

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

November 10, 2008

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**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, 2008

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

**743113410**  
(IRS Employer

**Incorporation or Organization)**

**Identification No.)**

**400 Hamilton Ave., Suite 310 Palo Alto, California 94301**  
(Address of Principal Executive Offices)

**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 as 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 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 November 7, 2008, there were 32,862,554 shares outstanding of the Registrant's common stock, \$0.001 par value.

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

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**Table of Contents****PART I: FINANCIAL INFORMATION**

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**

(in thousands, except per share data)

|  | September 30,<br>2008<br>(unaudited) | December 31,<br>2007 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Investments:   |                                      |                      |
| Non-affiliate investments (cost of \$621,675 and \$513,106)                      | \$ 632,500                           | \$ 525,725           |
| Affiliate investments (cost of \$6,344 and \$6,344)                              | 4,247                                | 4,247                |
| Total investments, at value (cost of \$628,019 and \$519,450 respectively)       | 636,747                              | 529,972              |
| Deferred loan origination revenue  | (7,769)                              | (6,593)              |
| Cash and cash equivalents  | 20,489                               | 7,856                |
| Interest receivable  | 7,859                                | 6,387                |
| Other assets   | 17,677                               | 4,321                |
| Total assets   | 675,003                              | 541,943              |
| <b>Liabilities</b>   |                                      |                      |
| Accounts payable and accrued liabilities   | 7,213                                | 6,956                |
| Short-term credit facility   | 127,900                              | 79,200               |
| Long-term credit facility  | 10,000                               |                      |
| Long-term SBA debentures   | 127,200                              | 55,050               |
| Total liabilities  | 272,313                              | 141,206              |
| <b>Net assets</b>  | <b>\$ 402,690</b>                    | <b>\$ 400,737</b>    |
| <b>Net assets consist of:</b>  |                                      |                      |
| Common stock, par value  | \$ 33                                | \$ 33                |
| Capital in excess of par value   | 397,990                              | 393,530              |
| Deferred stock compensation  | (2,418)                              | (78)                 |
| Unrealized appreciation on investments   | 8,105                                | 10,129               |
| Accumulated realized gains on investments  | 5,812                                | 819                  |
| Distributions in excess of investment income                                     | (6,832)                              | (3,696)              |
| <b>Total net assets</b>  | <b>\$ 402,690</b>                    | <b>\$ 400,737</b>    |
| <b>Shares of common stock outstanding (\$0.001 par value, 60,000 authorized)</b> | <b>32,863</b>                        | <b>32,541</b>        |
| <b>Net asset value per share</b>   | <b>\$ 12.25</b>                      | <b>\$ 12.31</b>      |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                                | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                             | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| Accelaron Pharmaceuticals, Inc. (0.77%)* <sup>(4)</sup> | Drug Discovery  | Senior Debt<br>Matures January 2010<br>Interest rate 10.25%         | \$ 2,204                | \$ 2,202                  | \$ 2,202                   |
|   |                 | Preferred Stock Warrants  |                         | 69                        | 731                        |
|   |                 | Preferred Stock Warrants  |                         | 35                        | 162                        |
| Accelaron Pharmaceuticals, Inc. (0.45%)                 |                 | Preferred Stock   |                         | 1,243                     | 1,805                      |
| <b>Total Accelaron Pharmaceuticals, Inc.</b>            |                 |   |                         | <b>3,549</b>              | <b>4,900</b>               |
| Aveo Pharmaceuticals, Inc. (3.78%) <sup>(4)</sup>       | Drug Discovery  | Senior Debt<br>Matures November 2011<br>Interest rate 11.13%        | \$ 15,000               | 14,913                    | 14,890                     |
|   |                 | Preferred Stock Warrants  |                         | 190                       | 252                        |
|   |                 | Preferred Stock Warrants  |                         | 104                       | 68                         |
|   |                 | Preferred Stock Warrants  |                         | 24                        | 23                         |
| <b>Total Aveo Pharmaceuticals, Inc.</b>                 |                 |   |                         | <b>15,231</b>             | <b>15,233</b>              |
| Elixir Pharmaceuticals, Inc. (2.8%) <sup>(4)</sup>      | Drug Discovery  | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 4.50% | \$ 11,000               | 11,000                    | 11,000                     |
|   |                 | Preferred Stock Warrants  |                         | 217                       | 260                        |
| <b>Total Elixir Pharmaceuticals, Inc.</b>               |                 |   |                         | <b>11,217</b>             | <b>11,260</b>              |
| EpiCept Corporation (0.91%) <sup>(4)</sup>              | Drug Discovery  | Senior Debt<br>Matures April 2009<br>Interest rate 15.00%           | \$ 2,768                | 2,532                     | 2,897                      |
|   |                 | Common Stock Warrants   |                         | 161                       | 610                        |
|   |                 | Common Stock Warrants   |                         | 40                        | 154                        |
| <b>Total EpiCept Corporation</b>                        |                 |   |                         | <b>2,733</b>              | <b>3,661</b>               |
| Horizon Therapeutics, Inc. (1.53%) <sup>(4)</sup>       | Drug Discovery  | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 1.50%      | \$ 6,000                | 5,880                     | 5,880                      |
|   |                 | Preferred Stock Warrants  |                         | 178                       | 263                        |
| <b>Total Horizon Therapeutics, Inc.</b>                 |                 |   |                         | <b>6,058</b>              | <b>6,143</b>               |
| Inotek Pharmaceuticals Corp. (0.37%)                    | Drug Discovery  | Preferred Stock   |                         | 1,500                     | 1,500                      |
| <b>Total Inotek Pharmaceuticals Corp.</b>               |                 |   |                         | <b>1,500</b>              | <b>1,500</b>               |
| Memory Pharmaceuticals Corp. (3.04%) <sup>(4)</sup>     | Drug Discovery  | Senior Debt<br>Matures December 2010<br>Interest rate 11.45%        | \$ 13,245               | 12,221                    | 12,221                     |
|   |                 | Common Stock Warrants   |                         | 1,751                     | 23                         |
| <b>Total Memory Pharmaceuticals Corp.</b>               |                 |   |                         | <b>13,972</b>             | <b>12,244</b>              |
| Merrimack Pharmaceuticals, Inc. (0.25%) <sup>(4)</sup>  | Drug Discovery  |   | \$ 85                   | 85                        | 85                         |

