,710
Total Debt Drug Delivery (13.28%)*					<u>63,004</u>	<u>62,292</u>

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(unaudited)
(dollars in thousands)

<u>Portfolio Company</u>	<u>Industry</u>		<u>Type of Investment⁽¹⁾</u>	<u>Series</u>	<u>Principal Amount</u>	<u>Cost⁽²⁾</u>	<u>Value⁽³⁾</u>
Ahhha, Inc. ⁽⁸⁾	Internet Consumer & Business Services	Senior Debt	Matures January 2015 Interest rate Fixed 10.00%		\$ 350	\$ 347	\$ —
Blurb, Inc.	Internet Consumer & Business Services	Senior Debt	Matures December 2015 Interest rate Prime + 5.25% or Floor rate 8.50%		\$ 8,000	7,667	7,576
Education Dynamics, LLC	Internet Consumer & Business Services	Senior Debt	Matures March 2016 Interest rate LIBOR + 9.50%, PIK Interest 1.50%		\$ 27,500	26,889	26,889
Just.Me, Inc.	Internet Consumer & Business Services	Senior Debt	Matures June 2015 Interest rate Prime + 2.50% or Floor rate 5.75%		\$ 600	584	584
Loku, Inc.	Internet Consumer & Business Services	Senior Debt ⁽⁹⁾	Matures June 2013 Interest rate Fixed 6.00%		\$ 100	100	100
NetPlenish, Inc.	Internet Consumer & Business Services	Senior Debt	Matures April 2015 Interest rate Fixed 10.00%		\$ 500	488	456
Reply! Inc. ⁽⁴⁾	Internet Consumer & Business Services	Senior Debt	Matures June 2015 Interest rate Prime + 6.875% or Floor rate of 10.125%		\$ 12,068	11,895	11,719
		Senior Debt	Matures June 2015 Interest rate Prime + 7.25% or Floor rate of 11.00%		\$ 2,000	<u>1,926</u>	<u>1,926</u>
Total Reply! Inc.						13,821	13,645
Second Rotation, Inc.	Internet Consumer & Business Services	Senior Debt	Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25% , PIK Interest 2.50%		\$ 6,000	5,966	5,966
	Internet Consumer & Business Services	Senior Debt	Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25% , PIK Interest 1.50%		\$ 2,000	<u>1,927</u>	<u>1,927</u>
Total Second Rotation, Inc.						7,893	7,893
Tectura Corporation	Internet Consumer & Business Services	Revolving Line of Credit	Matures July 2013 Interest rate Fixed 11.00%		\$ 16,404	16,419	16,098
		Senior Debt	Matures December 2014 Interest rate Fixed 13.00%		\$ 6,978	7,776	7,699
		Senior Debt	Matures April 2013 Interest rate Fixed 13.00%		\$ 1,390	<u>1,471</u>	<u>1,471</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Total Tectura Corporation					25,666	25,268
Trulia, Inc. ⁽³⁾⁽⁴⁾	Internet Consumer & Business Services	Senior Debt				
			Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%	\$ 5,000	\$ 4,914	\$ 4,567
		Senior Debt				
			Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	\$ 5,000	4,914	4,780
Total Trulia, Inc.					9,828	9,347
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt				
			Matures September 2016 Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	\$ 7,500	7,620	6,874
		Senior Debt				
			Matures September 2015 Interest rate LIBOR + 7.00% or Floor rate of 8.50%	\$ 10,850	10,761	10,025
Total Vaultlogix, Inc.					18,381	16,899
Votizen, Inc.	Internet Consumer & Business Services	Senior Debt ⁽⁹⁾				
			Matures February 2013 Interest rate Fixed 5.00%	\$ 100	100	100
Wavemarket, Inc. ⁽⁴⁾	Internet Consumer & Business Services	Senior Debt				
			Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 9.50%	\$ 10,000	9,814	9,814
Total Debt Internet Consumer & Business Services (25.28%)*					121,578	118,571
Cha Cha Search, Inc.	Information Services	Senior Debt				
			Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	\$ 2,912	2,866	2,803
Eccentex Corporation	Information Services	Senior Debt				
			Matures May 2015 Interest rate Prime + 7.00% or Floor rate of 10.25%	\$ 1,000	968	968
InXpo, Inc.	Information Services	Senior Debt				
			Matures March 2014 Interest rate Prime + 7.50% or Floor rate of 10.75%	\$ 2,550	2,457	2,423
Jab Wireless, Inc.	Information Services	Senior Debt				
			Matures August 2016 Interest rate Prime + 5.25% or Floor rate of 6.75%	\$ 25,773	25,459	25,386
RichRelevance, Inc.	Information Services	Senior Debt				
			Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%	\$ 4,702	4,647	4,534
Total Debt Information Services (7.70%)*					36,397	36,114
Gynesonics, Inc.	Medical Device & Equipment	Senior Debt				
			Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	\$ 4,726	4,736	4,798
		Senior Debt ⁽⁹⁾				
			Matures November 2012 Interest rate Fixed 8.00%	\$ 253	202	202

See notes to consolidated financial statements (unaudited)

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CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
September 30, 2012
(unaudited)
(dollars in thousands)

Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Total Gynesonics, Inc.					4,938	5,000
Lanx, Inc.	Medical Device & Equipment	Senior Debt	Matures October 2016 Interest rate Prime + 6.50% or Floor rate of 10.25%	\$ 15,000	\$14,239	\$14,239
	Medical Device & Equipment	Revolving Line of Credit	Matures October 2015 Interest rate Prime + 5.25% or Floor rate of 9.00%	\$ 5,500	<u>5,287</u>	<u>5,287</u>
Total Lanx, Inc.					19,526	19,526
Novasys Medical, Inc.	Medical Device & Equipment	Senior Debt ⁽⁹⁾	Matures January 2013 Interest rate Fixed 8.00%	\$ 65	63	63
		Senior Debt ⁽⁹⁾	Matures August 2013 Interest rate Fixed 8.00%	\$ 22	<u>20</u>	<u>20</u>
Total Novasys Medical, Inc.					83	83
Optiscan Biomedical, Corp.	Medical Device & Equipment	Senior Debt	Matures December 2013 Interest rate Prime + 8.00% or Floor rate of 11.45%	\$ 8,260	8,747	2,500
		Senior Debt ⁽⁹⁾	Matures April 2013 Interest rate Fixed 8.00%	\$ 288	<u>288</u>	<u>—</u>
Total Optiscan Biomedical, Corp.					9,035	2,500
Oraya Therapeutics, Inc. ⁽⁴⁾	Medical Device & Equipment	Senior Debt ⁽⁹⁾	Matures December 2013 Interest rate Fixed 7.00%	\$ 500	500	500
		Senior Debt	Matures September 2015 Interest rate Prime + 5.50% or Floor rate of 10.25%	\$ 10,000	<u>9,765</u>	<u>9,563</u>
Total Oraya Therapeutics, Inc.					10,265	10,063
USHIFU, LLC	Medical Device & Equipment	Senior Debt	Matures April 2016 Interest rate Prime + 7.75% or Floor rate of 11.00%	\$ 6,000	<u>5,200</u>	<u>5,200</u>
Total Debt Medical Device & Equipment (9.03%)*					<u>49,047</u>	<u>42,372</u>
Navidea Biopharmaceuticals, Inc. (pka Neoprobe) ⁽³⁾	Diagnostic	Senior Debt	Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%	\$ 6,380	6,271	6,314
Tethys Bioscience Inc.	Diagnostic	Senior Debt	Matures December 2015 Interest rate Prime + 8.40% or Floor rate of 11.65%	\$ 10,000	<u>9,852</u>	<u>9,852</u>
Total Debt Diagnostic (3.45%)*					<u>16,123</u>	<u>16,166</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
deCODE genetics ehf. ⁽⁵⁾⁽¹⁰⁾	Biotechnology Tools	Senior Debt	Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%	\$ 4,143	\$ 4,045	\$ 4,128
Labcyte, Inc.	Biotechnology Tools	Senior Debt	Matures May 2013 Interest rate Prime + 8.60% or Floor rate of 11.85%	\$ 1,194	1,257	1,257
		Senior Debt	Matures June 2016 Interest rate Prime + 6.70% or Floor rate of 9.95%	\$ 5,000	4,847	4,846
Total Labcyte, Inc.					<u>6,104</u>	<u>6,103</u>
Total Debt Biotechnology Tools (2.18%)*					<u>10,149</u>	<u>10,231</u>
MedCall, LLC	Healthcare Services, Other	Senior Debt	Matures January 2016 Interest rate 7.79% or Floor rate of 9.50%	\$ 5,038	4,961	4,680
		Senior Debt	Matures January 2016 Interest rate LIBOR + 8.00% or Floor rate of 10.00%	\$ 4,144	4,070	4,071
Total MedCall, LLC					9,031	8,751
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Debt	Matures January 2015 Interest rate LIBOR + 8.00% or Floor rate of 10.50%	\$ 3,511	3,554	3,486
		Revolving Line of Credit	Matures January 2015 Interest rate LIBOR + 6.50% or Floor rate of 9.00%	\$ 1,500	1,488	1,312
		Senior Debt	Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.00%, PIK interest 3.75%	\$ 5,900	6,490	6,344
Total Pacific Child & Family Associates, LLC					11,532	11,142
ScriptSave (Medical Security Card Company, LLC)	Healthcare Services, Other	Senior Debt	Matures February 2016 Interest rate LIBOR + 8.75% or Floor rate of 11.25%	\$ 16,804	16,568	16,252
Total Debt Health Services, Other (7.70%)*					<u>37,131</u>	<u>36,145</u>
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt	Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	\$ 2,735	2,683	2,646
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Senior Debt	Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	\$ 7,660	8,019	8,019
Total Debt Surgical Devices (2.27%)*					<u>10,702</u>	<u>10,665</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Westwood One Communications	Media/Content/ Info	Senior Debt	Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%	\$ 20,606	\$19,014	\$18,804
Women's Marketing, Inc.	Media/Content/ Info	Senior Debt	Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	\$ 9,681	9,912	9,678
			Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	\$ 8,449	8,304	7,959
			Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	\$ 8,663	<u>8,515</u>	<u>8,160</u>
Total Women's Marketing, Inc.					<u>26,731</u>	<u>25,797</u>
Total Debt Media/Content/Info (9.51%)*					<u>45,745</u>	<u>44,601</u>
Alphabet Energy, Inc.	Clean Tech	Senior Debt	Matures February 2015 Interest rate Prime + 5.75% or Floor rate of 9.00%	\$ 962	916	890
American Superconductor Corporation ⁽³⁾	Clean Tech	Senior Debt	Matures December 2014 Interest rate Prime + 7.25% or Floor rate of 11.00%	\$ 10,000	9,780	9,780
BrightSource Energy, Inc.	Clean Tech	Senior Debt	Matures November 2012 Interest rate Prime + 7.25% or Floor rate of 10.50%	\$ 35,000	34,992	34,992
EcoMotors, Inc.	Clean Tech	Senior Debt	Matures February 2014 Interest rate Prime + 6.10% or Floor rate of 9.35%	\$ 3,297	3,369	3,347
Enphase Energy, Inc. ⁽³⁾	Clean Tech	Senior Debt	Matures June 2014 Interest rate Prime + 4.40% or Floor rate of 9.00%	\$ 4,335	4,297	4,164
Glori Energy, Inc.	Clean Tech	Senior Debt	Matures June 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%	\$ 8,000	7,754	7,754
Integrated Photovoltaics, Inc.	Clean Tech	Senior Debt	Matures February 2015 Interest rate Prime + 7.38% or Floor rate of 10.63%	\$ 2,832	2,742	2,668
Propel Biofuels, Inc.	Clean Tech	Senior Debt	Matures September 2013 Interest rate of 11.00%	\$ 770	823	823
SCIenergy, Inc. ⁽⁴⁾	Clean Tech	Senior Debt	Matures September 2015 Interest rate Prime + 8.75% or Floor rate 12.00%	\$ 5,296	5,012	5,170
Solexel, Inc.	Clean Tech	Senior Debt	Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	\$ 4,251	4,235	4,235

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<u>Portfolio Company</u>	<u>Industry</u>	<u>Type of Investment⁽¹⁾</u>	<u>Series</u>	<u>Principal Amount</u>	<u>Cost⁽²⁾</u>	<u>Value⁽³⁾</u>
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	Series A	\$ 94	\$ 45	
OpenPeak, Inc. ⁽⁴⁾	Communications & Networking	Preferred Stock Warrants	Series E	149	19	
Pac-West Telecomm, Inc.	Communications & Networking	Common Stock Warrants		121	—	
PeerApp, Inc. ⁽⁴⁾	Communications & Networking	Preferred Stock Warrants	Series B	61	37	
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	Series A	94	264	
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	Series B	52	125	
PointOne, Inc.	Communications & Networking	Common Stock Warrants		131	10	
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants	Series B	123	147	
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	53	125	
		Preferred Stock Warrants	Series D	65	52	
Total Stoke, Inc.				118	177	
Total Warrants Communications & Networking (0.35%)*				1,798	1,660	
Atrenta, Inc.	Software	Preferred Stock Warrants	Series C	136	779	
		Preferred Stock Warrants	Series D	95	261	
Total Atrenta, Inc.				231	1,040	
Box, Inc. ⁽⁴⁾	Software	Preferred Stock Warrants	Series C	117	2,235	
		Preferred Stock Warrants	Series B	72	3,242	
		Preferred Stock Warrants	Series D-1	194	566	
Total Box, Inc.				383	6,043	
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	Series A	188	—	
Central Desktop, Inc.	Software	Preferred Stock Warrants	Series B	108	258	
Clickfox, Inc.	Software	Preferred Stock Warrants	Series B	329	595	
		Preferred Stock Warrants	Series C	730	727	
Total Clickfox, Inc.				1,059	1,322	
Daegis Inc. (pka Unify Corporation) ⁽³⁾	Software	Common Stock Warrants		1,434	62	
Endplay, Inc.	Software	Preferred Stock Warrants	Series B	67	34	
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	Series D	99	163	
HighRoads, Inc.	Software	Preferred Stock Warrants	Series B	45	8	
Hillcrest Laboratories, Inc.	Software	Preferred Stock Warrants	Series E	55	23	
JackBe Corporation	Software	Preferred Stock Warrants	Series C	73	73	
Kxen, Inc. ⁽⁴⁾	Software	Preferred Stock Warrants	Series D	47	14	
Rockyou, Inc.	Software	Preferred Stock Warrants	Series B	117	—	
SugarSync Inc.	Software	Preferred Stock Warrants	Series CC	78	139	
		Preferred Stock Warrants	Series DD	34	35	
Total SugarSync Inc.				112	174	
Tada Innovations, Inc.	Software	Preferred Stock Warrants	Series A	25	30	
White Sky, Inc.	Software	Preferred Stock Warrants	Series B-2	54	4	

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
WildTangent, Inc.	Software	Preferred Stock Warrants	Series 3A		\$ 238	\$ 84
Total Warrants Software (1.99%)*					<u>4,335</u>	<u>9,332</u>
Luminus Devices, Inc.	Electronics & Computer Hardware	Common Stock Warrants			600	—
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series A-1		63	54
Total Warrant Electronics & Computer Hardware (0.01%)*					<u>663</u>	<u>54</u>
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants	Series D		309	758
Pacira Pharmaceuticals, Inc. ⁽³⁾	Specialty Pharmaceuticals	Common Stock Warrants			1,086	1,303
QuatrX Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants	Series E		528	—
Total Warrants Specialty Pharmaceuticals (0.44%)*					<u>1,923</u>	<u>2,061</u>
IPA Holdings, LLC	Consumer & Business Products	Common Stock Warrants			275	377
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A		24	68
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C		174	253
Wageworks, Inc. ⁽³⁾	Consumer & Business Products	Common Stock Warrants			252	1,953
Wavemarket, Inc. ⁽⁴⁾	Consumer & Business Products	Preferred Stock Warrants	Series E		106	62
Total Warrant Consumer & Business Products (0.58%)*					<u>831</u>	<u>2,713</u>
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants	Series D		160	132
Empirion, Inc.	Semiconductors	Preferred Stock Warrants	Series D		157	—
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	Series C		45	19
		Preferred Stock Warrants	Series D		583	379
Total iWatt, Inc.					<u>628</u>	<u>398</u>
Kovio Inc.	Semiconductors	Preferred Stock Warrants	Series B		92	—
Quartics, Inc.	Semiconductors	Preferred Stock Warrants	Series C		53	—
Total Warrants Semiconductors (0.11%)*					<u>1,090</u>	<u>530</u>
AcelRX Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Common Stock Warrants			357	252
Alexza Pharmaceuticals, Inc. ⁽³⁾⁽⁴⁾	Drug Delivery	Common Stock Warrants			645	17
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	Series C-1		291	503
Intelliject, Inc. ⁽⁴⁾	Drug Delivery	Preferred Stock Warrants	Series B		594	518
Merrion Pharma, Plc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾	Drug Delivery	Common Stock Warrants			210	100
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants	Series D		557	484
Transcept Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Common Stock Warrants			87	66
Total Warrant Drug Delivery (0.41%)*					<u>2,741</u>	<u>1,940</u>
Blurb, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		323	514
		Preferred Stock Warrants	Series C		636	324