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|  |                |                          |       |       |
|--|----------------|--------------------------|-------|-------|
|  |                | Convertible Senior Debt  |       |       |
|  |                | Matures October 2008     |       |       |
|  |                | Interest rate 11.15%     |       |       |
| Merrimack Pharmaceuticals, Inc. (0.69%)  |                | Preferred Stock Warrants | 156   | 914   |
|  |                | Preferred Stock          | 2,000 | 2,787 |
| Total Merrimack Pharmaceuticals, Inc.    |                |                          | 2,241 | 3,786 |
| Neosil, Inc. (0.00%)                     | Drug Discovery | Preferred Stock Warrants | 83    |       |
| Total Neosil, Inc.                       |                |                          | 83    |       |
| Paratek Pharmaceuticals, Inc. (0.10%)(4) | Drug Discovery | Preferred Stock Warrants | 137   | 415   |
| Paratek Pharmaceuticals, Inc. (0.25%)    |                | Preferred Stock          | 1,000 | 1,000 |
| Total Paratek Pharmaceuticals, Inc.      |                |                          | 1,137 | 1,415 |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                             | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                      | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|-----------------------------|--|-------------------------|---------------------------|----------------------------|
| Portola Pharmaceuticals, Inc. (3.28%) <sup>(4)</sup> | Drug Discovery              | Senior Debt<br>Matures September 2011<br>Interest rate Prime + 2.16%         | \$ 12,917               | 12,840                    | 12,840                     |
|  |                             | Preferred Stock Warrants   |                         | 152                       | 350                        |
| <b>Total Portola Pharmaceuticals, Inc.</b>           |                             |  |                         | <b>12,992</b>             | <b>13,190</b>              |
| Recoly, N.V. (0.74%) <sup>(6)</sup>                  | Drug Discovery              | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 4.25%               | \$ 3,000                | 3,000                     | 3,000                      |
| <b>Total Recoly, N.V.</b>                            |                             |  |                         | <b>3,000</b>              | <b>3,000</b>               |
| <b>Total Drug Discovery (18.96%)</b>                 |                             |  |                         | <b>73,713</b>             | <b>76,332</b>              |
| Affinity Videonet, Inc. (1.62%) <sup>(4)</sup>       | Communications & Networking | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 4.50%              | \$ 4,000                | 3,935                     | 3,935                      |
|  |                             | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 5.50%              | \$ 2,000                | 2,000                     | 2,000                      |
|  |                             | Revolving Line of Credit<br>Matures June 2012<br>Interest rate Prime + 3.50% | \$ 500                  | 500                       | 500                        |
|  |                             | Preferred Stock Warrants   |                         | 74                        | 72                         |
| <b>Total Affinity Videonet, Inc.</b>                 |                             |  |                         | <b>6,509</b>              | <b>6,507</b>               |
| E-band Communications, Inc. (0.50%) <sup>(7)</sup>   | Communications & Networking | Preferred Stock  |                         | 2,000                     | 2,000                      |
| <b>Total E-Band Communications, Inc.</b>             |                             |  |                         | <b>2,000</b>              | <b>2,000</b>               |
| IKANO Communications, Inc. (3.88%) <sup>(4)</sup>    | Communications & Networking | Senior Debt<br>Matures April 2011<br>Interest rate 11.00%                    | \$ 15,196               | 15,196                    | 15,196                     |
|  |                             | Preferred Stock Warrants   |                         | 46                        | 175                        |
|  |                             | Preferred Stock Warrants   |                         | 72                        | 266                        |
| <b>Total IKANO Communications, Inc.</b>              |                             |  |                         | <b>15,314</b>             | <b>15,637</b>              |
| Kadoink, Inc. (0.5%) <sup>(4)</sup>                  | Communications & Networking | Senior Debt<br>Matures April 2011<br>Interest rate Prime + 2.00%             | \$ 2,000                | 1,952                     | 1,952                      |
|  |                             | Preferred Stock Warrants   |                         | 73                        | 72                         |
| Kadoink, Inc. (0.06%)                                |                             | Preferred Stock  |                         | 250                       | 250                        |
| <b>Total Kadoink, Inc.</b>                           |                             |  |                         | <b>2,275</b>              | <b>2,274</b>               |
| Neonova Holding Company (2.24%)                      |                             |  | \$ 9,000                | 8,924                     | 8,924                      |



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|                                      | Communications & Networking | Senior Debt<br>Matures September 2012<br>Interest rate Prime + 3.25% |              |              |
|--------------------------------------|-----------------------------|--|--------------|--------------|
| Neonova Holding Company (0.06%)      |                             | Preferred Stock Warrants   | 94           | 80           |
|                                      |                             | Preferred Stock  | 250          | 250          |
| <b>Total Neonova Holding Company</b> |                             |  | <b>9,268</b> | <b>9,254</b> |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2008

(unaudited)