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Total Blurb, Inc.					\$ 959	\$ 838
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series A		147	—
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants			82	—
Just.Me	Internet Consumer & Business Services	Preferred Stock Warrants	Series A		20	24
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		43	—
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series C		1,224	—
Reply! Inc. ⁽⁴⁾	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		320	670
Second Rotation	Internet Consumer & Business Services	Preferred Stock Warrants	Series D		93	86
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants	Series B-1		51	14
Trulia, Inc. ⁽³⁾⁽⁴⁾	Internet Consumer & Business Services	Preferred Stock Warrants	Series D		188	573
Total Warrants Internet Consumer & Business Services (0.47%)*					<u>3,127</u>	<u>2,205</u>
Buzznet, Inc.	Information Services	Preferred Stock Warrants	Series B		9	—
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants	Series F		58	2
Ecentex Corporation	Information Services	Preferred Stock Warrants	Series A		31	4
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants	Series B		230	531
InXpo, Inc.	Information Services	Preferred Stock Warrants	Series C		98	47
	Information Services	Preferred Stock Warrants	Series C-1		25	25
Total InXpo, Inc.					123	72
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants	Series A		265	412
RichRelevance, Inc.	Information Services	Preferred Stock Warrants	Series D		98	27
Solutionary, Inc.	Information Services	Preferred Stock Warrants	Series E		96	3
Total Warrants Information Services (0.22%)*					<u>910</u>	<u>1,051</u>
EKOS Corporation	Medical Device & Equipment	Preferred Stock Warrants	Series C		327	—
Gelesis, Inc. ⁽⁶⁾	Medical Device & Equipment	Preferred Stock Warrants	Series A-1		78	102
Lanx, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series C		441	442
Light Science Oncology, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series B		99	—
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series D		131	2
		Common Stock Warrants			2	—
Total Novasys Medial, Inc.					133	2
Optiscan Biomedical, Corp.	Medical Device & Equipment	Preferred Stock Warrants	Series B		679	—
		Preferred Stock Warrants	Series C		390	—
Total Optiscan Biomedical, Corp.					1,069	—
Oraya Therapeutics, Inc. ⁽⁴⁾	Medical Device & Equipment	Preferred Stock Warrants	Series C		676	344
		Common Stock Warrants			66	66
Total Oraya Therapeutics, Inc.					742	410
USHIFU, LLC	Medical Device & Equipment	Preferred Stock Warrants	Series G		1,178	1,180
Total Warrants Medical Device & Equipment (0.46%)*					<u>4,067</u>	<u>2,136</u>

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<u>Portfolio Company</u>	<u>Industry</u>	<u>Type of Investment⁽¹⁾</u>	<u>Series</u>	<u>Principal Amount</u>	<u>Cost⁽²⁾</u>	<u>Value⁽³⁾</u>
Navidea Biopharmaceuticals, Inc. (pka Neoprobe) ⁽³⁾	Diagnostic	Common Stock Warrants			\$ 244	\$ 370
Tethys Bioscience, Inc.	Diagnostic	Preferred Stock Warrants	Series E		148	114
Total Warrants Diagnostic (0.10%)*					<u>392</u>	<u>484</u>
deCODE genetics ehf. ⁽⁵⁾⁽¹⁰⁾	Biotechnology Tools	Preferred Stock Warrants	Series A-2		305	303
Labcyte, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series C		323	370
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series B		45	145
		Preferred Stock Warrants	Series C		33	7
Total NuGEN Technologies, Inc.					<u>78</u>	<u>152</u>
Total Warrants Biotechnology Tools (0.18%)*					<u>706</u>	<u>825</u>
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants	Series B		87	33
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Preferred Stock Warrants	Series B		225	—
Gynesonics, Inc.	Surgical Devices	Preferred Stock Warrants	Series A		18	18
		Preferred Stock Warrants	Series C		381	263
Total Gynesonics, Inc.					<u>399</u>	<u>281</u>
Total Warrants Surgical Devices (0.07%)*					<u>711</u>	<u>314</u>
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock Warrants	Series C		60	216
Glam Media, Inc.	Media/Content/ Info	Preferred Stock Warrants	Series D		482	—
Total Warrants Media/Content/Info (0.05%)*					<u>542</u>	<u>216</u>
Alphabet Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series A		45	89
American Superconductor Corporation ⁽³⁾	Clean Tech	Common Stock Warrants			244	247
BrightSource Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D		675	798
Calera, Inc.	Clean Tech	Preferred Stock Warrants	Series C		513	188
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants	Series B		308	494
Enphase Energy, Inc. ⁽³⁾	Clean Tech	Common Stock Warrants			102	27
Fulcrum Bioenergy, Inc.	Clean Tech	Preferred Stock Warrants	Series C-1		212	210
Glori Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series C		165	92
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D-1		548	4
Integrated Photovoltaics, Inc.	Clean Tech	Preferred Stock Warrants	Series A-1		81	106
Lilliputian Systems, Inc.	Clean Tech	Preferred Stock Warrants	Series AA		106	—
		Common Stock Warrants			49	—
Total Lilliputian Systems, Inc.					<u>155</u>	<u>—</u>
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants	Series C		211	318
SCLenergy, Inc. ⁽⁴⁾	Clean Tech	Preferred Stock Warrants	Series C		361	239
Solexel, Inc.	Clean Tech	Preferred Stock Warrants	Series B		1,161	17
Stion Corporation ⁽⁴⁾	Clean Tech	Preferred Stock Warrants	Series E		318	283
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants	Series A		161	66
Total Warrants Clean Tech (0.68%)*					<u>5,260</u>	<u>3,178</u>
Total Warrants (7.01%)					<u>34,205</u>	<u>32,872</u>
Aegerion Pharmaceuticals, Inc. ⁽³⁾	Drug Discovery & Development	Common Stock			150	1,135
Aveo Pharmaceuticals, Inc. ⁽³⁾	Drug Discovery & Development	Common Stock			842	1,747
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series B		502	361
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock	Series C		1,500	—
Merrimack Pharmaceuticals, Inc. ⁽³⁾	Drug Discovery & Development	Common Stock			2,000	5,126

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series H		\$1,005	\$ 396
Total Equity Drug Discovery & Development (1.87%)*					<u>5,999</u>	<u>8,765</u>
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock	Series C		243	203
		Preferred Stock	Series E		97	172
		Preferred Stock	Series F		61	75
		Preferred Stock	Series B		<u>1,000</u>	<u>903</u>
Total Acceleron Pharmaceuticals, Inc.					1,401	1,353
Merrion Pharma, Plc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾	Drug Delivery	Common Stock			9	5
Transcept Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Common Stock			500	221
Total Equity Drug Delivery (0.33%)*					<u>1,910</u>	<u>1,579</u>
E-band Communications, Corp. ⁽⁶⁾	Communications & Networking	Preferred Stock	Series B		2,000	490
		Preferred Stock	Series C		372	181
		Preferred Stock	Series D		508	287
		Preferred Stock	Series E		<u>374</u>	<u>525</u>
Total E-band Communications, Corp.					3,254	1,483
Glwpoint, Inc. ⁽³⁾	Communications & Networking	Common Stock			101	242
Neonova Holding Company	Communications & Networking	Preferred Stock	Series A		250	246
Peerless Network, Inc.	Communications & Networking	Preferred Stock	Series A		1,000	2,780
Stoke, Inc.	Communications & Networking	Preferred Stock	Series E		500	583
Total Equity Communications & Networking (1.14%)*					<u>5,105</u>	<u>5,334</u>
Atrenta, Inc.	Software	Preferred Stock	Series D		334	607
Box, Inc. ⁽⁴⁾	Software	Preferred Stock	Series C		500	5,117
		Preferred Stock	Series D		500	2,072
		Preferred Stock	Series D-1		1,000	1,631
		Preferred Stock	Series D-2		2,001	2,892
		Preferred Stock	Series E		<u>500</u>	<u>500</u>
Total Box, Inc.					4,501	12,212
Total Equity Software (2.73%)*					<u>4,835</u>	<u>12,819</u>
Spatial Photonics, Inc.	Electronics & Computer Hardware	Preferred Stock	Series D		268	—
Virident Systems	Electronics & Computer Hardware	Preferred Stock	Series D		5,000	5,250
Total Equity Electronics & Computer Hardware (1.12%)*					<u>5,268</u>	<u>5,250</u>
Quatrux Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	Series E		750	—
Total Equity Specialty Pharmaceuticals (0.00%)*					<u>750</u>	<u>—</u>
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock	Series A		819	598
Facebook, Inc. ⁽³⁾	Consumer & Business Products	Common Stock	Series B		9,558	6,660
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	LLC interest		500	552
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	Series B		500	532

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Series	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Wageworks, Inc. ⁽³⁾	Consumer & Business Products	Common Stock	Series D		\$ 250	\$ 336
Total Equity Consumer & Business Products (1.85%)*					<u>11,627</u>	<u>8,678</u>
iWatt, Inc.	Semiconductors	Preferred Stock	Series E		490	985
Total Equity Semiconductors (0.21%)*					<u>490</u>	<u>985</u>
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series B		177	13
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series A		1,000	—
Total Equity Internet Consumer & Business Services (0.00%)*					<u>1,177</u>	<u>13</u>
Buzznet, Inc.	Information Services	Preferred Stock	Series C		250	—
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock			603	—
Solutionary, Inc.	Information Services	Preferred Stock	Series A-1		18	210
		Preferred Stock	Series A-2		325	73
Total Solutionary, Inc.					<u>343</u>	<u>283</u>
Total Equity Information Services (0.06%)*					<u>1,196</u>	<u>283</u>
Gelesis, Inc. ⁽⁶⁾	Medical Device & Equipment	Common Stock			—	67
		Preferred Stock	Series A-1		425	893
		Preferred Stock	Series A-2		500	729
Total Gelesis, Inc.					<u>925</u>	<u>1,689</u>
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock	Series D-1		1,000	880
Optiscan Biomedical, Corp.	Medical Device & Equipment	Preferred Stock	Series B		3,000	—
		Preferred Stock	Series C		655	—
Total Optiscan Biomedical, Corp.					<u>3,655</u>	<u>—</u>
Total Equity Medical Device & Equipment (0.55%)*					<u>5,580</u>	<u>2,569</u>
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	Series C		500	540
Total Equity Biotechnology Tools (0.12%)*					<u>500</u>	<u>540</u>
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Preferred Stock	Series C		300	—
		Preferred Stock	Series B		1,100	—
Total Transmedics, Inc.					<u>1,400</u>	<u>—</u>
Gynesonics, Inc.	Surgical Devices	Preferred Stock	Series B		250	227
		Preferred Stock	Series C		283	257
Total Gynesonics, Inc.					<u>533</u>	<u>484</u>
Total Equity Surgical Devices (0.10%)*					<u>1,933</u>	<u>484</u>
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock	Series D		1,000	513
Total Equity Media/Content/Info (0.11%)*					<u>1,000</u>	<u>513</u>
Total Equity (10.19%)					<u>47,370</u>	<u>47,812</u>
Total Investments (165.09%)					<u>\$792,782</u>	<u>\$774,459</u>

* 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 \$19,944, \$38,763 and \$18,819 respectively. The tax cost of investments is \$794,938.
- (3) Except for warrants in 20 publicly traded companies and common stock in eight publicly traded companies, all investments are restricted at September 30, 2012 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (5) Non-U.S. company or the company's principal place of business is outside the United States.
- (6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 5% but not more than 25% of the voting securities of the company.
- (7) Control investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 25% of the voting securities of the company, or has greater than 50% representation on its board.
- (8) Debt is on non-accrual status at September 30, 2012, and is therefore considered non-income producing.
- (9) Convertible Senior Debt
- (10) Indicates assets that the Company deems not "qualifying assets" under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Anthera Pharmaceuticals Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 7.3% or Floor rate of 10.55%	\$ 25,000	\$ 24,433	\$ 25,183
Aveo Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures June 2014 Interest rate Prime + 7.15% or Floor rate of 11.9%	\$ 25,000	25,360	26,110
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 4.40% or Floor rate of 10.15%	\$ 12,000	11,665	11,665
NextWave Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures June 2015 Interest rate Prime + 4.3% or Floor rate of 9.55%	\$ 6,000	5,925	5,926
Concert Pharmaceuticals	Drug Discovery & Development	Senior Debt Matures July 2015 Interest rate Prime + 3.25% or Floor rate of 8.25%	\$ 7,500	7,350	7,350
PolyMedix, Inc.	Drug Discovery & Development	Senior Debt Matures September 2013 Interest rate Prime + 7.1% or Floor rate of 12.35%	\$ 6,763	6,594	6,729
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 5.65% or Floor rate of 10.40%	\$ 10,000	10,070	10,070
Chroma Therapeutics, Ltd. ⁽⁵⁾	Drug Discovery & Development	Senior Debt Matures September 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%	\$ 7,633	7,958	7,879
NeurogesX, Inc.	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	\$ 15,000	14,558	14,558
E-band Communications, Corp. ⁽⁶⁾	Communications & Networking	Convertible Senior Debt Due on demand Interest rate Fixed 6.00%	\$ 356	356	
Total Debt Drug Discovery & Development (26.79%)*				<u>113,913</u>	<u>115,470</u>
Intelepeer, Inc.	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.12% or Floor rate of 11.37%	\$ 6,524	6,346	6,476
		Senior Debt Matures May 2012 Interest rate Prime + 4.25%	\$ 1,100	1,100	1,070
Total Intelepeer, Inc.				7,446	7,546
Ahhha, Inc.	Communications & Networking	Senior Debt Matures January 2015 Interest rate Fixed 10.00%	\$ 350	345	345
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt Matures October 2014 Interest rate Prime + 7.50% or Floor rate of 12.00%	\$ 4,369	4,196	4,196
PeerApp, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%	\$ 1,776	1,814	1,835
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Libor + 9.0% or Floor rate of 11.50%	\$ 8,308	8,107	8,100
Stoke, Inc ⁽⁴⁾	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%	\$ 2,627	2,586	2,612
Total Debt Communications & Networking (5.71%)*				<u>24,850</u>	<u>24,634</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Central Desktop, Inc.	Software	Senior Debt Matures April 2014 Interest rate Prime + 6.75% or Floor rate of 10.50%	\$ 3,000	\$ 2,894	\$ 2,954
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	\$ 3,999	3,920	4,000
Kxen, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%	\$ 3,000	2,958	2,858
RichRelevance, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%	\$ 5,000	4,879	4,879
Blurb, Inc	Software	Senior Debt Matures December 2015 Interest rate Prime +5.25% or Floor rate 8.5%	\$ 5,000	4,873	4,873
SugarSync Inc.	Software	Senior Debt Matures April 2015 Interest rate Prime + 4.50% or Floor rate of 8.25%	\$ 2,000	1,950	1,950
White Sky, Inc.	Software	Senior Debt Matures June 2014 Interest rate Prime + 7.00% or Floor rate of 10.25%	\$ 1,418	1,357	1,400
Tada Innovations, Inc.	Software	Senior Debt Matures August 2012 Interest rate Prime + 3.25% or Floor rate of 6.50%	\$ 100	90	90
Total Debt Software (5.34%)*				<u>22,921</u>	<u>23,004</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Maxvision Holding, LLC. ⁽⁷⁾	Electronics & Computer Hardware	Senior Debt Matures December 2013 Interest rate Prime + 8.25% or Floor rate of 12.00%, PIK interest 5.00%	\$ 4,185	\$ 4,143	\$ —
		Senior Debt Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%, PIK interest 2.00%	\$ 2,539	2,515	
		Revolving Line of Credit Matures December 2013 Interest rate Prime +5.00% or Floor rate of 8.50%	\$ 892	1,027	1,027
Total Maxvision Holding, LLC				7,685	1,027
Total Debt Electronics & Computer Hardware (0.24%)*				7,685	1,027
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	\$ 10,359	10,315	10,584
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Senior Debt Matures August 2014 Interest rate Prime + 6.25% or Floor rate of 10.25%	\$ 11,250	11,257	11,397
		Senior Debt Matures August 2014 Interest rate Prime + 8.65% or Floor rate of 12.65%	\$ 15,000	14,386	14,574
Total Pacira Pharmaceuticals, Inc.				25,643	25,971
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Convertible Senior Debt Matures March 2012 Interest rate Fixed 8.00%	\$ 1,888	1,888	1,888
Total Debt Specialty Pharmaceuticals (8.92%)*				37,846	38,443
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 7.75% or Floor rate of 11.00%	\$ 2,500	2,329	2,329
Kovio Inc.	Semiconductors	Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 9.25%	\$ 1,250	1,218	1,218
		Senior Debt Matures March 2015 Interest rate Prime + 6.00% or Floor rate of 9.75%	\$ 3,000	2,910	2,910
Total Kovio Inc.				4,128	4,128
Total Debt Semiconductors (1.50%)*				6,457	6,457

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	\$ 10,000	\$ 9,773	\$ 9,579
		Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	\$ 10,000	9,772	9,578
Total AcelRX Pharmaceuticals, Inc.				19,545	19,157
Alexza Pharmaceuticals, Inc. ⁽⁴⁾	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%	\$ 10,497	10,537	10,695
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	\$ 5,000	4,730	4,880
Total BIND Biosciences, Inc.				4,730	4,880
Merrion Pharma, Plc. ⁽⁵⁾	Drug Delivery	Senior Debt Matures January 2015 Interest rate Prime + 9.20% or Floor rate of 12.45%	\$ 5,000	4,765	3,819
Revanche Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	\$ 22,000	21,379	21,379
Total Debt Drug Delivery (13.90%)*				60,956	59,930
Gelesis, Inc. ⁽⁸⁾	Therapeutic	Senior Debt Matures April 2013 Interest rate Prime + 8.75% or Floor rate of 12.00%	\$ 3,428	3,514	3,254
Gynesonics, Inc.	Therapeutic	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	\$ 5,336	5,309	5,383
Oraya Therapeutics, Inc.	Therapeutic	Senior Debt Matures March 2015 Interest rate Prime + 4.75% or Floor rate of 9.50%	\$ 7,500	7,377	7,377
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015 Interest rate LIBOR + 8.0% or Floor rate of 10.50%	\$ 4,965	4,932	4,932
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.5% or Floor rate of 9.00%	\$ 1,500	1,485	1,412
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.0%, PIK interest 3.75%	\$ 5,900	6,259	6,436
Total Pacific Child & Family Associates, LLC				12,676	12,780
Total Debt Therapeutic (6.68%)*				28,876	28,794

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
InXpo, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2014 Interest rate Prime + 7.5% or Floor rate of 10.75%	\$ 3,192	\$ 3,083	\$ 3,147
Westwood One Communications	Internet Consumer & Business Services	Senior Debt Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%	\$ 21,000	19,059	19,479
Reply! Inc. ⁽⁴⁾	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 6.87% or Floor rate of 10.12%	\$ 13,000	12,877	13,131
MedCall	Internet Consumer & Business Services	Senior Debt Matures January 2016 Interest rate LIBOR + 7.79% or Floor rate of 9.50%	\$ 5,168	5,051	5,051
ScriptSave (Medical Security Card Company, LLC)	Internet Consumer & Business Services	Senior Debt Matures February 2016 Interest rate LIBOR + 8.75%	\$ 19,646	19,307	19,896
Trulia, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%	\$ 5,000	4,871	4,871
		Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	\$ 5,000	4,871	4,871
Total Trulia, Inc.				9,742	9,742
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate Libor + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	\$ 7,500	7,441	7,441
		Senior Debt Revolving Line of Credit Matures September 2015 Interest rate Libor + 6.00% or Floor rate of 7.50%	\$ 11,500	11,335	11,335
			\$ 300	284	284
Total Vaultlogix, Inc.				19,060	19,060
Tectura Corporation	Internet Consumer & Business Services	Senior Debt Matures December 2012 Interest rate 11%	\$ 5,625	6,834	6,834
		Revolving Line of Credit Senior Debt Matures August 2012 Interest rate 11%	\$ 2,500	2,556	2,556
		Revolving Line of Credit Matures July 2012 Interest rate 11%, PIK interest 1.00%	\$ 17,487	17,738	17,738
Total Tectura Corporation				27,128	27,128
Total Debt Internet Consumer & Business Services (27.06%)				115,307	116,634

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Box.net, Inc.	Information Services	Senior Debt Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%	\$ 9,647	\$ 9,432	\$ 9,432
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	\$ 1,590	1,613	1,645
Total Box.net, Inc.				<u>11,045</u>	<u>11,077</u>
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	\$ 3,000	2,926	2,903
Jab Wireless, Inc.	Information Services	Senior Debt Matures August 2016 Interest rate Prime + 6.25% or Floor rate of 6.75%	\$ 20,272	19,993	19,993
Total Debt Information Services (7.88%)				<u>33,964</u>	<u>33,973</u>
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%	\$ 10,750	10,884	11,147
Total Debt Diagnostic (2.59%)*				<u>10,884</u>	<u>11,147</u>
deCODE genetics ehf.	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%	\$ 5,000	4,664	4,664
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.6% or Floor rate of 11.85%	\$ 2,416	2,425	2,479
Cempra Holdings LLC	Biotechnology Tools	Senior Debt Matures December 2015 Interest rate Prime + 7.05% or Floor rate of 10.30%	\$ 10,000	9,721	9,721
Total Debt Biotechnology Tools (3.91%)*				<u>16,810</u>	<u>16,864</u>
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	\$ 3,000	2,879	2,879
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Senior Debt Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	\$ 8,375	8,602	8,602
Total Debt Surgical Devices (2.66%)*				<u>11,481</u>	<u>11,481</u>

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Neoprobe Corporation	Media/Content/Info	Senior Debt Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%	\$ 7,000	\$ 6,733	\$ 6,733
Women's Marketing, Inc.	Media/Content/Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	\$ 10,000	9,956	10,156
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	\$ 9,710	9,503	9,896
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	\$ 9,956	9,744	9,744
Total Women's Marketing, Inc.				29,203	29,796
Total Debt Media/Content/Info (8.47%)*				35,936	36,529
BrightSource Energy, Inc. ⁽⁴⁾	Clean Tech	Senior Debt Matures December 2011 Interest rate Prime + 7.75% or Floor rate of 11.0%	\$ 11,250	11,122	11,122
		Senior Debt Matures December 2012 Interest rate Prime + 9.55% or Floor rate of 12.8%	\$ 13,750	13,593	13,593
Total BrightSource Energy, Inc.				24,715	24,715
EcoMotors, Inc.	Clean Tech	Senior Debt Matures February 2014 Interest rate Prime + 6.1% or Floor rate of 9.35%	\$ 4,879	4,713	4,859
Enphase Energy, Inc.	Clean Tech	Senior Debt Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.0%	\$ 4,898	4,784	4,748
NanoSolar, Inc.	Clean Tech	Senior Debt Matures September 2014 Interest rate Prime + 7.75% or Floor rate of 11.0%	\$ 9,212	8,795	8,795
Integrated Photovoltaics	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 7.375% or Floor rate of 10.625%	\$ 3,000	2,875	2,875
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate of 11.0%	\$ 1,348	1,356	1,320
SClenergy, Inc.	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%	\$ 202	202	202
		Senior Debt Matures August 2015 Interest rate 8.15%	\$ 5,000	4,883	4,883
Total SClenergy, Inc.				5,085	5,085
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	\$ 937	594	594
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	\$ 8,120	8,389	8,389
Total Solexel, Inc.				8,983	8,983
Total Debt Clean Tech (14.24%)*				61,306	61,380
Total Debt (135.90%)				589,192	585,767

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Acceleron Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		\$ 39	\$ 42
		Preferred Stock Warrants		69	273
		Preferred Stock Warrants		35	51
Total Warrants Acceleron Pharmaceuticals, Inc.				143	366
Anthera Pharmaceuticals Inc.	Drug Discovery & Development	Common Stock Warrants		541	551
		Common Stock Warrants		443	451
Total Warrants Anthera Pharmaceuticals Inc.				984	1,002
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		236	69
		Common Stock Warrants		28	—
		Preferred Stock Warrants		311	137
Total Warrants Dicerna Pharmaceuticals, Inc.				575	206
EpiCept Corporation ⁽⁵⁾	Drug Discovery & Development	Common Stock Warrants		4	15
Concert Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		234	233
NextWave Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		126	125
Horizon Pharma, Inc.	Drug Discovery & Development	Common Stock Warrants		231	—
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		155	1,116
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		137	68
PolyMedix, Inc.	Drug Discovery & Development	Common Stock Warrants		480	97
Portola Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		152	207
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		69	1,115
Chroma Therapeutics, Ltd. ⁽⁵⁾	Drug Discovery & Development	Preferred Stock Warrants		490	387
NeurogesX, Inc.	Drug Discovery & Development	Preferred Stock Warrants		503	122
Total Warrants Drug Discovery & Development (1.17%)*				4,283	5,059

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants		\$ 102	\$ 165
IKANO Communications, Inc.	Communications & Networking	Preferred Stock Warrants		45	
		Preferred Stock Warrants		72	—
Total IKANO Communications, Inc.				117	—
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants		101	92
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants		94	28
Pac-West Telecomm, Inc.	Communications & Networking	Preferred Stock Warrants		121	—
PeerApp, Inc.	Communications & Networking	Preferred Stock Warrants		61	23
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		95	206
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	109
PointOne, Inc.	Communications & Networking	Common Stock Warrants		131	5
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	121
Stoke, Inc ⁽⁴⁾	Communications & Networking	Preferred Stock Warrants		53	149
		Preferred Stock Warrants		65	81
Total Stoke, Inc.				118	230
Total Warrants Communications & Networking (0.23%)*				1,115	979
Atrenta, Inc.	Software	Preferred Stock Warrants		136	815
		Preferred Stock Warrants		95	284
Total Atrenta, Inc.				231	1,099
Blurb, Inc.	Software	Preferred Stock Warrants		323	855
		Preferred Stock Warrants		636	636
Total Blurb, Inc.				959	1,491
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		189	
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	229
Central Desktop, Inc.	Software	Preferred Stock Warrants		108	398
Clickfox, Inc.	Software	Preferred Stock Warrants		329	522
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		99	142
HighRoads, Inc.	Software	Preferred Stock Warrants		45	7
Kxen, Inc.	Software	Preferred Stock Warrants		47	22
RichRelevance, Inc.	Software	Preferred Stock Warrants		98	12
Rockyou, Inc.	Software	Preferred Stock Warrants		116	1
Sportvision, Inc.	Software	Preferred Stock Warrants		39	
SugarSync Inc.	Software	Preferred Stock Warrants		78	162
Daegis Inc. (pka Unify Corporation)	Software	Common Stock Warrants		1,434	237
White Sky, Inc.	Software	Preferred Stock Warrants		54	3
Tada Innovations, Inc.	Software	Preferred Stock Warrants		25	25
WildTangent, Inc.	Software	Preferred Stock Warrants		238	22
Total Warrants Software (1.01%)*				4,132	4,372

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Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Luminus Devices, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		\$ 334	\$ —
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		183	
Total Luminus Devices, Inc.				601	—
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		63	196
Total Warrant Electronics & Computer Hardware (0.05%)*				664	196
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants		309	516
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Common Stock Warrants		1,086	425
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants		528	—
Total Warrants Specialty Pharmaceuticals (0.22%)*				1,923	941
Annie's, Inc.	Consumer & Business Products	Preferred Stock Warrants		321	250
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock Warrants		275	58
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		24	118
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		252	2,495
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants		174	
Total Warrant Consumer & Business Products (0.68%)*				1,046	2,921
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants		160	145
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants		157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants		46	3
		Preferred Stock Warrants		582	10
Total iWatt, Inc.				628	13
Kovio Inc.	Semiconductors	Preferred Stock Warrants		92	4
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants		297	1,328
Quartics, Inc.	Semiconductors	Preferred Stock Warrants		53	
Total Warrants Semiconductors (0.35%)*				1,387	1,490
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		178	41
		Common Stock Warrants		178	41
Total AcelRX Pharmaceuticals, Inc.				356	82
Alexza Pharmaceuticals, Inc. ⁽⁴⁾	Drug Delivery	Preferred Stock Warrants		645	72
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants		291	427
Merrion Pharma, Plc. ⁽⁵⁾	Drug Delivery	Common Stock Warrants		214	194
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		36	62
		Common Stock Warrants		51	93
Total Transept Pharmaceuticals, Inc.				87	155
Revanche Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants		557	565
Total Warrant Drug Delivery (0.35%)*				2,150	1,495

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Gelesis, Inc.	Therapeutic	Preferred Stock Warrants		\$ 78	\$ 106
BARRX Medical, Inc.	Therapeutic	Preferred Stock Warrants		76	189
EKOS Corporation	Therapeutic	Preferred Stock Warrants		327	—
Gynesonics, Inc.	Therapeutic	Preferred Stock Warrants		228	233
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	—
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		125	13
Oraya Therapeutics, Inc.	Therapeutic	Preferred Stock Warrants		551	551
Total Warrants Therapeutic (0.25%)*				1,484	1,092
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		147	—
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants		6	—
		Common Stock Warrants		6	—
		Common Stock Warrants		11	—
		Common Stock Warrants		15	—
		Common Stock Warrants		44	—
Total Invoke Solutions, Inc.				82	—
InXpo, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		98	56
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		43	—
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		1,224	—
Reply! Inc. ⁽⁴⁾	Internet Consumer & Business Services	Preferred Stock Warrants		320	395
Trulia, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		188	413
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants		51	26
Total Warrants Internet Consumer & Business Services (0.21%)				2,153	890
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		106	—
		Common Stock Warrants		49	—
Total Lilliputian Systems, Inc.				155	—
Total Warrants Energy (0.00%)*				155	—
Box.net, Inc.	Information Services	Preferred Stock Warrants		117	1,557
		Preferred Stock Warrants		73	2,280
		Preferred Stock Warrants		193	233
Total Box.net, Inc.				383	4,070
Buzznet, Inc.	Information Services	Preferred Stock Warrants		9	—
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants		58	1
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock Warrants		213	—
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants		265	332
Solutionary, Inc.	Information Services	Preferred Stock Warrants		96	—
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants		230	83
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants		172	237
Total Warrants Information Services (1.10%)				1,426	4,723
Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock Warrants		1,069	872
Total Warrants Diagnostic (0.20%)*				1,069	872
deCODE genetics ehf.	Biotechnology Tools	Preferred Stock Warrants		305	305
Labcyte, Inc.	Biotechnology Tools	Common Stock Warrants		197	263
Cemptra Holdings LLC	Biotechnology Tools	Preferred Stock Warrants		187	186
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants		45	203
		Preferred Stock Warrants		33	15
Total NuGEN Technologies, Inc.				78	218
Total Warrants Biotechnology Tools (0.23%)*				767	972

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2011
(dollars in thousands)

Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants		\$ 87	\$ 85
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Preferred Stock Warrants		225	
Total Warrants Surgical Devices (0.02%)*				<u>312</u>	<u>85</u>
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants		482	2
Neoprobe Corporation	Media/Content/Info	Common Stock Warrants		244	245
Everyday Health, Inc. (Waterfront Media, Inc.)	Media/Content/Info	Preferred Stock Warrants		60	504
Total Warrants Media/Content/Info (0.17%)*				<u>786</u>	<u>751</u>
BrightSource Energy, Inc. ⁽⁴⁾	Clean Tech	Preferred Stock Warrants		675	834
Calera, Inc.	Clean Tech	Preferred Stock Warrants		513	475
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants		154	323
		Common Stock Warrants		154	323
Total EcoMotors, Inc.				308	646
Enphase Energy, Inc.	Clean Tech	Preferred Stock Warrants		102	49
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants		548	208
NanoSolar, Inc.	Clean Tech	Preferred Stock Warrants		355	355
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants		211	170
SClenergy, Inc.	Clean Tech	Preferred Stock Warrants		8	2
		Preferred Stock Warrants		130	30
Total SClenergy, Inc.				138	32
Solixel, Inc.	Clean Tech	Preferred Stock Warrants		1,161	275
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants		162	82
Integrated Photovoltaics	Clean Tech	Preferred Stock Warrants		82	81
Total Warrants Clean Tech (0.74%)*				<u>4,255</u>	<u>3,207</u>
Total Warrants (6.97%)				<u>29,107</u>	<u>30,045</u>
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock		1,092	2,411
Aveo Pharmaceuticals	Drug Discovery & Development	Common Stock		842	2,887
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		503	374
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock		1,500	
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		2,000	3,825
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		1,000	1,231
Total Equity Drug Discovery & Development (2.49%)*				<u>6,937</u>	<u>10,728</u>
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock		243	163
Acceleron Pharmaceuticals, Inc.		Preferred Stock		98	138
Acceleron Pharmaceuticals, Inc.		Preferred Stock		60	61
Acceleron Pharmaceuticals, Inc.		Preferred Stock		1,000	724
Total Acceleron Pharmaceuticals, Inc.				1,401	1,086
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock		500	325
Total Equity Drug Delivery (0.33%)*				<u>1,901</u>	<u>1,411</u>
E-band Communications, Corp. ⁽⁶⁾	Communications & Networking	Preferred Stock		2,880	—
Neonova Holding Company	Communications & Networking	Preferred Stock		250	212
Peerless Network, Inc.	Communications & Networking	Preferred Stock		1,000	2,335
Stoke, Inc. ⁽⁴⁾	Communications & Networking	Preferred Stock		500	458
Total Equity Communications & Networking (0.70%)*				<u>4,630</u>	<u>3,005</u>
Atrenta, Inc.	Software	Preferred Stock		250	474
Total Equity Software (0.11%)*				<u>250</u>	<u>474</u>

See notes to consolidated financial statements.