(dollars in thousands)

| <b>Portfolio Company</b>                            | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>   | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------------------|---|-------------------------|---------------------------|----------------------------|
| Peerless Network, Inc. (0.37%) <sup>(5)</sup>       | Communications & Networking | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.25%                   | \$ 1,500                | 1,428                     | 1,428                      |
|   |                             | Preferred Stock Warrants  |                         | 95                        | 75                         |
| Peerless Network, Inc. (0.25%)                      |                             | Preferred Stock   |                         | 1,000                     | 1,000                      |
| Total Peerless Network, Inc.                        |                             |   |                         | 2,523                     | 2,503                      |
| Ping Identity Corporation (0.21%) <sup>(4)</sup>    | Communications & Networking | Senior Debt<br>Matures June 2009<br>Interest rate 11.50%                          | \$ 851                  | 842                       | 842                        |
|   |                             | Preferred Stock Warrants  |                         | 51                        | 2                          |
| Total Ping Identity Corporation                     |                             |   |                         | 893                       | 844                        |
| Purcell Systems, Inc. (2.47%)                       | Communications & Networking | Senior Debt<br>Matures June 2010<br>Interest rate Prime + 3.50%                   | \$ 1,807                | 1,739                     | 1,739                      |
|   |                             | Revolving Line of Credit<br>Matures July 2009<br>Interest rate Prime + 2.75%      | \$ 6,000                | 6,000                     | 6,000                      |
|   |                             | Senior Debt<br>Matures July 2011<br>Interest rate Prime + 3.50%                   | \$ 1,600                | 1,600                     | 1,600                      |
|   |                             | Preferred Stock Warrants  |                         | 123                       | 613                        |
| Total Purcell Systems, Inc.                         |                             |   |                         | 9,462                     | 9,952                      |
| Rivulet Communications, Inc. (0.57%) <sup>(5)</sup> | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate 10.50%                         | \$ 2,324                | 2,301                     | 2,301                      |
|   |                             | Preferred Stock Warrants  |                         | 51                        |                            |
| Rivulet Communications, Inc. (0.00%)                |                             | Preferred Stock   |                         | 250                       | 4                          |
| Total Rivulet Communications, Inc.                  |                             |   |                         | 2,602                     | 2,305                      |
| Seven Networks, Inc. (2.57%) <sup>(4)</sup>         | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate Prime + 6.00%                  | \$ 6,941                | 6,859                     | 6,859                      |
|   |                             | Revolving Line of Credit<br>Matures September 2009<br>Interest rate Prime + 5.00% | \$ 3,000                | 3,000                     | 3,000                      |
|   |                             | Preferred Stock Warrants  |                         | 174                       | 500                        |
|   |                             |   |                         |                           |                            |
| Total Seven Networks, Inc.                          |                             |   |                         | 10,033                    | 10,359                     |
| Simpler Networks Corp. (0.98%) <sup>(8)</sup>       | Communications & Networking | Senior Debt<br>Matures July 2010<br>Interest rate 18.25%                          | \$ 4,646                | 4,615                     | 3,966                      |
|   |                             | Preferred Stock Warrants  |                         | 160                       |                            |
| Simpler Networks Corp. (0.00%)                      |                             | Preferred Stock   |                         | 500                       |                            |

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Total Simpler Networks Corp.

See notes to consolidated financial statements (unaudited)

5,275

3,966

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| <b>Portfolio Company</b>                              | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>   | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------------------|---|-------------------------|---------------------------|----------------------------|
| Stoke, Inc. (0.77%)                                   | Communications & Networking | Senior Debt<br>Matures August 2010<br>Interest rate 10.55%                      | \$ 3,028                | 2,995                     | 2,995                      |
|   |                             | Preferred Stock Warrants  |                         | 53                        | 116                        |
| <b>Total Stoke, Inc.</b>                              |                             |   |                         | <b>3,048</b>              | <b>3,111</b>               |
| Tectura Corporation (6.32%) <sup>(4)</sup>            | Communications & Networking | Senior Debt<br>Matures April 2012<br>Interest rate LIBOR + 6.90%                | \$ 7,753                | 7,852                     | 7,852                      |
|   |                             | Revolving Line of Credit<br>Matures April 2009<br>Interest rate LIBOR + 6.35%   | \$ 12,000               | 12,000                    | 12,000                     |
|   |                             | Revolving Line of Credit<br>Matures March 2009<br>Interest rate LIBOR + 7.50%   | \$ 5,507                | 5,507                     | 5,507                      |
|   |                             | Preferred Stock Warrants  |                         | 51                        | 90                         |
| <b>Total Tectura Corporation</b>                      |                             |   |                         | <b>25,410</b>             | <b>25,449</b>              |
| Teleflip, Inc. (0.16%)                                | Communications & Networking | Senior Debt<br>Matures June 2010<br>Interest rate Prime + 2.75%                 | \$ 906                  | 907                       | 651                        |
|   |                             | Preferred Stock Warrants  |                         | 11                        |                            |
| <b>Total Teleflip, Inc.</b>                           |                             |   |                         | <b>918</b>                | <b>651</b>                 |
| Wireless Channels, Inc. (3.01%) <sup>(4)</sup>        | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate Prime + 4.25%                | \$ 11,156               | 11,461                    | 11,461                     |
|   |                             | Preferred Stock Warrants  |                         | 155                       | 641                        |
| <b>Total Wireless Channels, Inc.</b>                  |                             |   |                         | <b>11,616</b>             | <b>12,102</b>              |
| Zayo Bandwidth, Inc. (6.21%)                          | Communications & Networking | Senior Debt<br>Matures November 2013<br>Interest rate Libor + 5.25%             | \$ 25,000               | 25,000                    | 25,000                     |
| <b>Total Zayo Bandwidth, Inc.</b>                     |                             |   |                         | <b>25,000</b>             | <b>25,000</b>              |
| <b>Total Communications &amp; Networking (32.75%)</b> |                             |   |                         | <b>132,146</b>            | <b>131,914</b>             |
| Atrenta, Inc. (2.30%) <sup>(5)</sup>                  | Software                    | Senior Debt<br>Matures January 2010<br>Interest rate 11.50%                     | \$ 2,961                | 2,898                     | 2,898                      |
|   |                             | Revolving Line of Credit<br>Matures October 2009<br>Interest rate Prime + 2.00% | \$ 6,000                | 6,000                     | 6,000                      |
|   |                             | Preferred Stock Warrants  |                         | 102                       | 242                        |
|   |                             | Preferred Stock Warrants  |                         | 34                        | 79                         |