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

December 31, 2011
(dollars in thousands)

Portfolio Company	Industry	Type of Investment ⁽¹⁾	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Maxvision Holding, LLC. ⁽⁷⁾	Electronics & Computer Hardware	Common Stock		\$3,581	\$ —
Spatial Photonics, Inc. ⁽⁸⁾	Electronics & Computer Hardware	Preferred Stock		268	—
Total Equity Electronics & Computer Hardware (0.00%)*				3,849	—
QuatrX Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock		750	—
Total Equity Specialty Pharmaceuticals (0.00%)*				750	—
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock		500	360
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock		500	491
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock		880	—
Wageworks, Inc.	Consumer & Business Products	Preferred Stock		250	388
Total Equity Consumer & Business Products (0.29%)*				2,130	1,239
iWatt, Inc.	Semiconductors	Preferred Stock		490	984
NEXX Systems, Inc.	Semiconductors	Preferred Stock		277	802
Total Equity Semiconductors (0.41%)*				767	1,786
BARRX Medical, Inc.	Therapeutic	Preferred Stock		1,500	3,628
Gelesis, Inc.	Therapeutic	Common Stock		—	108
		Preferred Stock		425	519
		Preferred Stock		500	520
Total Gelesis, Inc.				925	1,147
Gynesomics, Inc.	Therapeutic	Preferred Stock		250	156
Gynesomics, Inc.		Preferred Stock		283	295
Total Gynesomics, Inc.				533	451
Novasys Medical, Inc.	Therapeutic	Preferred Stock		1,000	799
Total Equity Therapeutic (1.40%)*				3,958	6,025
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock		177	44
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock		1,000	—
Total Equity Internet Consumer & Business Services (0.01%)*				1,177	44
Box.net, Inc.	Information Services	Preferred Stock		500	3,543
		Preferred Stock		1,500	2,564
Total Box.net, Inc.				2,000	6,107
Buzznet, Inc.	Information Services	Preferred Stock		250	26
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock		250	247
Solutionary, Inc.	Information Services	Preferred Stock		250	55
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock		603	90
Zeta Interactive Corporation	Information Services	Preferred Stock		500	629
Total Equity Information Services (1.66%)*				3,853	7,154
Novadaq Technologies, Inc. ⁽⁵⁾	Diagnostic	Common Stock		1,057	671
Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock		3,655	2,468
Total Equity Diagnostic (0.73%)*				4,712	3,139

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
December 31, 2011
(dollars in thousands)

<u>Portfolio Company</u>	<u>Industry</u>	<u>Type of Investment⁽¹⁾</u>	<u>Principal Amount</u>	<u>Cost⁽²⁾</u>	<u>Value⁽³⁾</u>
Kamada, LTD.	Biotechnology Tools	Common Stock		\$ 427	\$ 384
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock		500	473
Total Equity Biotechnology Tools (0.20%)*				<u>927</u>	<u>857</u>
Transmedics, Inc. ⁽⁴⁾	Surgical Devices	Preferred Stock		1,400	
Total Equity Surgical Devices (0.00%)*				<u>1,400</u>	
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock		1,000	1,196
Total Equity Media/Content/Info (0.28%)*				<u>1,000</u>	<u>1,196</u>
Total Equity (8.60%)				<u>38,241</u>	<u>37,058</u>
Total Investments (151.47%)				<u>\$656,540</u>	<u>\$652,870</u>

* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$34,519, \$39,387 and \$4,868 respectively. The tax cost of investments is \$658,010.

(3) Except for warrants in thirteen publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2011 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

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

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

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

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

(8) Debt is on non-accrual status at December 31, 2011, and is therefore considered non-income producing.

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Investment Income:				
Interest income				
Non Control/Non Affiliate investments	\$ 21,512	\$ 16,405	\$ 62,502	\$ 50,146
Affiliate investments	238	5	686	9
Control investments	—	—	—	777
Total interest income	<u>21,750</u>	<u>16,410</u>	<u>63,188</u>	<u>50,932</u>
Fees				
Non Control/Non Affiliate investments	2,150	2,264	6,936	7,639
Affiliate investments	1	—	1	—
Control investments	—	10	—	84
Total fees	<u>2,151</u>	<u>2,274</u>	<u>6,937</u>	<u>7,723</u>
Total investment income	<u>23,901</u>	<u>18,684</u>	<u>70,125</u>	<u>58,655</u>
Operating expenses:				
Interest	4,908	3,408	13,309	8,803
Loan fees	1,169	881	2,977	2,493
General and administrative	2,445	1,659	6,126	6,196
Employee Compensation:				
Compensation and benefits	2,919	3,273	9,566	9,888
Stock-based compensation	1,109	870	3,111	2,518
Total employee compensation	<u>4,028</u>	<u>4,143</u>	<u>12,677</u>	<u>12,406</u>
Total operating expenses	<u>12,550</u>	<u>10,091</u>	<u>35,089</u>	<u>29,898</u>
Net investment income	11,351	8,593	35,036	28,757
Net realized gains (loss) on investments				
Non Control/Non Affiliate investments	(9,091)	(1,601)	2,049	3,429
Total net realized gain (loss) on investments	<u>(9,091)</u>	<u>(1,601)</u>	<u>2,049</u>	<u>3,429</u>
Net increase (decrease) in unrealized appreciation (depreciation) on investments				
Non Control/Non Affiliate investments	2,372	(730)	(12,922)	4,148
Affiliate investments	113	(53)	(2,265)	(3,425)
Control investments	—	14	—	(3,546)
Total net unrealized (depreciation) appreciation on investments	<u>2,485</u>	<u>(769)</u>	<u>(15,187)</u>	<u>(2,823)</u>
Total net realized and unrealized gain (loss)	<u>(6,066)</u>	<u>(2,370)</u>	<u>(13,138)</u>	<u>606</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 4,745</u>	<u>\$ 6,223</u>	<u>\$ 21,898</u>	<u>\$ 29,363</u>
Net investment income before provision for income taxes and investment gains and losses per common share:				
Basic	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.71</u>	<u>\$ 0.67</u>
Net increase in net assets resulting from operations per common share				
Basic	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.44</u>	<u>\$ 0.67</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.44</u>	<u>\$ 0.67</u>
Weighted average shares outstanding				
Basic	<u>48,750</u>	<u>43,071</u>	<u>48,130</u>	<u>42,920</u>
Diluted	<u>48,808</u>	<u>43,337</u>	<u>48,237</u>	<u>43,251</u>

See notes to consolidated financial statements (unaudited)

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(unaudited)
(dollars and shares 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, 2010	43,444	\$ 43	\$ 477,549	\$ (8,038)	\$ (51,033)	\$ (5,647)	\$ (342)	\$412,532
Net increase in net assets resulting from operations	—	—	—	(2,823)	3,429	28,757	—	29,363
Issuance of common stock	167	—	893	—	—	—	—	893
Issuance of common stock under restricted stock plan	253	—	—	—	—	—	—	—
Issuance of common stock as stock dividend	123	—	1,245	—	—	—	—	1,245
Retired shares from net issuance	(79)	—	(887)	—	—	—	—	(887)
Issuance of the Convertible Senior Notes	—	—	5,190	—	—	—	—	5,190
Dividends declared	—	—	—	—	—	(28,853)	—	(28,853)
Stock-based compensation	—	—	2,567	—	—	—	—	2,567
Balance at September 30, 2011	<u>43,908</u>	<u>\$ 43</u>	<u>\$ 486,557</u>	<u>\$ (10,861)</u>	<u>\$ (47,604)</u>	<u>\$ (5,743)</u>	<u>\$ (342)</u>	<u>\$422,050</u>
Balance at December 31, 2011	43,853	44	484,244	(3,431)	(43,042)	(6,432)	(342)	431,041
Net increase in net assets resulting from operations	—	—	—	(15,187)	2,049	35,036	—	21,898
Issuance of common stock	574	1	3,252	—	—	—	—	3,253
Issuance of common stock under restricted stock plan	530	1	(1)	—	—	—	—	—
Issuance of common stock as stock dividend	155	—	1,649	—	—	—	—	1,649
Retired shares from net issuance	(327)	—	(4,254)	—	—	—	—	(4,254)
Public Offering	5,000	5	47,649	—	—	—	—	47,654
Dividends declared	—	—	—	—	—	(35,292)	—	(35,292)
Stock-based compensation	—	—	3,168	—	—	—	—	3,168
Balance at September 30, 2012	<u>49,785</u>	<u>\$ 51</u>	<u>\$ 535,707</u>	<u>\$ (18,618)</u>	<u>\$ (40,993)</u>	<u>\$ (6,688)</u>	<u>\$ (342)</u>	<u>\$469,117</u>

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	For the Nine Months Ended	
	September 30,	
	2012	2011
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 21,898	\$ 29,363
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(302,662)	(337,631)
Principal payments received on investments	165,157	223,193
Proceeds from sale of investments	21,265	17,053
Net unrealized appreciation on investments	15,187	2,823
Net realized loss on investments	(2,049)	(3,429)
Accretion of paid-in-kind principal	(834)	(1,651)
Accretion of loan discounts	(4,221)	(5,752)
Accretion of loan discount on Convertible Senior Notes	812	496
Accretion of loan exit fees	(2,998)	—
Change in deferred loan origination revenue	1,026	(1,755)
Unearned fees related to unfunded commitments	(1,865)	—
Amortization of debt fees and issuance costs	1,391	—
Depreciation	212	268
Stock-based compensation and amortization of restricted stock grants	3,168	2,568
Change in operating assets and liabilities:		
Interest and fees receivable	(1,955)	(147)
Prepaid expenses and other assets	(938)	3,279
Accounts payable	99	(810)
Accrued liabilities	(1,289)	(429)
Net cash used in operating activities	(88,596)	(72,561)
Cash flows from investing activities:		
Purchases of capital equipment	(85)	(122)
Net cash used in investing activities	(85)	(122)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	46,594	6
Dividends paid	(33,643)	(27,607)
Borrowings of credit facilities	39,250	43,750
Repayments of credit facilities	(74,303)	(25,000)
Issuance of Notes Payable	159,490	—
Issuance of Convertible Senior Notes	—	75,000
Cash paid for debt issuance costs	(6,088)	(3,110)
Fees paid for credit facilities and debentures	—	(1,061)
Net cash provided by financing activities	131,300	61,978
Net increase (decrease) in cash	42,619	(10,705)
Cash and cash equivalents at beginning of period	64,474	107,014
Cash and cash equivalents at end of period	<u>\$ 107,093</u>	<u>\$ 96,309</u>

See notes to consolidated financial statements (audited)

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Hercules Technology Growth Capital, Inc. (the “Company”) is a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and clean-technology industries at all stages of development. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in Boston, MA, Boulder, CO and McLean, VA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

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

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

HT II and HT III hold approximately \$182.0 million and \$223.3 million in assets, respectively, and accounted for approximately 15.3% and 18.8% of the Company’s total assets prior to consolidation at September 30, 2012.

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

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2011. The year-end consolidated statement of assets and liabilities data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Valuation of Investments

The Company's investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification ("ASC") topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At September 30, 2012, 85.2% 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 venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean technology industries. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

- (1) the Company's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company's investment committee;
- (3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate;
- (4) the Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the valuation committee.

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

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

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

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

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

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

Quantitative Information about Level 3 Fair Value Measurements of Debt Investments

<u>Investment Type - Level Three Debt Investments</u>	<u>Fair Value at September 30, 2012</u> <i>(in thousands)</i>	<u>Valuation Techniques/ Methodologies</u>	<u>Unobservable Input^(a)</u>	<u>Range</u>
Pharmaceuticals - Debt	\$ 220,641	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	14.0% - 16.8% (2.0%) - 1.5%
		Option Pricing Model ^(b)	Average Industry Volatility ^(c) Risk Free Interest Rate	57.62% 0.23% 18.2
Medical Devices - Debt	39,613	Market Comparable Companies	Hypothetical Market Yield Premium	14.1% 0.0% - 1.0%
Technology - Debt	137,473	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	13.3% - 17.9% (1.5%) - 1.0%
Clean Tech - Debt	82,267	Market Comparable Companies	Hypothetical Market Yield Premium	16.46% 0.0% - 1.0%
Lower Middle Market - Debt	213,781	Market Comparable Companies	Hypothetical Market Yield Premium	10.8% - 19.5% 0.0% - 5.0%
		Broker Quote ^(d) Liquidation	Price Quotes Investment Collateral	90.0% - 99% of par \$1.0 - \$5.0 million
Total Level Three Debt Investments	<u>\$ 693,775</u>			

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

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

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

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

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

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

(b) An option pricing model valuation technique was used to derive the fair value conversion feature of convertible notes.

(c) Represents the range of industry volatility used by market participants when pricing the investment.

(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

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

<u>Investment Type -</u>	<u>Fair Value at September 30, 2012</u> <i>(in thousands)</i>	<u>Valuation Techniques/ Methodologies</u>	<u>Unobservable Input^(a)</u>	<u>Range</u>
Level Three Warrant and Equity Investments	\$ 57,603	Market Comparable Companies	EBITDA Multiple ^(b) Revenue Multiple ^(b) Discount for Lack of Marketability ^(c)	5.6x - 22.1x 0.6x - 19.6x 10.4% - 25.8%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility ^(d) Risk-Free Interest Rate Estimated Time to Exit (in months)	46.49% - 139.22% 0.17% - 0.61% 12 - 48
Total Level Three Warrant and Equity Investments	<u>\$ 57,603</u>			

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

(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.

(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.

(d) Represents the range of industry volatility used by market participants when pricing the investment.

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Debt Investments

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

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

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

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

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

Equity-Related Securities and Warrants

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

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

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

		Investments at Fair Value as of September 30, 2012			
(in thousands)		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Description	9/30/2012				
Senior secured debt	\$693,775	\$ —	\$ —	\$ 693,775	
Preferred stock	31,275	—	—	31,275	
Common stock	16,537	15,472	—	1,065	
Warrants	32,872	—	7,609	25,263	
	<u>\$774,459</u>	<u>\$ 15,472</u>	<u>\$ 7,609</u>	<u>\$ 751,378</u>	

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

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

(in thousands)	Balance, January 1, 2012	Net Realized Gains (losses) ⁽¹⁾	Net change in unrealized appreciation or depreciation ⁽²⁾	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3 ⁽³⁾	Gross Transfers out of Level 3 ⁽³⁾	Balances, September 30, 2012
Senior Debt	\$ 585,767	\$ (5,178)	\$ (14,007)	\$308,547	\$ (2,000)	\$(178,998)	\$—	\$ —	\$ (356)	\$ 693,775
Preferred Stock	30,289	324	3,182	7,700	(6,432)	—	—	356	(4,144)	31,275
Common Stock	90	(16)	4,931	9,558	(45)	—	—	—	(13,453)	1,065
Warrants	\$ 26,284	3,526	(1,402)	6,088	(4,977)	—	—	—	(4,256)	25,263
Total	\$ 642,430	\$ (1,344)	\$ 7,296	\$331,893	\$(13,454)	\$(178,998)	\$—	\$ 356	\$(22,209)	\$ 751,378

(in thousands)	Balance, January 1, 2011	Net Realized Gains (losses) ⁽¹⁾	Net change in unrealized appreciation or depreciation ⁽²⁾	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3	Gross Transfers out of Level 3	Balances, December 31, 2011
Senior Debt	\$ 394,198	\$ (4,301)	\$ 9,050	\$454,640	\$ —	\$(263,432)	\$—	\$ —	\$ (4,388)	\$ 585,767
Subordinated Debt	7,420	—	—	—	—	(7,420)	—	—	—	—
Preferred Stock	24,607	(1,441)	838	1,860	—	—	—	4,425	—	30,289
Common Stock	1,030	—	(940)	—	—	—	—	—	—	90
Warrants	17,401	(1,054)	5,243	6,507	(497)	—	(51)	—	(1,265)	26,284
Total	\$ 444,656	\$ (6,796)	\$ 14,191	\$463,007	\$(497)	\$(270,852)	\$(51)	\$ 4,425	\$(5,653)	\$ 642,430

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

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

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

For the nine-months ended September 30, 2012, approximately \$3.4 million in unrealized appreciation and \$29,000 in unrealized depreciation was recorded for equity and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately \$14.0 million in unrealized depreciation was recorded for Level 3 debt investments relating to assets still held at the reporting date.