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|                       |  |   |          |       |       |
|-----------------------|--|---|----------|-------|-------|
|                       |  | Preferred Stock Warrants  |          | 71    | 56    |
| Atrenta, Inc. (0.06%) |  | Preferred Stock   |          | 250   | 240   |
| Total Atrenta, Inc.   |  |   |          | 9,355 | 9,515 |
| Blurb, Inc. (1.67%)   | Software   | Senior Debt<br>Matures December 2009<br>Interest rate 9.55%     | \$ 1,720 | 1,709 | 1,709 |
|                       |  | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.50% | \$ 5,000 | 5,000 | 5,000 |
|                       |  | Preferred Stock Warrants  |          | 25    | 33    |
| Total Blurb, Inc.     |  |   |          | 6,734 | 6,742 |
|                       | See notes to consolidated financial statements (unaudited) |   |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                            | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|--|-------------------------|---------------------------|----------------------------|
| Braxton Technologies, LLC. (2.5%) <sup>(5)</sup>    | Software        | Senior Debt<br>Matures July 2012<br>Interest rate Libor + 7.25%                  | \$ 10,000               | 9,863                     | 9,863                      |
|   |                 | Preferred Stock Warrants   |                         | 188                       | 202                        |
| <b>Total Braxton Technologies, LLC.</b>             |                 |  |                         | <b>10,051</b>             | <b>10,065</b>              |
| Bullhorn, Inc. (0.28%)                              | Software        | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 3.75%              | \$ 877                  | 851                       | 851                        |
|   |                 | Preferred Stock Warrants   |                         | 43                        | 261                        |
| <b>Total Bullhorn, Inc.</b>                         |                 |  |                         | <b>894</b>                | <b>1,112</b>               |
| Cittio, Inc. (0.22%)                                | Software        | Senior Debt<br>Matures May 2010<br>Interest rate 11.00%                          | \$ 849                  | 832                       | 832                        |
|   |                 | Preferred Stock Warrants   |                         | 53                        | 59                         |
| <b>Total Cittio, Inc.</b>                           |                 |  |                         | <b>885</b>                | <b>891</b>                 |
| Clickfox, Inc. (0.62%)                              | Software        | Senior Debt<br>Matures September 2011<br>Interest rate 10.25%                    | \$ 2,500                | 2,337                     | 2,337                      |
|   |                 | Preferred Stock Warrants   |                         | 163                       | 161                        |
| <b>Total Clickfox, Inc.</b>                         |                 |  |                         | <b>2,500</b>              | <b>2,498</b>               |
| Forescout Technologies, Inc. (0.46%) <sup>(4)</sup> | Software        | Senior Debt<br>Matures August 2009<br>Interest rate 11.15%                       | \$ 1,191                | 1,169                     | 1,169                      |
|   |                 | Revolving Line of Credit<br>Matures February 2009<br>Interest rate Prime + 2.25% | \$ 500                  | 500                       | 500                        |
|   |                 | Preferred Stock Warrants   |                         | 99                        | 162                        |
| <b>Total Forescout Technologies, Inc.</b>           |                 |  |                         | <b>1,768</b>              | <b>1,831</b>               |
| GameLogic, Inc. (0.59%) <sup>(4)</sup>              | Software        | Senior Debt<br>Matures September 2010<br>Interest rate Prime + 4.125%            | \$ 2,461                | 2,369                     | 2,369                      |
|   |                 | Preferred Stock Warrants   |                         | 93                        |                            |
| <b>Total GameLogic, Inc.</b>                        |                 |  |                         | <b>2,462</b>              | <b>2,369</b>               |
| Gomez, Inc. (0.13%) <sup>(4)</sup>                  | Software        | Preferred Stock Warrants   |                         | 35                        | 526                        |
| <b>Total Gomez, Inc.</b>                            |                 |  |                         | <b>35</b>                 | <b>526</b>                 |
| HighJump Acquisition, LLC. (2.98%) <sup>(4)</sup>   | Software        | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 7.50%                   | \$ 12,000               | 12,000                    | 12,000                     |

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|  |          |                             |           |        |        |
|--|----------|-----------------------------|-----------|--------|--------|
| Total HighJump Acquisition, LLC.                           |          |                             |           | 12,000 | 12,000 |
| HighRoads, Inc. (0.01%)(4)                                 | Software | Preferred Stock Warrants    |           | 44     | 57     |
| Total HighRoads, Inc.                                      |          |                             |           | 44     | 57     |
| Infologix, Inc. (5.21%)(4)                                 |          |                             |           |        |        |
|  | Software | Senior Debt                 |           |        |        |
|  |          | Matures April 2012          |           |        |        |
|  |          | Interest rate Prime + 4.50% | \$ 12,000 | 12,000 | 12,000 |
|  |          | Revolving Line of Credit    |           |        |        |
|  |          | Matures August 2009         |           |        |        |
|  |          | Interest rate Prime + 2.50% | \$ 9,000  | 9,000  | 9,000  |
| Total Infologix, Inc.                                      |          |                             |           | 21,000 | 21,000 |
| See notes to consolidated financial statements (unaudited) |          |                             |           |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2008