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

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

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

<i>(in thousands)</i> Portfolio Company		Three months ended September 30, 2012					Nine months ended September 30, 2012				
		Fair Value at September 30, 2012	Investment Income	Unrealized (Depreciation)/Appreciation	Reversal of Unrealized (Depreciation)/Appreciation	Realized Gain/(Loss)	Investment Income	Unrealized (Depreciation)/Appreciation	Reversal of Unrealized (Depreciation)/Appreciation	Realized Gain/(Loss)	
E-Band Communications, Corp.	Non-Controlled Affiliate	1,483	—	21	—	—	4	(1,466)	—	—	
Gelesis	Non-Controlled Affiliate	1,792	239	92	—	—	683	(799)	—	—	
Total		\$ 3,275	\$ 239	\$ 113	\$ —	\$ —	\$ 687	\$ (2,265)	\$ —	\$ —	

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

At September 30, 2012, the Company did not hold any Control Investments. The Company's investment in MaxVision Holding, L.L.C., a company that was a Control Investment as of December 31, 2011, was liquidated during the three-month period ended September 30, 2012. On July 31, 2012, the Company received payment of \$2.0 million for its total debt investments in Maxvision Holding, L.L.C. Approximately \$8.7 million of realized losses and \$10.5 million of net change in unrealized appreciation was recognized on this control debt and equity investment during the nine-month period ended September 30, 2012.

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 574,301	74.2%	\$ 482,268	73.9%
Senior secured debt	152,346	19.6%	133,544	20.4%
Preferred stock	31,675	4.1%	30,181	4.6%
Common Stock	16,137	2.1%	6,877	1.1%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 766,610	99.0%	\$ 634,736	97.2%
England	3,313	0.4%	8,266	1.3%
Iceland	4,431	0.6%	4,970	0.7%
Ireland	105	0.0%	3,842	0.6%
Canada	—	0.0%	672	0.1%
Israel	—	0.0%	384	0.1%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 148,646	19.2%	\$ 131,428	20.1%
Internet Consumer & Business Services	120,789	15.6%	117,542	18.0%
Clean Technology	85,445	11.0%	64,587	9.9%
Software	71,040	9.2%	27,850	4.3%
Drug Delivery	65,811	8.5%	62,665	9.6%
Medical Device & Equipment	47,077	6.1%	—	0.0%
Media/Content/Info	45,330	5.9%	38,476	5.9%
Communications & Networking	40,175	5.2%	28,618	4.4%
Information Services	37,448	4.8%	45,850	7.0%
Healthcare Services, Other	36,145	4.6%	—	0.0%
Diagnostic	16,650	2.1%	15,158	2.3%
Specialty Pharmaceuticals	12,945	1.7%	39,384	6.0%
Biotechnology Tools	11,596	1.5%	18,693	2.9%
Surgical Devices	11,463	1.5%	11,566	1.8%
Consumer & Business Products	11,391	1.5%	4,186	0.6%
Semiconductors	7,204	0.9%	9,733	1.5%
Electronics & Computer Hardware	5,304	0.7%	1,223	0.2%
Therapeutic	—	0.0%	35,911	5.5%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

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During the three and nine-month periods ended September 30, 2012, the Company funded investments in debt securities, totaling approximately \$90.8 million and \$260.6 million, respectively. During the three and nine-month periods ended September 30, 2012, the Company funded equity investments of approximately \$589,000 and \$7.7 million respectively. During the nine-month period ended September 30, 2012, the Company converted approximately \$356,000 of debt to equity in one portfolio company. In addition, in December 2011, Hercules entered into an agreement to acquire shares of Facebook, Inc. common stock for approximately \$9.6 million through a secondary marketplace. The investments were subject to a Facebook, Inc. right of first refusal, which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules. Accordingly, during the nine-month period ended September 30, 2012, the investment in Facebook, Inc. was transferred from Other Assets to Investments.

During the three and nine-month periods ended September 30, 2011 the Company made investments in debt securities, totaling approximately \$146.1 million and \$351.3 million, respectively. The Company funded equity investments of approximately \$1.1 million in the three month period and approximately \$1.6 million in the nine-month period ended September 30, 2011.

During three month period ended September 30, 2012, the Company recognized net realized losses of approximately \$9.1 million on the portfolio. During the quarter ended September 30, 2012, we recorded realized losses of approximately \$8.7 million, \$672,000 and \$463,000, respectively, from the liquidation of MaxVision Holding, L.L.C., Zeta Interactive Corporation and Magi.com (pka Hi5 Networks, Inc.). These losses were partially offset by realized gains of approximately \$825,000 related to the sale of Barrx Medical, Inc. During the nine-month period ended September 30, 2012, the Company recognized net realized gains of approximately \$2.0 million on the portfolio.

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

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately \$2.8 million and \$4.5 million of unamortized fees at September 30, 2012 and December 31, 2011, respectively, and approximately \$5.6 million and \$4.4 million in exit fees receivable at September 30, 2012 and December 31, 2011, respectively.

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately \$297,000 and \$866,000 in PIK income in the three and nine-month periods ended September 30, 2012. The Company recorded approximately \$285,000 and \$1.4 million in PIK income in the same periods ended September 30, 2011, respectively.

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

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company's assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company's intellectual property. At September 30, 2012, approximately 64.4% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 34.9% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 0.7% of portfolio company loans had an equipment only lien.

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3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes payable (the "April 2019 Notes" and the "September 2019 Notes", together the "2019 Notes") and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At September 30, 2012, the April 2019 Notes were trading on the New York Stock Exchange for \$1.015 per dollar at par value, and the September 2019 Notes were trading on the New York Stock Exchange for \$1.004 per dollar at par value. Based on market quotations on or around September 30, 2012, the Convertible Senior Notes were trading for \$1.0275 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately \$217.1 million, compared to the carrying amount of \$200.25 million as of September 30, 2012.

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

(in thousands) Description	9/30/2012	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
April 2019 Notes	\$ 85,740	\$ —	\$ 85,740	\$ —
September 2019 Notes	\$ 75,300	\$ —	\$ 75,300	\$ —
Convertible Senior Notes	\$ 77,063	\$ —	\$ 77,063	\$ —
SBA Debentures	\$217,130	\$ —	\$ —	\$ 217,130

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

4. Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. The Company's net investment of \$75.0 million in HT II as of September 30, 2012 fully funds the required regulatory capital for HT II. HT II has a total of \$76.0 million of SBA guaranteed debentures outstanding as of September 30, 2012 and has paid the SBA commitment fees of approximately \$1.5 million. As of September 30, 2012, the Company held investments in HT II in 52 companies with a fair value of approximately \$162.1 million, accounting for approximately 20.9% of the Company's total portfolio.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company's net investment of \$74.5 million in HT III as of September 30, 2012, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$124.25 million was outstanding as of September 30, 2012. As of September 30, 2012, HT III has paid commitment fees of approximately \$1.5 million. As of September 30, 2012, the Company held investments in HT III in 32 companies with a fair value of approximately \$195.4 million, accounting for approximately 25.2% of the Company's total portfolio.

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

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18.0 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to "smaller" concerns as defined by the SBA.

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

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HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company's wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2012 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.25% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT II was approximately \$88.9 million with an average interest rate of approximately 4.8%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT III was approximately \$110.8 million with an average interest rate of approximately 3.3%.

HT II and HT III hold approximately \$182.0 million and \$223.3 million in assets, respectively, and accounted for approximately 15.3% and 18.8% of the Company's total assets prior to consolidation at September 30, 2012.

In January 2011, the Company repaid \$25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a \$25.0 million dollar commitment for HT III.

In February 2012, the Company repaid \$24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III.

In August 2012, the Company repaid \$24.75 million of SBA debentures under HT II, \$12.0 million priced at 6.43%, including annual fees and \$12.75 million priced at 6.38%, including annual fees.

As of September 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of \$225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at September 30, 2012 there was \$200.25 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in September 2012 the SBA approved an additional \$24.75 million commitment under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

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

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate ⁽¹⁾	September 30 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	\$ —	\$ 12,000
March 26, 2008	March 1, 2018	6.38%	34,800	58,050
September 24, 2008	September 1, 2018	6.63%	—	13,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
September 19, 2012	September 1, 2022	3.05%	24,250	—
Total SBA Debentures			\$ 200,250	\$ 225,000

⁽¹⁾ Interest rate includes annual charge

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Wells Facility

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

On August 1, 2012, the Company entered into an amendment to the Wells Facility. The amendment reduces the interest rate floor by 75 basis points to 4.25% and extends the maturity date by one year to August 2015. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, and the unused line fee was reduced.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three-month period ended September 30, 2012, this non-use fee was approximately \$112,000. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term. At September 30, 2012, there was no debt outstanding under the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at September 30, 2012.

Union Bank Facility

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

On March 30, 2012 the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of the Company’s 2019 Notes. On September 17, 2012, the Company entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, the Company is permitted to increase its unsecured indebtedness by an aggregate original principal amount not to exceed \$200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

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

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

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Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the “Citibank Credit Facility”) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the “Maximum Participation Limit”). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility was terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$699,000 as of September 30, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants. Since inception of the agreement, the Company has paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between December 2012 and January 2017.

Convertible Senior Notes

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

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

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

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

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14- 1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”). In accounting for the Convertible Senior Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in “capital in excess of par value” in the accompanying consolidated statement of assets and liabilities. As a result, the Company records interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Senior Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were approximately \$2.9 million and \$224,000, respectively. At the time of issuance and as of September 30, 2012, the equity component, net of issuance costs, as recorded in the “capital in excess of par value” in the balance sheet was approximately \$5.2 million.

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

(in thousands)	As of September 30, 2012
Principal amount of debt	\$ 75,000
Original issue discount, net of accretion	(3,835)
Carrying value of debt	<u>\$ 71,165</u>

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

(in thousands)	Three Months Ended September 2012	Nine Months Ended September 2012
Stated interest expense	\$ 1,125	\$ 3,375
Accretion of original issue discount	271	812
Amortization of debt issuance cost	144	433
Total interest expense and fees	<u>\$ 1,540</u>	<u>\$ 4,620</u>
Cash paid for interest expense	\$ —	\$ 2,250

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% and 8.2% for the three and nine-months ended September 30, 2012, respectively. As of September 30, 2012, we are in compliance with the terms of the indentures governing the Convertible Senior Notes.

2019 Notes Payable

On March 6, 2012, the Company and U.S. Bank National Association (the “Trustee”) entered into an indenture (the “Base Indenture”). On April 17, 2012, the Company and the Trustee entered into the First Supplemental Indenture to the Base Indenture (the “Base Indenture”), dated April 17, 2012, relating to the Company’s issuance, offer and sale of \$43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “April 2019 Notes”). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately \$41.7 million.

On September 24, 2012, the Company and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture, dated as of September 24, 2012, relating to the Company’s issuance, offer and sale of \$75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “September 2019 Notes”). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately \$72.75 million.

2019 Notes payable is comprised of:

(in thousands)	As of	
	September 30, 2012	December 31, 2011
April 2019 Notes	\$ 84,490	\$ —
September 2019 Notes ⁽¹⁾	75,000	—
Total Notes Payable	<u>\$ 159,490</u>	<u>\$ —</u>

⁽¹⁾ In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

April 2019 Notes

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

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

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the April 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

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

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

September 2019 Notes

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

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

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the September 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the Second Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The September 2019 Notes were sold pursuant to an underwriting agreement dated September 19, 2012 (the "Underwriting Agreement") among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement.

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In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

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

(in thousands)	Three Months Ended September 30, 2012 ⁽¹⁾	Nine Months Ended September 30, 2012 ⁽¹⁾
Stated interest expense	\$ 1,509	\$ 2,128
Amortization of debt issuance cost	130	179
Total interest expense and fees	<u>\$ 1,639</u>	<u>\$ 2,307</u>
Cash paid for interest expense	\$ —	\$ —

(1) Includes the April 2019 Notes and the September 2019 Notes.

As of September 30, 2012, the Company is in compliance with the terms of the indenture governing the April 2019 Notes and the September 2019 Notes.

Outstanding Borrowings

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

(in thousands)	September 30, 2012		December 31, 2011	
	Total Available	Carrying Value ⁽¹⁾	Total Available	Carrying Value ⁽¹⁾
Union Bank Facility	\$ 55,000	\$ —	\$ 55,000	\$ —
Wells Facility	75,000	—	75,000	10,187
April 2019 Notes	84,490	84,490	—	—
September 2019 Notes ⁽²⁾	75,000	75,000	—	—
Convertible Senior Notes ⁽³⁾	75,000	71,165	75,000	70,353
SBA Debentures ⁽⁴⁾	<u>225,000</u>	<u>200,250</u>	<u>225,000</u>	<u>225,000</u>
Total	<u>\$589,490</u>	<u>\$430,905</u>	<u>\$430,000</u>	<u>\$305,540</u>

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

(2) In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$3.8 million at September 30, 2012.

(4) In February 2012, the Company repaid \$24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III. In August 2012, the Company repaid \$24.75 million of SBA debentures under HT II, \$12.0 million priced at 6.43%, including annual fees, and \$12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a \$24.75 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$76.0 million was available in HT II and \$149.0 million was available in HT III.

5. Income taxes

The Company has elected to be taxed as a RIC under Subchapter M of the Code and intends to continue 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. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company's earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company's dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company's stockholders.

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

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

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During the quarter ended September 30, 2012, the Company declared a distribution of \$0.24 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2012, approximately 100.0% would be from ordinary income and spillover earnings from 2011. However there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2012 distributions to shareholders will actually be.

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

Taxable income for the nine-month period ended September 30, 2012 was approximately \$33.8 million or \$0.70 per share. Taxable net realized gains for the same period were \$10.8 million or approximately \$0.22 per share. Taxable income for the nine-month period ended September 30, 2011 was approximately \$27.1 million or \$0.63 per share. Taxable net realized gains for the same period were \$8.6 million or approximately \$0.20 per share.

6. Shareholders' Equity

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

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

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

The Company has issued stock options for common stock subject to future issuance, of which 2,522,802 and 4,231,444 were outstanding at September 30, 2012 and December 31, 2011, respectively.

7. Equity Incentive Plan

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

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

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On June 21, 2007, the stockholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company's stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company's outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company's outstanding warrants, options and rights issued to the Company's directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

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

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

	For the Nine Months Period Ended September 30,	
	2012	2011
	Common Stock Options	Common Stock Options
Outstanding at Beginning of Period	4,231,444	4,729,849
Granted	54,000	526,700
Exercised	(560,696)	(156,994)
Cancelled	(1,201,946)	(733,020)
Outstanding at End of Period	<u>2,522,802</u>	<u>4,366,535</u>
Weighted-average exercise price	<u>\$ 12.09</u>	<u>\$ 11.39</u>

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At September 30, 2012, options for approximately 2.2 million shares were exercisable at a weighted average exercise price of approximately \$12.40 per share with a weighted average remaining contractual term of 2.13 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the nine-month periods ended September 30, 2012 and 2011 was approximately \$96,000 and \$1.2 million respectively. During the three-month periods ended September 30, 2012 and 2011, approximately \$89,000 and \$126,000 of share-based cost due to stock option grants was expensed, respectively. During the nine-month periods ended September 30, 2012 and 2011, approximately \$309,000 and \$480,000 of share-based cost due to stock option grants was expensed, respectively. As of September 30, 2012, there was approximately \$527,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.8 years. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the nine-month periods ended September 30, 2012 and 2011:

	For Nine Months Ended September 30,	
	2012	2011
Expected Volatility	46.39%	46.39%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	0.49% - 1.07%	0.79% - 1.98%

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

Range of exercise prices	Options outstanding				Options exercisable			
	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
\$4.21 - \$8.49	46,248	4.51	\$250,286	\$ 5.60	46,248	4.51	\$250,286	\$ 5.60
\$8.67 - \$13.40	1,782,554	3.21	468,097	\$ 11.51	1,421,632	2.48	175,255	\$ 11.84
\$13.87 - \$14.02	694,000	1.27	—	\$ 14.02	694,000	1.27	—	\$ 14.02
\$4.21 - \$14.02	<u>2,522,802</u>	2.7	<u>\$718,383</u>	\$ 12.09	<u>2,161,880</u>	2.13	<u>\$425,541</u>	\$ 12.40

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During the nine-months ended September 30, 2012 and 2011, respectively, the Company granted approximately 692,000 and 306,600 shares of restricted stock pursuant to the Plans. Each restricted stock award granted in 2012 and 2011 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. The restricted stock awarded in 2008 vested 25% annually on the anniversary date of the award. Share based compensation cost was recognized ratably over the four year vesting period. No restricted stock was granted pursuant to the 2004 Plan prior to 2008.

The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the nine-month periods ended September 30, 2012 and 2011, was approximately \$7.5 million and \$3.4 million, respectively. During the three-month periods ended September 30, 2012 and 2011, the Company expensed approximately \$1.0 million and \$762,000 of compensation expense related to restricted stock, respectively. During the nine-month periods ended September 30, 2012 and 2011, the Company expensed approximately \$2.9 million and \$2.1 million of compensation expense related to restricted stock, respectively. As of September 30, 2012, there was approximately \$9.3 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.86 years.

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

8. Earnings Per Share

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

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator				
Net increase in net assets resulting from operations	\$ 4,745	\$ 6,223	\$ 21,898	\$ 29,363
Less: Dividends declared-common and restricted shares	(11,952)	(9,648)	(35,292)	(28,853)
Undistributed earnings	(7,207)	(3,425)	(13,394)	510
Undistributed earnings-common shares	(7,207)	(3,425)	(13,394)	510
Add: Dividend declared-common shares	11,703	9,473	34,503	28,329
Numerator for basic and diluted change in net assets per common share	4,496	6,048	21,108	28,839
Denominator				
Basic weighted average common shares outstanding	48,750	43,071	48,130	42,920
Common shares issuable	58	265	107	331
Weighted average common shares outstanding assuming dilution	48,808	43,336	48,237	43,251
Change in net assets per common share				
Basic	\$ 0.09	\$ 0.14	\$ 0.44	\$ 0.67
Diluted	\$ 0.09	\$ 0.14	\$ 0.44	\$ 0.67

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

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9. Financial Highlights

Following is a schedule of financial highlights for the nine-months ended September 30, 2012 and 2011:

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
FINANCIAL HIGHLIGHTS
(unaudited)
(dollars in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2012	2011
Per share data:		
Net asset value at beginning of period	\$ 9.83	\$ 9.50
Net investment income	0.73	0.67
Net realized gain (loss) on investments	0.04	0.08
Net unrealized appreciation (depreciation) on investments	(0.33)	(0.07)
Total from investment operations	(0.44)	0.68
Net increase/(decrease) in net assets from capital share transactions	(0.20)	0.04
Distributions	(0.71)	(0.67)
Stock-based compensation expense included in investment income ⁽¹⁾	0.06	0.06
Net asset value at end of period	<u>\$ 9.42</u>	<u>\$ 9.61</u>
Ratios and supplemental data:		
Per share market value at end of period	\$ 11.01	\$ 8.52
Total return	24.25%	(12.62)% ⁽²⁾
Shares outstanding at end of period	49,785	43,908
Weighted average number of common shares outstanding	48,130	42,920
Net assets at end of period	\$469,117	\$422,050
Ratio of operating expense to average net assets	9.79%	9.53%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	9.77%	9.17%
Average debt outstanding	\$322,193	\$220,664
Weighted average debt per common share	\$ 6.69	\$ 5.14

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

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

10. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans to the Company's portfolio companies. The balance of unfunded commitments to extend credit at September 30, 2012 totaled approximately \$66.0 million. Approximately \$39.5 million of these unfunded commitments are dependent upon the portfolio company reaching certain milestones before the Company's debt commitment becomes available. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately \$133.5 million of non-binding term sheets outstanding to 13 new and existing companies at September 30, 2012. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

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Certain premises are leased under agreements which expire at various dates through October 2018. Total rent expense amounted to approximately \$294,000 and \$868,000 during the three and nine-month period ended September 30, 2012 respectively. There was approximately \$278,000 and \$832,000 recorded in the same periods ended September 30, 2011.

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

Contractual Obligations ⁽¹⁾⁽²⁾	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings	\$430,905	\$ —	\$ —	\$71,165 ⁽⁴⁾	\$359,740 ⁽³⁾
Operating Lease Obligations ⁽⁵⁾	9,146	1,277	2,802	3,025	2,042
Total	\$440,051	\$ 1,277	\$2,802	\$74,190	\$361,782

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

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

⁽³⁾ Includes \$200.25 million in borrowings under the SBA debentures, \$84.5 million in aggregate principal amount of the April 2019 Notes, and \$75.0 million in aggregate principal amount of the September 2019 Notes. See 12. Subsequent Events for discussion of over-allotment.

⁽⁴⁾ Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was \$3.8 million at September 30, 2012.

⁽⁵⁾ Long-term facility leases.

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

11. Recent Accounting Pronouncements

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

12. Subsequent Events

Liquidity and Capital Resources

In October 2012, the Company completed a follow-on public offering of 3.1 million shares of common stock for proceeds of approximately \$33.6 million, before deducting offering expenses payable by the Company.

In October 2012, in connection with the recent public offering of \$75.0 million in aggregate principal amount of the Company's 7.00% senior unsecured notes due 2019 (the "September 2019 Notes"), which closed on September 24, 2012, the underwriters have exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total size of the offering to \$85.9 million.

Dividend Declaration

On October 26, 2012 the Board of Directors declared a cash dividend of \$0.24 per share that will be payable on November 21, 2012 to shareholders of record as of November 14, 2012. This dividend represents the Company's twenty-ninth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to \$7.64 per share.

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Portfolio Company Developments

In October 2012, the Company's portfolio company Nextwave Pharmaceuticals, reached a definitive agreement to be acquired by Pfizer Inc. (NYSE: PFE). Pfizer is exercising the option to acquire NextWave and will make a payment of \$255.0 million to NextWave shareholders at the close of the deal. NextWave shareholders are eligible to receive additional payments of up to \$425 million if certain sales milestones are met.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The matters discussed in this report, as well as in future oral and written statements by management of Hercules Technology Growth Capital, Inc., that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "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 report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this report 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 BDC, a SBIC and a RIC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this report, please see the discussion under Item 1A—"Risk Factors" of Part II of this quarterly report on Form 10-Q as well as Item 1A—"Risk Factors" of our annual report on Form 10-K. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this report.

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 Item 1A—"Risk Factors" of Part II of this quarterly report on Form 10-Q, Item 1A—"Risk Factors" of our annual report on Form 10-K, and "Forward-Looking Statements" of this Item 2.

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Overview

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and clean-technology industries at all stages of development. We source our investments through our principal office located in Silicon Valley, as well as through its additional offices in Boston, MA, Boulder, CO and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital-backed companies in technology-related markets requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related markets including technology, biotechnology, life science, and clean-technology 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 some or all of the assets of the portfolio companies.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital-backed companies in technology-related markets 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-backed companies in technology-related markets is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

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

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

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

We regularly engage in discussions with third parties in respect of various potential transactions. We may acquire an investment or a portfolio of investments or an entire company or sell a portion of our portfolio on an opportunistic basis. We or our subsidiaries may also agree to manage certain other funds that invest in debt, equity or provide other financing or services to companies in a variety of industries for which we may earn management or other fees for our services. We may also invest in the equity of these funds, along with other third parties, from which we would seek to earn a return and/or future incentive allocations. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors and required regulatory or third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated. Any of these transactions or funds may require significant management resources either during the transaction phase or on an ongoing basis depending on the terms of the transaction.

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Portfolio and Investment Activity

The total value of our investment portfolio was \$774.5 million at September 30, 2012 as compared to \$652.9 million at December 31, 2011.

Portfolio Activity

During the nine-month period ended September 30, 2012 we made debt and equity commitments to new and existing portfolio companies, including restructured loans, totaling \$359.3 million and \$17.4 million, respectively. Debt commitments for the nine-month period ended September 30, 2012 included commitments of approximately \$241.3 million to 25 new portfolio companies and \$118.0 million, including restructured loans, to 21 existing companies. Equity commitments for the nine-month period ended September 30, 2012 included commitments of approximately \$14.6 million to two new portfolio companies and \$2.8 million to three existing companies.

During the three and nine-month periods ended September 30, 2012, we funded investments in debt securities, totaling approximately \$90.8 million and \$260.6 million, respectively. During the three and nine-month periods ended September 30, 2012, we funded equity investments of approximately \$589,000 and \$7.7 million, respectively. During the nine-month period ended September 30, 2012, the Company converted approximately \$356,000 of debt to equity in one portfolio company, and the investment in Facebook, Inc. of approximately \$9.6 million was transferred from Other Assets to Investments.

At September 30, 2012, we had unfunded contractual commitments of approximately \$66.0 million to 18 new and existing companies. Approximately \$39.5 million of these unfunded origination activity commitments are dependent upon the portfolio company reaching certain milestones before our debt commitment becomes available to the portfolio company.

These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we have approximately \$133.5 million of non-binding term sheets outstanding to 13 new and existing companies at September 30, 2012. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at September 30, 2012 was approximately \$693.8 million, compared to a fair value of approximately \$513.4 million at September 30, 2011. The fair value of the equity portfolio at September 30, 2012 and 2011 was approximately \$47.8 million and \$35.8 million, respectively. The fair value of our warrant portfolio at September 30, 2012 and 2011 was approximately \$32.9 million and \$27.3 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the nine-month period ended September 30, 2012, we received approximately \$167.2 million of principal repayments, including normal principal amortization repayments of approximately \$94.8 million, and early repayments and of approximately \$70.4 million. During the nine-month period ended September 30, 2012, we restructured our debt investments in seven portfolio companies for approximately \$68.7 million and converted \$356,000 of debt to equity.

During the three-month period ended September 30, 2012, one of our portfolio companies completed an initial public offering. On September 19, 2012, Trulia Inc. completed its initial public offering of 6.0 million shares of common stock at a price to the public of \$17.00 per share.

As of September 30, 2012, we held warrants or equity positions in four companies which have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Glori Energy, Inc., iWatt, Inc., Paratek Pharmaceuticals and one company that filed a registration statement confidentially under the JOBS Act. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all.

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Total portfolio investment activity for the nine-month period ended September 30, 2012 (unaudited) and for the year ended December 31, 2011 is as follows:

(in millions)	September 30, 2012	December 31, 2011
Beginning Portfolio	\$ 652.9	\$ 472.0
New fundings	268.3	433.8
Warrants not related to current period fundings	1.3	1.5
Restructure fundings	46.7	16.1
Principal payments received on investments	(94.8)	(65.2)
Early payoffs	(70.4)	(182.1)
Restructure payoffs	(13.8)	(16.1)
Accretion of loan discounts and loan fees	16.1	17.0
New loan fees	(9.1)	(10.4)
Conversion of "Other Assets"	9.6	0.2
Proceeds from sale of investments	(6.6)	(20.6)
Net realized (loss) gain on investments	(11.0)	2.1
Net change in unrealized appreciation/(depreciation)	(14.7)	4.6
Ending Portfolio	<u>\$ 774.5</u>	<u>\$ 652.9</u>

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	Senior secured debt with warrants	\$ 574,301	74.2%	\$ 482,268
Senior secured debt	152,346	19.6%	133,544	20.4%
Preferred stock	31,675	4.1%	30,181	4.6%
Common Stock	16,137	2.1%	6,877	1.1%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	United States	\$ 766,610	99.0%	\$ 634,736
England	3,313	0.4%	8,266	1.3%
Iceland	4,431	0.6%	4,970	0.7%
Ireland	105	0.0%	3,842	0.6%
Canada	—	0.0%	672	0.1%
Israel	—	0.0%	384	0.1%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to approximately 13.85% as of September 30, 2012. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

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Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately \$2.8 million and \$4.5 million of unamortized fees at September 30, 2012 and December 31, 2011, respectively, and approximately \$5.6 million and \$4.4 million in exit fees receivable at September 30, 2012 and December 31, 2011, respectively. We recognize nonrecurring fees amortized over the remaining term of the loan relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount ("OID") related to early loan pay-off or material modification of the specific debt outstanding.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$866,000 and \$1.4 million in PIK income in the nine-month periods ended September 30, 2012 and 2011. In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the nine-month period ended September 30, 2012.

In some cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company's assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property. At September 30, 2012, approximately 64.4% our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 34.9% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 0.7% of portfolio company loans had an equipment only lien.

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

The effective yield on our debt investments for the three-month periods ended September 30, 2012 and 2011 was 14.4% and 16.8%, respectively. This yield was lower period over period due to fewer fee accelerations attributed to early payoffs and one-time events during the current year as compared to the prior year. The effective yield excluding payoffs on our debt investments for the three-month periods ended September 30, 2012 and 2011 was 13.9% and 14.3%, respectively. The decline in this rate is due primarily to the repayments of debt investments that had higher effective yields than the debt investments made in the past three to four quarters because of the lower interest rate environment.

The overall weighted average yield to maturity of our loan investments was approximately 12.85% and 12.64% at September 30, 2012 and December 31, 2011, respectively. 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.

Portfolio Composition

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

As of September 30, 2012, approximately 63.5% of the fair value of our portfolio was composed of investments in five industries: 19.2% was composed of investments in the drug discovery and development industry, 15.6% was composed of investments in the internet consumer and business services industry, 11.0% was composed of investments in the clean technology industry, 9.2% was composed of investments in the software industry and 8.5% was composed of investments in the drug delivery industry.

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 148,646	19.2%	\$ 131,428	20.1%
Internet Consumer & Business Services	120,789	15.6%	117,542	18.0%
Clean Technology	85,445	11.0%	64,587	9.9%
Software	71,040	9.2%	27,850	4.3%
Drug Delivery	65,811	8.5%	62,665	9.6%
Medical Device & Equipment	47,077	6.1%	—	0.0%
Media/Content/Info	45,330	5.9%	38,476	5.9%
Communications & Networking	40,175	5.2%	28,618	4.4%
Information Services	37,448	4.8%	45,850	7.0%
Healthcare Services, Other	36,145	4.6%	—	0.0%
Diagnostic	16,650	2.1%	15,158	2.3%
Specialty Pharmaceuticals	12,945	1.7%	39,384	6.0%
Biotechnology Tools	11,596	1.5%	18,693	2.9%
Surgical Devices	11,463	1.5%	11,566	1.8%
Consumer & Business Products	11,391	1.5%	4,186	0.6%
Semiconductors	7,204	0.9%	9,733	1.5%
Electronics & Computer Hardware	5,304	0.7%	1,223	0.2%
Therapeutic	—	0.0%	35,911	5.5%
	<u>\$ 774,459</u>	<u>100.0%</u>	<u>\$ 652,870</u>	<u>100.0%</u>

Industry and sector concentrations vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies. As of September 30, 2012 and December 31, 2011, our ten largest portfolio companies represented approximately 36.2% and 37.9%, respectively, of the total fair value of our investments in portfolio companies. At both September 30, 2012 and December 31, 2011, we had seven investments, respectively, that represented 5% or more of our net assets. At September 30, 2012, we had five equity investments representing approximately 67.0% 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, 2011, we had seven equity investments which represented approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

As of September 30, 2012, over 99.0% of our debt investments were in a senior secured first lien position, and more than 99.0% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round at the time of issuance. As of September 30, 2012, we held warrants in 117 portfolio companies, with a fair value of approximately \$32.9 million. The fair value of the warrant portfolio has increased by approximately 9.4% as compared to the fair value of the warrant portfolio of \$30.0 million at December 31, 2011. The increase was primarily driven by our investment in 20 new portfolio companies in 2012, partially offset by the disposal of 12 portfolio companies held at December 2011. These warrant holdings would require us to invest approximately \$77.0 million to exercise such warrants.

Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company's performance and overall market conditions. Of the warrants which have monetized since inception, we have realized warrant and equity gain multiples in the range of approximately 1.04x to 10.17x based on the historical rate of return on our investments. However, our current warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

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

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

(in thousands) Portfolio Company		Three months ended September 30, 2012					Nine months ended September 30, 2012				
		Fair Value at September 30, 2012	Investment Income	Unrealized (Depreciation)/Appreciation	Reversal of Unrealized (Depreciation)/Appreciation	Realized Gain/(Loss)	Investment Income	Unrealized (Depreciation)/Appreciation	Reversal of Unrealized (Depreciation)/Appreciation	Realized Gain/(Loss)	
Type											
E-Band Communications, Corp.	Non-Controlled Affiliate	1,483	—	21	—	—	4	(1,466)	—	—	
Gelesis	Non-Controlled Affiliate	1,792	239	92	—	—	683	(799)	—	—	
Total		\$ 3,275	\$ 239	\$ 113	\$ —	\$ —	\$ 687	\$ (2,265)	\$ —	\$ —	

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

At September 30, 2012, we did not hold any Control Investments. Our investment in MaxVision Holding, L.L.C., a company that was a Control Investment as of December 31, 2011, was liquidated during the three-months ended September 30, 2012. On July 31, 2012, we received payment of \$2.0 million for our total debt investments in Maxvision Holding, L.L.C. Approximately \$8.7 million of realized losses and \$10.5 million of net change in unrealized appreciation was recognized on this control debt and equity investment during the nine-month period ended September 30, 2012.