(unaudited)

(dollars in thousands)

| Portfolio Company                           | Industry | Type of Investment <sup>(1)</sup>   | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|----------|---|------------------|---------------------|----------------------|
| Intelliden, Inc. (0.43%)                    | Software | Senior Debt<br>Matures February 2010<br>Interest rate 13.20%                  | \$ 1,652         | 1,645               | 1,645                |
|   |          | Preferred Stock Warrants  |                  | 18                  | 72                   |
| Total Intelliden, Inc.                      |          |   |                  | 1,663               | 1,717                |
| Oatsystems, Inc. (0.00%) <sup>(4)</sup>     | Software | Preferred Stock Warrants  |                  | 67                  |                      |
| Total Oatsystems, Inc.                      |          |   |                  | 67                  |                      |
| Proficiency, Inc. (0.37%) <sup>(6)(7)</sup> | Software | Senior Debt<br>Matures August 2012<br>Interest rate 8.00%                     | \$ 1,500         | 1,497               | 1,497                |
|   |          | Preferred Stock Warrants  |                  | 97                  |                      |
| Proficiency, Inc. (0.19%)                   |          | Preferred Stock   |                  | 2,750               | 750                  |
| Total Proficiency, Inc.                     |          |   |                  | 4,344               | 2,247                |
| PSS Systems, Inc. (0.72%) <sup>(4)</sup>    | Software | Senior Debt<br>Matures March 2010<br>Interest rate 10.74%                     | \$ 2,837         | 2,813               | 2,813                |
|   |          | Preferred Stock Warrants  |                  | 51                  | 93                   |
| Total PSS Systems, Inc.                     |          |   |                  | 2,864               | 2,906                |
| Rockyou, Inc. (0.74%) <sup>(4)</sup>        | Software | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 2.50%                | \$ 3,000         | 2,883               | 2,883                |
|   |          | Preferred Stock Warrants  |                  | 117                 | 99                   |
| Total Rockyou, Inc.                         |          |   |                  | 3,000               | 2,982                |
| Savvion, Inc. (1.43%) <sup>(4)</sup>        | Software | Senior Debt<br>Matures April 2009<br>Interest rate Prime + 3.45%              | \$ 574           | 574                 | 574                  |
|   |          | Revolving Line of Credit<br>Matures March 2009<br>Interest rate Prime + 4.45% | \$ 2,078         | 2,078               | 2,078                |
|   |          | Revolving Line of Credit<br>Matures March 2009<br>Interest rate Prime + 3.00% | \$ 2,907         | 2,855               | 2,855                |
|   |          | Preferred Stock Warrants  |                  | 52                  | 264                  |
| Total Savvion, Inc.                         |          |   |                  | 5,559               | 5,771                |
| Sportvision, Inc. (0.02%)                   | Software | Preferred Stock Warrants  |                  | 39                  | 86                   |
| Total Sportvision, Inc.                     |          |   |                  | 39                  | 86                   |
| WildTangent, Inc. (0.53%)                   | Software | Senior Debt<br>Matures March 2011<br>Interest rate 9.65%                      | \$ 2,000         | 1,845               | 1,845                |



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Preferred Stock Warrants 238 282

Total WildTangent, Inc. 2,083 2,127

**Total Software (21.46%)** 87,347 86,442

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                       | <b>Industry</b>                 | <b>Type of Investment<sup>(1)</sup></b>                                      | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|---------------------------------|--|-------------------------|---------------------------|----------------------------|
| Luminus Devices, Inc. (3.07%) <sup>(4)</sup>   | Electronics & Computer Hardware | Senior Debt<br>Matures November 2010<br>Interest rate 12.875%                | \$ 7,861                | 11,474                    | 11,474                     |
|  |                                 | Preferred Stock Warrants   |                         | 183                       | 273                        |
|  |                                 | Preferred Stock Warrants   |                         | 84                        | 142                        |
|  |                                 | Preferred Stock Warrants   |                         | 334                       | 481                        |
| <b>Total Luminus Devices, Inc.</b>             |                                 |  |                         | <b>12,075</b>             | <b>12,370</b>              |
| Maxvision Holding, LLC. (2.7%) <sup>(4)</sup>  | Electronics & Computer Hardware | Senior Debt<br>Matures October 2012<br>Interest rate Prime + 5.50%           | \$ 5,000                | 5,089                     | 5,089                      |
|  |                                 | Senior Debt<br>Matures April 2012<br>Interest rate Prime + 2.25%             | \$ 5,292                | 5,292                     | 5,292                      |
|  |                                 | Revolving Line of Credit<br>Matures April 2012<br>Interest rate Prime +2.25% | \$ 472                  | 502                       | 502                        |
| Maxvision Holding, LLC. (0.02%) <sup>(4)</sup> |                                 | Preferred Stock  |                         | 81                        | 82                         |
| <b>Total Maxvision Holding, LLC</b>            |                                 |  |                         | <b>10,964</b>             | <b>10,965</b>              |
| NetEffect, Inc. (0.62%)                        | Electronics & Computer Hardware | Senior Debt<br>Matures May 2010<br>Interest rate 16.95%                      | \$ 2,552                | 2,515                     | 2,515                      |
|  |                                 | Preferred Stock Warrants   |                         | 47                        |                            |
| <b>Total NetEffect, Inc.</b>                   |                                 |  |                         | <b>2,562</b>              | <b>2,515</b>               |
| Shocking Technologies, Inc. (1.01%)            | Electronics & Computer Hardware | Senior Debt<br>Matures December 2010<br>Interest rate 9.75%                  | \$ 4,000                | 3,959                     | 3,959                      |
|  |                                 | Preferred Stock Warrants   |                         | 63                        | 89                         |
| <b>Total Shocking Technologies, Inc.</b>       |                                 |  |                         | <b>4,022</b>              | <b>4,048</b>               |
| SiCortex, Inc. (2.08%)                         | Electronics & Computer Hardware | Senior Debt<br>Matures December 2010<br>Interest rate 10.95%                 | \$ 8,179                | 8,077                     | 8,077                      |
|  |                                 | Preferred Stock Warrants   |                         | 164                       | 293                        |
| <b>Total SiCortex, Inc.</b>                    |                                 |  |                         | <b>8,241</b>              | <b>8,370</b>               |
| Spatial Photonics, Inc. (0.97%) <sup>(4)</sup> | Electronics & Computer Hardware | Senior Debt<br>Matures April 2011<br>Interest rate 10.066%                   | \$ 3,410                | 3,326                     | 3,326                      |
|  |                                 | Senior Debt<br>Mature April 2011<br>Interest rate 9.217%                     | \$ 341                  | 341                       | 341                        |

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|   |                                 |   |          |               |               |
|---|---------------------------------|---|----------|---------------|---------------|
|   |                                 | Preferred Stock Warrants                      |          | 130           | 237           |
| Spatial Photonics, Inc. (0.12%)                           |                                 | Preferred Stock                               |          | 500           | 500           |
| Total Spatial Photonics Inc.                              |                                 |   |          | 4,297         | 4,404         |
| VeriWave, Inc. (0.96%)                                    | Electronics & Computer Hardware | Senior Debt Matures May 2010                  |          |               |               |
|   |                                 | Interest rate 10.75%                          | \$ 2,960 | 2,932         | 2,932         |
|   |                                 | Revolving Line of Credit Matures September 30 |          |               |               |
|   |                                 | Interest rate Prime +1.00%                    | \$ 922   | 922           | 922           |
|   |                                 | Preferred Stock Warrants                      |          | 55            | 5             |
| Total VeriWave, Inc.                                      |                                 |   |          | 3,909         | 3,859         |
| ViDeOnline Communications, Inc. (0.07%) <sup>(4)</sup>    | Electronics & Computer Hardware | Preferred Stock Warrants                      |          | 298           | 287           |
| Total ViDeOnline Communications, Inc.                     |                                 |   |          | 298           | 287           |
| <b>Total Electronics &amp; Computer Hardware (11.62%)</b> |                                 |   |          | <b>46,368</b> | <b>46,818</b> |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>              | <b>Type of Investment<sup>(1)</sup></b>   | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|------------------------------|---|-------------------------|---------------------------|----------------------------|
| Aegerion Pharmaceuticals, Inc. (1.96%) <sup>(5)</sup> | Specialty Pharmaceuticals    | Senior Debt<br>Matures August 2011<br>Interest rate 8.00%                       | \$ 7,525                | 7,525                     | 7,525                      |
|   |                              | Convertible Senior Debt<br>Matures December 2009<br>Interest rate Prime + 2.50% | \$ 76                   | 76                        | 76                         |
|   |                              | Preferred Stock Warrants  |                         | 70                        | 307                        |
| Aegerion Pharmaceuticals, Inc. (0.25%) <sup>(4)</sup> |                              | Preferred Stock   |                         | 1,000                     | 1,000                      |
| <b>Total Aegerion Pharmaceuticals, Inc.</b>           |                              |   |                         | <b>8,671</b>              | <b>8,908</b>               |
| Panacos Pharmaceuticals, Inc. (4.55%) <sup>(4)</sup>  | Specialty Pharmaceuticals    | Senior Debt<br>Matures January 2011<br>Interest rate 11.20%                     | \$ 18,839               | 18,296                    | 18,296                     |
|   |                              | Common Stock Warrants   |                         | 876                       | 23                         |
| Panacos Pharmaceuticals, Inc. (0.02%)                 |                              | Common Stock  |                         | 410                       | 62                         |
| <b>Total Panacos Pharmaceuticals, Inc.</b>            |                              |   |                         | <b>19,582</b>             | <b>18,381</b>              |
| Quatrx Pharmaceuticals Company (4.99%) <sup>(4)</sup> | Specialty Pharmaceuticals    | Senior Debt<br>Matures October 2011<br>Interest rate Prime + 4.85%              | \$ 20,000               | 19,728                    | 19,728                     |
|   |                              | Preferred Stock Warrants  |                         | 220                       | 149                        |
|   |                              | Preferred Stock Warrants  |                         | 307                       | 219                        |
| Quatrx Pharmaceuticals Company (0.19%)                |                              | Preferred Stock   |                         | 750                       | 750                        |
| <b>Total Quatrx Pharmaceuticals Company</b>           |                              |   |                         | <b>21,005</b>             | <b>20,846</b>              |
| <b>Total Specialty Pharmaceuticals (11.96%)</b>       |                              |   |                         | <b>49,258</b>             | <b>48,135</b>              |
| Annie s, Inc. (1.52%)                                 | Consumer & Business Products | Senior Debt - Second Lien<br>Matures April 2011<br>Interest rate LIBOR + 6.20%  | \$ 6,000                | 5,768                     | 5,768                      |
|   |                              | Preferred Stock Warrants  |                         | 321                       | 335                        |
| <b>Total Annie s, Inc.</b>                            |                              |   |                         | <b>6,089</b>              | <b>6,103</b>               |
| BabyUniverse, Inc. (0.01%) <sup>(4)</sup>             | Consumer & Business Products | Common Stock  |                         | 267                       | 37                         |
| <b>Total BabyUniverse, Inc.</b>                       |                              |   |                         | <b>267</b>                | <b>37</b>                  |
| IPA Holdings, LLC. (4.16%) <sup>(4)</sup>             | Consumer & Business Products | Senior Debt<br>Matures November 2012<br>Interest rate Prime + 3.50%             | \$ 10,000               | 10,000                    | 10,000                     |
|   |                              | Senior Debt<br>Matures May 2013   | \$ 6,500                | 6,549                     | 6,549                      |