Portfolio Grading

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

(in thousands)	September 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Investment Grading				
1	\$ 117,001	16.9%	\$ 104,516	17.8%
2	418,490	60.3%	403,114	68.8%
3	139,344	20.1%	70,388	12.0%
4	16,440	2.4%	6,722	1.2%
5	2,500	0.3%	1,027	0.2%
	\$ 693,775	100.0%	\$ 585,767	100.0%

As of September 30, 2012, our investments had a weighted average investment grading of 2.12 as compared to 2.01 at December 31, 2011. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At September 30, 2012, 47 portfolio companies were graded 2, 19 portfolio companies were graded 3, three portfolio companies were graded 4, and two portfolio companies were graded 5 as compared to 43 portfolio companies that were graded 2, 12 portfolio companies that were graded 3, two portfolio companies that were grade 4, and two portfolio companies that were graded 5 at December 31, 2011.

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

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Results of Operations

Comparison of the three and nine-month periods ended September 30, 2012 and 2011

Investment Income

Total investment income for the three and nine-month periods ended September 30, 2012 totaled approximately \$23.9 million and \$70.1 million, respectively, compared to \$18.7 million and \$58.7 million for the three and nine-month periods ended September 30, 2011, respectively.

Interest income for the three and nine-month periods ended September 30, 2012 totaled approximately \$21.7 million and \$63.2 million, respectively, compared to \$16.4 million and \$50.9 million for the three and nine-month periods ended September 30, 2011, respectively. The increase in interest income is attributable to an increase of loan interest income of approximately \$4.9 million and \$11.7 million for the three and nine-month periods ended September 30, 2012, respectively. The increase in interest income is attributable to growth in the overall loan portfolio.

Income from commitment, facility and loan related fees for the three and nine-month periods ended September 30, 2012 totaled approximately \$2.2 million and \$6.9 million, respectively, compared to \$2.3 million and \$7.7 million for the three and nine-month periods ended September 30, 2011, respectively. The decrease in income from commitment, facility and loan related fees is primarily the result of a decrease in one time fees and amendment revenue of approximately \$805,000 and \$2.0 million for the three and nine-month periods ended September 30, 2012, respectively, partially offset by an increase in commitment fees and facilities fees of approximately \$710,000 and \$1.2 million for the three and nine-month periods ended September 30, 2012, respectively.

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

(in thousands)	Nine months ended	
	September 30,	
	2012	2011
Beginning PIK loan balance	\$2,041	\$ 3,955
PIK interest capitalized during the period	1,125	1,801
Payments received from PIK loans	—	(3,567)
PIK converted to other securities	—	(440)
Realized Loss	(291)	—
Ending PIK loan balance	\$2,875	\$ 1,749

The decrease in payments received from PIK loans and PIK interest capitalized during the nine-months ended September 30, 2012 is due to approximately \$1.4 million, \$1.0 million, \$493,000, \$302,000, and \$268,000 of PIK collected in conjunction with the sale of our investment in Infologix, Inc. and the early payoffs of IPA Holdings, LLC., Unify Corporation, HighJump Acquisition, LLC., and Velocity Technology Solutions, Inc., respectively, in the nine-months ended September 30, 2011. The decrease in PIK converted to other securities during the nine-months September 30, 2012 is due to approximately \$440,000 related to the conversion of MaxVision Holding, LLC. debt to equity in nine-months period ended September 30, 2011.

In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the three and nine-month periods ended September 30, 2012 and 2011, respectively.

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Operating Expenses

Operating expenses, which are comprised of interest and fees on borrowings, general and administrative and employee compensation, totaled approximately \$12.6 million and \$10.1 million during the three month periods ended September 30, 2012 and 2011, respectively. Operating expenses totaled approximately \$35.1 million and \$29.9 million during the nine-month periods ended September 30, 2012 and 2011, respectively.

Interest and fees on borrowings totaled approximately \$6.1 million and \$16.3 million during the three and nine-month periods ended September 30, 2012, respectively, and approximately \$4.3 million and \$11.3 million during the three and nine-month periods ended September 30, 2011, respectively. The increase is primarily attributed to interest and fee expenses of \$1.3 million and \$3.8 million during the three and nine-month periods ended September 30, 2012, respectively, related to the \$75.0 million of Convertible Senior Notes issued on April 15, 2011 and approximately \$1.6 million and \$2.3 million during the three and nine-month periods ended September 30, 2012, respectively, related to the \$84.5 million of the April 2019 Notes and the \$75.0 million of the September 2019 Notes, respectively. Additionally, we incurred approximately \$271,000 and \$812,000 of non-cash interest expense during the three and nine-month periods ended September 30, 2012, respectively, and \$271,000 and \$496,000 during the three and nine-month periods ended September 30, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. Additionally, we recognized accelerations of approximately \$457,000 and \$416,000 of unamortized fees in connection with the pay down of \$24.25 million SBA debentures in February 2012 and \$24.75 million in SBA debentures in August 2012, respectively.

We had a weighted average cost of debt comprised of interest and fees of approximately 6.7% at September 30, 2012, as compared to 6.5% during the third quarter of 2011. The increase was primarily attributed to the weighted average cost of debt on the 2019 Notes of 7.5%, which closed in April and September 2012. As of September 30, 2012 the weighted average debt outstanding was approximately \$322.2 million.

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses increased to \$2.4 million from \$1.7 million for the three month periods ended September 30, 2012 and 2011, respectively. These increases were primarily due to increases of approximately \$338,000 and \$170,000 for accounting and legal expenses, respectively, for the three month period ended September 30, 2012. Expenses decreased to \$6.1 million from \$6.2 million for the nine-month periods ended September 30, 2012 and 2011, respectively.

Employee compensation and benefits totaled approximately \$2.9 million and \$3.3 million during the three month periods ended September 30, 2012 and 2011, respectively, and approximately \$9.6 million and \$9.9 million during the nine month periods ended September 30, 2012 and 2011, respectively. The decrease was primarily attributable to the reduction in headcount from 56 employees at September 30, 2011 to 52 employees at September 30, 2012. Stock-based compensation totaled approximately \$1.1 million and \$870,000 during the three-month periods ended September 30, 2012 and 2011, respectively, and approximately \$3.1 million and \$2.5 million during the nine-month periods ended September 30, 2012 and 2011, respectively. These increases were due primarily to the expense on restricted stock grants of approximately 672,000 shares issued in the first quarter of 2012. See “Financial Condition, Liquidity, and Capital Resources” for disclosure of additional expenses.

Net Investment Income Before Investment Gains and Losses

Net investment income per share was \$0.23 for the quarter ended September 30, 2012 compared to \$0.20 per share in the quarter ended September 30, 2011, based on 48,749,975 and 43,071,223 weighted average shares outstanding, respectively. Net investment income before investment gains and losses for the three and nine-month periods ended September 30, 2012 totaled approximately \$11.4 million and \$35.0 million, respectively, as compared to \$8.6 million and \$28.8 million in the three and nine-month periods ended September 30, 2011, respectively. The changes are made up of the items described above under “Investment Income” and “Operating Expenses.”

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

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

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During the three and nine-month periods ended September 30, 2012, we recognized net realized losses of approximately \$9.1 million and net realized gains of approximately \$2.0 million, respectively, on the portfolio. During the quarter ended September 30, 2012, we recorded realized losses of approximately \$8.7 million, \$672,000 and \$463,000, respectively, from the liquidation of our investments in MaxVision Holding, L.L.C, Zeta Interactive Corporation and Magi.com (pka Hi5 Networks, Inc.), respectively. These losses were partially offset by realized gains in the third quarter related to a milestone payment of approximately \$825,000 from Covidien PLC's acquisition of our portfolio company, BARRX Medical, Inc. in the first quarter of 2012. Under the terms of the acquisition agreement, additional milestone payments may be received within sixty days of the eighteen month and second anniversaries of the closing. These milestone payments are subject to performance factors and, therefore, their future receipt cannot be reasonably assured at this time.

During the three and nine-months ended September 30, 2011 the Company recognized total net realized gains of approximately \$10.1 million from the sale of common stock in its public portfolio companies and realized losses of approximately \$1.6 million and approximately \$6.7 million from equity, loan, and warrant investments in portfolio companies that have been liquidated.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Realized gains	\$ 948	\$ 316	\$ 13,122	\$ 10,580
Realized losses	\$(10,039)	\$(1,916)	\$(11,073)	\$(7,151)
Net realized gains (losses)	<u>\$ (9,091)</u>	<u>\$(1,600)</u>	<u>\$ 2,049</u>	<u>\$ 3,429</u>

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

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

(in thousands)	Three Months Ending September 30,		Nine Months Ending September 30,	
	2012	2011	2012	2011
	Amount	Amount	Amount	Amount
Gross unrealized appreciation on portfolio investments	\$ 15,000	\$ 11,928	\$ 40,531	\$ 41,945
Gross unrealized depreciation on portfolio investments	(23,845)	(11,423)	(56,190)	(38,833)
Reversal of prior period net unrealized appreciation upon a realization	(80)	(3,323)	(11,666)	(13,225)
Reversal of prior period net unrealized depreciation upon a realization	11,503	1,913	12,122	7,519
Citigroup Warrant Participation	(93)	136	16	(229)
Net unrealized appreciation (depreciation) on portfolio investments	<u>\$ 2,485</u>	<u>\$ (769)</u>	<u>\$ (15,187)</u>	<u>\$ (2,823)</u>

During the three month period ended September 30, 2012, we recorded approximately \$2.6 million of net unrealized appreciation from our loans, equity and warrant investments. Approximately \$3.9 million and \$2.0 million is attributed to net unrealized appreciation on equity and warrants, respectively, of which approximately \$4.1 million and \$457,000 is due to the reversal of prior period net unrealized depreciation upon being realized as a loss.

We recorded approximately \$3.3 million net unrealized depreciation on our debt investments, partially offset by approximately \$6.9 million due to the reversal of prior period net unrealized depreciation upon being realized as a loss.

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

(in millions)	Three Months Ended September 30, 2012				
	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	\$(8.7)	\$(2.1)	\$ (1.2)	\$ —	\$(12.0)
Reversals due to Loan Payoffs & Warrant/Equity sales	6.9	4.1	0.4	—	11.4
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets	—	(1.5)	0.6	—	(0.9)
Level 3 Assets	(1.5)	3.4	2.2	—	4.1
Total Fair Value Market/Yield Adjustments	(1.5)	1.9	2.8	—	3.2
Total Unrealized Appreciation/(Depreciation)	\$(3.3)	\$ 3.9	\$ 2.0	\$ —	\$ 2.6

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

During the nine-month period ended September 30, 2012, we recorded approximately \$15.2 million of net unrealized depreciation from our loans, equity and warrant investments. Approximately \$1.6 million is attributed to net unrealized appreciation on equity investments and approximately \$2.3 million is attributed to net unrealized depreciation on warrant investments. Approximately \$497,000 million and \$6.0 million is due to the reversal of prior period net unrealized appreciation on equity and warrants respectively, upon being realized as a gain. Additionally, we recorded approximately \$500,000 of unrealized depreciation attributed to reduced expectations of escrow proceeds previously anticipated to be collected.

We recorded approximately \$12.6 million net unrealized depreciation on our debt investments related to fluctuations in current market interest rates.

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

(in millions)	Nine Months Ended September 30, 2012				
	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	\$ (9.3)	\$(2.1)	\$ (1.2)	\$ —	\$(12.6)
Reversals due to Loan Payoffs & Warrant/Equity sales	7.9	(0.5)	(6.0)	(0.5)	0.9
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets	—	(5.7)	2.1	—	(3.6)
Level 3 Assets	(12.6)	9.9	2.8	—	0.1
Total Fair Value Market/Yield Adjustments	(12.6)	4.2	4.9	—	(3.9)
Total Unrealized Appreciation/(Depreciation)	\$(14.0)	\$ 1.6	\$ (2.3)	\$ (0.5)	\$(15.2)

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

As of September 30, 2012, the net unrealized appreciation recognized by us was increased by approximately \$93,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

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During the three-month period ended September 30, 2011, we recorded approximately \$769,000 of net unrealized depreciation from our loans, warrant and equity investments. During the nine-month period ended September 30, 2011, we recorded approximately \$2.8 million of net unrealized depreciation from our loans, warrant and equity investments.

Income and Excise Taxes

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

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

For the three and nine-months ended September 30, 2012, the net increase in net assets resulting from operations totaled approximately \$4.7 million and \$21.9 million, respectively. For the three and nine-months ended September 30, 2011, the net increase in net assets resulting from operations totaled approximately \$6.2 million and \$29.4 million, respectively. These changes are made up of the items previously described.

Both the basic and fully diluted net change in net assets per common share was \$0.09 and \$0.44, respectively, for the three and nine-month periods ended September 30, 2012.

Both the basic and fully diluted net change in net assets per common share was \$0.14 and \$0.67, respectively, for the three and nine-month periods ended September 30, 2011.

Financial Condition, Liquidity, and Capital Resources

Our liquidity and capital resources are derived from our credit facilities, SBA debentures, Convertible Senior Notes, April 2019 Notes, September 2019 Notes and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the rotation of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing, including from the SBA through our SBIC subsidiaries.

At September 30, 2012, we had \$75.0 million of Convertible Senior Notes payable, \$84.5 million of April 2019 Notes, \$75.0 million of September 2019 Notes and \$200.25 million of SBA debentures payable. We had no borrowings outstanding under either the Wells Facility or the Union Bank Facility. See “—Subsequent Events” below.

During the nine-months ended September 30, 2012, our operating activities used \$88.6 million of cash and cash equivalents, compared to \$72.6 million provided during the nine-months ended September 30, 2011. The \$16.0 million decrease in cash provided by operating activities resulted primarily from a reduction of principal payments received on investments of approximately \$58.0 million, partially offset by an increase in net unrealized appreciation of \$12.4 million and a decrease in purchase of investments of \$35.0 million during the nine-month period ended September 30, 2012. During the nine-months ended September 30, 2012, our financing activities provided \$131.3 million of cash, compared to \$62.0 million provided during the nine-months ended September 30, 2011. This \$69.3 million increase in cash provided by financing activities was primarily attributed to net proceeds from the issuance of common stock of \$46.6 million and our issuance of the 2019 Notes of \$159.5 million, offset by a \$49.3 million increase in the repayments of borrowings compared to prior year and a reduction of \$75.0 million attributed to the issuance of Convertible Senior Notes in 2011.

As of September 30, 2012, net assets totaled \$469.1 million, with a net asset value per share of \$9.42. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

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In January 2012, we completed a follow-on public offering of 5.0 million shares of common stock for proceeds of approximately \$48.05 million, before deducting offering expenses, to us. See “—Subsequent Events” below.

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

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

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of September 30, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 383.8%, excluding our SBA debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBA debentures was 207.0% at September 30, 2012. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage.

Outstanding Borrowings

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

(in thousands)	September 30, 2012		December 31, 2011	
	Total Available	Carrying Value ⁽¹⁾	Total Available	Carrying Value ⁽¹⁾
Union Bank Facility	\$ 55,000	\$ —	\$ 55,000	\$ —
Wells Facility	75,000	—	75,000	10,187
April 2019 Notes	84,490	84,490	—	—
September 2019 Notes ⁽²⁾	75,000	75,000	—	—
Convertible Senior Notes ⁽³⁾	75,000	71,165	75,000	70,353
SBA Debentures ⁽⁴⁾	<u>225,000</u>	<u>200,250</u>	<u>225,000</u>	<u>225,000</u>
Total	<u>\$589,490</u>	<u>\$430,905</u>	<u>\$430,000</u>	<u>\$305,540</u>

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

(2) In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$3.8 million at September 30, 2012.

(4) In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III. In August 2012, the Company repaid \$24.75 million of SBA debentures under HT II, \$12.0 million priced at 6.43%, including annual fees, and \$12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a \$24.75 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$76.0 million was available in HT II and \$149.0 million was available in HT III.

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

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2012, we had unfunded commitments of approximately \$66.0 million. Approximately \$39.5 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

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In addition, we had approximately \$133.5 million of non-binding term sheets outstanding to 13 new and existing companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

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

Contractual Obligations ⁽¹⁾⁽²⁾	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings	\$430,905	\$ —	\$ —	\$71,165 ⁽⁴⁾	\$359,740 ⁽³⁾
Operating Lease Obligations ⁽⁵⁾	9,146	1,277	2,802	3,025	2,042
Total	<u>\$440,051</u>	<u>\$ 1,277</u>	<u>\$2,802</u>	<u>\$74,190</u>	<u>\$361,782</u>

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

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

⁽³⁾ Includes \$200.25 million in borrowings under the SBA debentures, \$84.5 million in aggregate principal amount of the April 2019 Notes, and \$75.0 million in aggregate principal amount of the September 2019 Notes. See “—Subsequent Events” below.