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|   |                             |        |        |        |
|---|-----------------------------|--------|--------|--------|
|   | Interest rate Prime + 6.00% |        |        |        |
|   | Revolving Line of Credit    |        |        |        |
|   | Matures November 2012       |        |        |        |
| IPA Holding, LLC.(0.12%)                  | Interest rate Prime + 2.50% | \$ 200 | 200    | 200    |
|   | Preferred Stock             |        | 500    | 500    |
| Total IPA Holding, LLC.                   |                             |        | 17,249 | 17,249 |
| Market Force Information, Inc. (0.01%)(4) |                             |        |        |        |

Consumer & Business

|  |          |                          |     |     |
|--|----------|--------------------------|-----|-----|
|  | Products | Preferred Stock Warrants | 24  | 52  |
| Market Force Information, Inc. (0.07%) |          | Preferred Stock          | 500 | 298 |
| Total Market Force Information, Inc.   |          |                          | 524 | 350 |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>              | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|------------------------------|--|-------------------------|---------------------------|----------------------------|
| OnTech Operations, Inc. (1.76%)                       | Consumer & Business Products | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 6.375%                 | \$ 6,000                | 5,426                     | 5,426                      |
|   |                              | Revolving Line of Credit<br>Matures June 2009<br>Interest rate Prime +5.625%     | \$ 806                  | 806                       | 806                        |
|   |                              | Preferred Stock Warrants   |                         | 452                       | 556                        |
| OnTech Operations, Inc. (0.25%)                       |                              | Preferred Stock Warrants   |                         | 218                       | 314                        |
|   |                              | Preferred Stock  |                         | 1,000                     | 1,000                      |
| Total OnTech Operations, Inc.                         |                              |  |                         | 7,902                     | 8,102                      |
| Wageworks, Inc. (0.25%) <sup>(4)</sup>                | Consumer & Business Products | Preferred Stock Warrants   |                         | 252                       | 1,018                      |
| Wageworks, Inc. (0.07%)                               |                              | Preferred Stock  |                         | 250                       | 265                        |
| Total Wageworks, Inc.                                 |                              |  |                         | 502                       | 1,283                      |
| <b>Total Consumer &amp; Business Products (8.22%)</b> |                              |  |                         | <b>32,533</b>             | <b>33,124</b>              |
| Custom One Design, Inc. (0.22%)                       | Semiconductors               | Senior Debt<br>Matures September 2010<br>Interest rate 11.50%                    | \$ 874                  | 862                       | 862                        |
|   |                              | Common Stock Warrants  |                         | 18                        | 5                          |
| Total Custom One Design, Inc.                         |                              |  |                         | 880                       | 867                        |
| Enpirion, Inc. (1.87%)                                | Semiconductors               | Senior Debt<br>Matures August 2011<br>Interest rate Prime + 4.00%                | \$ 7,500                | 7,372                     | 7,372                      |
|   |                              | Preferred Stock Warrants   |                         | 157                       | 161                        |
| Total Enpirion, Inc.                                  |                              |  |                         | 7,529                     | 7,533                      |
| iWatt Inc. (1.07%) <sup>(4)</sup>                     | Semiconductors               | Senior Debt<br>Matures September 2009<br>Interest rate Prime + 2.75%             | \$ 859                  | 857                       | 857                        |
|   |                              | Senior Debt<br>Matures September 2009<br>Interest rate 11.00%                    | \$ 1,762                | 1,762                     | 1,762                      |
|   |                              | Revolving Line of Credit<br>Matures December 2008<br>Interest rate Prime + 2.00% | \$ 1,000                | 1,000                     | 1,000                      |
|   |                              | Preferred Stock Warrants   |                         | 47                        | 103                        |
|   |                              | Preferred Stock Warrants   |                         | 51                        | 56                         |
|   |                              | Preferred Stock Warrants   |                         | 73                        | 69                         |
|   |                              | Preferred Stock Warrants   |                         | 458                       | 458                        |
| iWatt Inc. (0.24%)                                    |                              | Preferred Stock  |                         | 490                       | 949                        |