⁽⁴⁾ Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was \$3.8 million at September 30, 2012.

⁽⁵⁾ Long-term facility leases.

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. HT II has a total of \$76.0 million of SBA guaranteed debentures outstanding as of September 30, 2012 and has paid the SBA commitment fees of approximately \$1.5 million. As of September 30, 2012, the Company held investments in HT II in 52 companies with a fair value of approximately \$162.1 million, accounting for approximately 20.9% of our total portfolio at September 30, 2012.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With our net investment of \$74.5 million in HT III as of September 30, 2012, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$124.25 million was outstanding as of September 30, 2012. As of September 30, 2012, HT III has paid commitment fees of approximately \$1.5 million. As of September 30, 2012, we held investments in HT III in 32 companies with a fair value of approximately \$195.4 million accounting for approximately 25.2% of our total portfolio at September 30, 2012.

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

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

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HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2012 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.25% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT II was approximately \$88.9 million with an average interest rate of approximately 4.83%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT III was approximately \$110.8 million with an average interest rate of approximately 3.3%.

In January 2011, we repaid \$25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a \$25.0 million dollar commitment for HT III.

In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III.

In August 2012, the Company repaid \$24.75 million of SBA debentures under HT II, \$12.0 million priced at 6.43%, including annual fees and \$12.75 million priced at 6.38%, including annual fees.

As of September 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of \$225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at September 30, 2012 there was \$200.25 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in September 2012 the SBA approved an additional \$24.75 million commitment under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate ⁽¹⁾	September 30 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	\$ —	\$ 12,000
March 26, 2008	March 1, 2018	6.38%	34,800	58,050
September 24, 2008	September 1, 2018	6.63%	—	13,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
September 19, 2012	September 1, 2022	3.05%	24,250	—
Total SBA Debentures			\$ 200,250	\$ 225,000

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Wells Facility

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

On August 1, 2012, we entered into an amendment to the Wells Facility. The amendment reduces the interest rate floor by 75 basis points to 4.25% and extends the maturity date by one year to August 2015. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, and the unused line fee was reduced.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three-month period ended September 30, 2012, this non-use fee was approximately \$112,000. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term. At September 30, 2012, there were no borrowings outstanding on this facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2012.

Union Bank Facility

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

On March 30, 2012 we entered into an amendment to the Union Bank Facility which permitted us to issue additional senior notes relating to the offer and sale of our 2019 Notes. On September 17, 2012, we entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, we are permitted to increase our unsecured indebtedness by an aggregate original principal amount not to exceed \$200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

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

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

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Citibank Credit Facility

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the “Citibank Credit Facility”) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, we paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the “Maximum Participation Limit”). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$699,000 as of September 30, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between December 2012 and January 2017.

Convertible Senior Notes

In April 2011, we issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes (the “Convertible Senior Notes”) due 2016. As of September 30, 2012, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$71.2 million.

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

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

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

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

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

<u>(in thousands)</u>	<u>As of September 30, 2012</u>
Principal amount of debt	\$ 75,000
Original issue discount, net of accretion	(3,835)
Carrying value of debt	<u>\$ 71,165</u>

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

<u>(in thousands)</u>	<u>Three Months Ended September 2012</u>	<u>Nine Months Ended September 2012</u>
Stated interest expense	\$ 1,125	\$ 3,375
Accretion of original issue discount	271	812
Amortization of debt issuance cost	144	433
Total interest expense and fees	<u>\$ 1,540</u>	<u>\$ 4,620</u>
Cash paid for interest expense	\$ —	\$ 2,250

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

2019 Notes Payable

On March 6, 2012, we and U.S. Bank National Association (the “Trustee”) entered into an indenture (the “Base Indenture”). On April 17, 2012, we and the Trustee entered into the First Supplemental Indenture to the Base Indenture (the “Base Indenture”), dated April 17, 2012, relating to our issuance, offer and sale of \$43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “April 2019 Notes”). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately \$41.7 million.

On September 24, 2012, we and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture, dated as of September 24, 2012, relating to our issuance, offer and sale of \$75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “September 2019 Notes”). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately \$72.75 million.

April 2019 Notes

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

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

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring our compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the April 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

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

In July 2012, we reopened our April 2019 Notes and issued an additional \$41.5 million in aggregate principal amount of April 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately \$84.5 million in aggregate principal amount.

September 2019 Notes

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

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

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the September 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the Second Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The September 2019 Notes were sold pursuant to an underwriting agreement dated as of September 19, 2012 (the "Underwriting Agreement") among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement.

In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

For the three months and nine-months ended September 30, 2012, the components of interest expense and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

<u>(in thousands)</u>	<u>Three Months Ended September 30, 2012⁽¹⁾</u>	<u>Nine Months Ended September 30, 2012⁽¹⁾</u>
Stated interest expense	\$ 1,509	\$ 2,128
Amortization of debt issuance cost	130	179
Total interest expense and fees	\$ 1,639	\$ 2,307
Cash paid for interest expense	\$ —	\$ —

⁽¹⁾ Includes the April 2019 Notes and the September 2019 Notes.

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

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Outstanding Borrowings

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

(in thousands)	September 30, 2012		December 31, 2011	
	Total Available	Carrying Value ⁽¹⁾	Total Available	Carrying Value ⁽¹⁾
Union Bank Facility	\$ 55,000	\$ —	\$ 55,000	\$ —
Wells Facility	75,000	—	75,000	10,187
April 2019 Notes	84,490	84,490	—	—
September 2019 Notes ⁽²⁾	75,000	75,000	—	—
Convertible Senior Notes ⁽³⁾	75,000	71,165	75,000	70,353
SBA Debentures ⁽⁴⁾	225,000	200,250	225,000	225,000
Total	<u>\$589,490</u>	<u>\$430,905</u>	<u>\$430,000</u>	<u>\$305,540</u>

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

(2) In October 2012, the underwriters exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately \$85.9 million in aggregate principal amount.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$3.8 million at September 30, 2012.

(4) In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III. In August 2012, the Company repaid \$24.75 million of SBA debentures under HT II, \$12.0 million priced at 6.43%, including annual fees, and \$12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a \$24.75 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$76.0 million was available in HT II and \$149.0 million was available in HT III.

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Dividends

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

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share</u>
October 27, 2005	November 1, 2005	November 17, 2005	\$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17, 2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
October 26, 2012	November 14, 2012	November 21, 2012	0.24
			<u>\$ 7.64</u>

* Dividend paid in cash and stock.

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On October 26, 2012 the Board of Directors declared a cash dividend of \$0.24 per share to be paid on November 21, 2012 to shareholders of record as of November 14, 2012. This dividend represents the Company's twenty-ninth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$7.64 per share.

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

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the tax attributes of our 2012 distributions to stockholders. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2012, approximately 100.0% would be from ordinary income and spillover earnings from 2011.

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

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

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

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

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

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

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.

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Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (“ASC”) topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At September 30, 2012, approximately 85.2% of the Company’s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean technology industries. Given the nature of lending to these types of businesses, our investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and business based assumptions are discussed with our investment committee;
- (3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate.
- (4) the Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the valuation committee.

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

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

- Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.
- Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument’s anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.
- Level 3—Inputs reflect management’s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

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

Quantitative Information about Level 3 Fair Value Measurements of Debt Investments

<u>Investment Type - Level Three Debt Investments</u>	<u>Fair Value at September 30, 2012</u> <i>(in thousands)</i>	<u>Valuation Techniques/ Methodologies</u>	<u>Unobservable Input^(a)</u>	<u>Range</u>
Pharmaceuticals - Debt	\$ 220,641	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	14.0% - 16.8% (2.0%) - 1.5%
		Option Pricing Model ^(b)	Average Industry Volatility ^(c) Risk Free Interest Rate	57.62% 0.23% 18.2
Medical Devices - Debt	39,613	Market Comparable Companies	Hypothetical Market Yield Premium	14.1% 0.0% - 1.0%
Technology - Debt	137,473	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	13.3% - 17.9% (1.5%) - 1.0%
Clean Tech - Debt	82,267	Market Comparable Companies	Hypothetical Market Yield Premium	16.46% 0.0% - 1.0%
Lower Middle Market - Debt	213,781	Market Comparable Companies	Hypothetical Market Yield Premium	10.8% - 19.5% 0.0% - 5.0%
		Broker Quote ^(d)	Price Quotes	90.0% - 99% of par
		Liquidation	Investment Collateral	\$1.0 - \$5.0 million
Total Level Three Debt Investments	\$ 693,775			

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

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

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

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

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

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

(b) An option pricing model valuation technique was used to derive the fair value conversion feature of convertible notes.

(c) Represents the range of industry volatility used by market participants when pricing the investment.

(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

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

<u>Investment Type -</u>	<u>Fair Value at September 30, 2012 (in thousands)</u>	<u>Valuation Techniques/ Methodologies</u>	<u>Unobservable Input^(a)</u>	<u>Range</u>
Level Three Warrant and Equity Investments	\$ 57,603	Market Comparable Companies	EBITDA Multiple ^(b) Revenue Multiple ^(b) Discount for Lack of Marketability ^(c)	5.6x - 22.1x 0.6x - 19.6x 10.4% - 25.8%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility ^(d) Risk-Free Interest Rate Estimated Time to Exit (in months)	46.49% - 139.22% 0.17% - 0.61% 12 - 48
Total Level Three Warrant and Equity Investments	\$ 57,603			

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

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Debt Investments

Our debt securities are primarily invested in venture capital-backed companies in technology-related markets including technology, biotechnology, life science and clean-technology industries at all stages of development. Given the nature of lending to these types of businesses, our investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

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

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

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

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

Equity-Related Securities and Warrants

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

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

Income Recognition.

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount ("OID") initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of September 30, 2012, we had one portfolio company on non-accrual status with an approximate cost of \$347,000 and zero fair value. There was one portfolio company on non-accrual status with an approximate cost of \$7.7 million and a fair value of approximately \$1.0 million as of December 31, 2011.

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Paid-In-Kind and End of Term Income.

Contractual paid-in-kind (“PIK”) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$297,000 and \$866,000 in PIK income in the three and nine-month periods ended September 30, 2012, respectively. We recorded approximately \$285,000 and \$1.4 million in the same periods ended September 30, 2011, respectively.

Fee Income.

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

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

Equity Offering Expenses

Our offering costs are charged against the proceeds from equity offerings when received.

Debt Issuance Costs

Debt issuance costs are being amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

Stock-Based Compensation.

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

Federal Income Taxes.

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

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Recent Accounting Pronouncement

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

Departure of Chief Compliance Officer and Secretary

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

Subsequent Events

Liquidity and Capital Resources

In October 2012, we completed a follow-on public offering of 3.1 million shares of common stock for proceeds of approximately \$33.6 million, before deducting offering expenses.

In October 2012, in connection with the recent public offering of \$75.0 million in aggregate principal amount of our 7.00% senior unsecured notes due 2019 (the “September 2019 Notes”), which closed on September 24, 2012, the underwriters have exercised their over-allotment option for an additional \$10.9 million of the September 2019 Notes, bringing the total size of the offering to \$85.9 million.

Dividend Declaration

On October 26, 2012 the Board of Directors declared a cash dividend of \$0.24 per share that will be payable on November 21, 2012 to shareholders of record as of November 14, 2012. This dividend represents the Company’s twenty-ninth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to \$7.64 per share.

Portfolio Company Developments

In October 2012, our portfolio company Nextwave Pharmaceuticals, reached a definitive agreement to be acquired by Pfizer Inc. (NYSE: PFE). Pfizer is exercising the option to acquire NextWave and will make a payment of \$255 million to NextWave shareholders at the close of the deal. NextWave shareholders are eligible to receive additional payments of up to \$425 million if certain sales milestones are met.

Closed and Pending Commitments

1. As of October 30, 2012, Hercules has:

- a. Closed commitments of approximately \$73.6 million to new and existing portfolio companies, and funded approximately \$29.2 million since the close of the third quarter.
- b. Pending commitments (signed non-binding term sheets) of approximately \$166.0 million.

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

Closed Commitments and Pending Commitments (in millions)	
January 1- September 30, 2012 Closed Commitments	\$376.7
Q4-12 Closed Commitments (as of October 30, 2012)	\$ 73.6
Total year-to-date 2012 Closed Commitments(a)	\$450.3
Pending Commitments (as of October 30, 2012)(b)	\$166.0
Total year-to-date	\$616.3

Notes:

- a. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
- b. Not all pending commitments (signed non-binding term sheets) are expected to close and do not necessarily represent any future cash requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net investment income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

As of September 30, 2012, approximately 99.3% of our portfolio loans were at variable rates or variable rates with a floor and 0.7% of our loans were at fixed rates. Over time additional investments may be at variable rates. We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding nine-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 nine-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 2.25% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT II was approximately \$88.9 million with an average interest rate of approximately 4.83%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT III was approximately \$110.8 million with an average interest rate of approximately 3.3%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. For the three-month period ended September 30, 2012, this non-use fee was approximately \$112,000. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At September 30, 2012, there was no debt outstanding under the Wells Facility.

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

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

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

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

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

Because we currently borrow, and plan to borrow in the future, money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by variable rate assets in our investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive and chief financial officers, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of the end of the period covered by this quarterly report on Form 10-Q, our chief executive and chief financial officers have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by us in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the company’s management, including its chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no other changes in our internal control over financing reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, that occurred during the Company’s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

At September 30, 2012, we were not a party to any 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. While the outcome of these legal proceedings cannot at this time be predicted, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations and cash flows.

ITEM 1A. RISK FACTORS

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

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

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

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

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2012, HT II had the potential to borrow up to \$76.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$75.0 million in HT II as of September 30, 2012, HT II has the capacity to issue a total of \$76.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$76.0 million is outstanding as of September 30, 2012.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2012, HT III had the potential to borrow up to \$149.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$74.5 million in HT III as of September 30, 2012, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$124.25 million was outstanding as of September 30, 2012.

As of September 30, 2012, there was \$200.25 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Access to the remaining leverage is subject to SBA approval and compliance with SBA regulations.

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

In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility, the Convertible Senior Notes, the April 2019 Notes and the September 2019 Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes or 2019 Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends.

The credit agreements governing the Wells Facility, the Union Bank Facility, the Convertible Senior Notes and 2019 Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under the Wells Facility and the Union Bank facility or the trustee or holders under the Convertible Senior Notes, the April 2019 Notes or the September 2019 Notes, could accelerate repayment under the facilities or the Convertible Senior Notes or 2019 Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. In addition, holders of the Convertible Senior Notes will have the right to require us to repurchase the Convertible Senior Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Borrowings.”

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

As of September 30, 2012, we had unfunded commitments of approximately \$66.0 million. Approximately \$39.5 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Pending legislation may allow us to incur additional leverage.

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at September 30, 2012 that represent greater than 5% of net assets:

(in thousands)	September 30, 2012	
	Fair Value	Percentage of Net Assets
Box, Inc.	\$48,413	10.3%
BrightSource Energy, Inc.	\$35,790	7.6%
Aveo Pharmaceuticals, Inc.	\$28,777	6.1%
Education Dynamics	\$26,889	5.7%
Jab Wireless, Inc.	\$25,798	5.5%
Women's Marketing, Inc.	\$25,797	5.5%
Tectura	\$25,282	5.4%

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

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

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

Education Dynamics is a provider of high quality, student focused products and services.

Jab Wireless, Inc. is engaged in the acquisition and expansion of wireless broadband operators, bundled voice and data services.

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1	Third Amendment to Loan and Security Agreement between the Company and Wells Fargo Capital Finance, LLC, effective August 1, 2012 (incorporated herein by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 2, 2012).
10.2	Second Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of September 17, 2012 (Incorporated herein by reference to the Company's Post-Effective No. 4 to its Registration Statement on Form N-2 (File No. 333-179431), as filed on September 17, 2012).
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC. (Registrant)

Dated: November 1, 2012

/s/ MANUEL A. HENRIQUEZ

Manuel A. Henriquez
Chairman, President, and Chief Executive Officer

Dated: November 1, 2012

/s/ JESSICA BARON

Jessica Baron
Chief Financial Officer

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* Filed herewith.

**AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "Report") of Hercules Technology Growth Capital, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof; I, Manuel A. Henriquez, the Chief Executive Officer of the Registrant, certify, to the best of my knowledge, that:

- 1) The Report fully complies with the requirements of the Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 1, 2012

By: /s/ MANUEL A. HENRIQUEZ
Manuel A. Henriquez
Chief Executive Officer