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|   |  |                             |          |       |       |
|---|--|-----------------------------|----------|-------|-------|
| Total iWatt Inc.                          |  |                             |          | 4,738 | 5,254 |
| NEXX Systems, Inc. (2.06%) <sup>(4)</sup> | Semiconductors   | Senior Debt                 |          |       |       |
|   |  | Matures February 2010       |          |       |       |
|   |  | Interest rate Prime + 3.50  | \$ 3,146 | 3,067 | 3,067 |
|   |  | Revolving Line of Credit    |          |       |       |
|   |  | Matures December 2009       |          |       |       |
|   |  | Interest rate Prime + 3.00% | \$ 2,546 | 2,546 | 2,546 |
|   |  | Revolving Line of Credit    |          |       |       |
|   |  | Matures December 2009       |          |       |       |
|   |  | Interest rate Prime + 5.00% | \$ 2,454 | 2,454 | 2,454 |
|   |  | Preferred Stock Warrants    |          | 165   | 232   |
| Total NEXX Systems, Inc.                  |  |                             |          | 8,232 | 8,299 |
|   | See notes to consolidated financial statements (unaudited) |                             |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                               | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                             | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|-----------------|---|-------------------------|---------------------------|----------------------------|
| Quartics, Inc. (0.93%) <sup>(4)</sup>                  | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 11.05%          | \$ 252                  | 220                       | 220                        |
|  |                 | Senior Debt<br>Matures August 2010<br>Interest rate 8.80%           | \$ 3,513                | 3,513                     | 3,513                      |
|  |                 | Preferred Stock Warrants  |                         | 53                        | 5                          |
| Total Quartics, Inc.                                   |                 |   |                         | 3,786                     | 3,738                      |
| Solarflare Communications, Inc. (0.17%) <sup>(4)</sup> | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 11.75%          | \$ 526                  | 475                       | 475                        |
|  |                 | Preferred Stock Warrants  |                         | 83                        | 224                        |
| Solarflare Communications, Inc. (0.16%)                |                 | Preferred Stock   |                         | 641                       | 641                        |
| Total Solarflare Communications, Inc.                  |                 |   |                         | 1,199                     | 1,340                      |
| <b>Total Semiconductors (6.72%)</b>                    |                 |   |                         | <b>26,364</b>             | <b>27,031</b>              |
| Labopharm USA, Inc. (3.77%) <sup>(4)(6)</sup>          | Drug Delivery   | Senior Debt<br>Matures December 2011<br>Interest rate 10.95%        | \$ 15,000               | 14,670                    | 14,670                     |
|  |                 | Common Stock Warrants   |                         | 458                       | 507                        |
| Total Labopharm USA, Inc.                              |                 |   |                         | 15,128                    | 15,177                     |
| Transcept Pharmaceuticals, Inc. (1.13%) <sup>(5)</sup> | Drug Delivery   | Senior Debt<br>Matures October 2009<br>Interest rate 10.69%         | \$ 4,301                | 4,274                     | 4,274                      |
|  |                 | Preferred Stock Warrants  |                         | 36                        | 116                        |
|  |                 | Preferred Stock Warrants  |                         | 51                        | 168                        |
| Transcept Pharmaceuticals, Inc. (0.12%)                |                 | Preferred Stock   |                         | 500                       | 465                        |
| Total Transcept Pharmaceuticals, Inc.                  |                 |   |                         | 4,861                     | 5,023                      |
| <b>Total Drug Delivery (5.02%)</b>                     |                 |   |                         | <b>19,989</b>             | <b>20,200</b>              |
| BARRX Medical, Inc.(0.82%) <sup>(4)</sup>              | Therapeutic     | Senior Debt<br>Mature December 2011<br>Interest rate 11.00%         | \$ 3,333                | 3,270                     | 3,270                      |
|  |                 | Preferred Stock Warrants  |                         | 63                        | 49                         |
| BARRX Medical, Inc. (0.37%)                            |                 | Preferred Stock   |                         | 1,500                     | 1,500                      |
| Total BARRX Medical, Inc.                              |                 |   |                         | 4,833                     | 4,819                      |
| EKOS Corporation (1.33%)                               | Therapeutic     | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 2.00% | \$ 5,000                | 4,806                     | 4,806                      |



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|                                      |  |  |          |       |       |
|--------------------------------------|--|--|----------|-------|-------|
|                                      |  | Preferred Stock Warrants                                       |          | 175   | 347   |
|                                      |  | Preferred Stock Warrants                                       |          | 152   | 188   |
| Total EKOS Corporation               |  |  |          | 5,133 | 5,341 |
| Gelesis, Inc. (0.37%)                | Therapeutic  | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 5.65% | \$ 1,500 | 1,474 | 1,474 |
|                                      |  | Preferred Stock Warrants                                       |          | 25    | 33    |
| Total Gelesis, Inc.                  |  |  |          | 1,499 | 1,507 |
| Gynesonics, Inc. (0.03%)(4)          | Therapeutic  | Preferred Stock Warrants                                       |          | 18    | 105   |
| Gynesonics, Inc. (0.08%)             |  | Preferred Stock  |          | 250   | 322   |
| Total Gynesonics, Inc.               |  |  |          | 268   | 427   |
| Light Science Oncology, Inc. (0.03%) | Therapeutic  | Preferred Stock Warrants                                       |          | 99    | 124   |
| Total Light Science Oncology, Inc.   |  |  |          | 99    | 124   |
|                                      | See notes to consolidated financial statements (unaudited) |  |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                                  | <b>Industry</b>                          | <b>Type of Investment<sup>(1)</sup></b>   | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|--|---|-------------------------|---------------------------|----------------------------|
| Novasys Medical, Inc. (1.12%) <sup>(4)</sup>              | Therapeutic                              | Senior Debt<br>Matures January 2010<br>Interest rate 9.70%                      | \$ 4,640                | 4,351                     | 4,351                      |
|   |  | Preferred Stock Warrants  |                         | 71                        | 114                        |
|   |  | Preferred Stock Warrants  |                         |                           | 54                         |
| Novasys Medical, Inc. (0.14%)                             |  | Preferred Stock   |                         | 556                       | 556                        |
| <b>Total Novasys Medical, Inc.</b>                        |  |   |                         | <b>5,032</b>              | <b>5,061</b>               |
| Power Medical Interventions, Inc. (0.00%)                 | Therapeutic                              | Common Stock Warrants   |                         | 21                        | 14                         |
| <b>Total Power Medical Interventions, Inc.</b>            |  |   |                         | <b>21</b>                 | <b>14</b>                  |
| <b>Total Therapeutic (4.29%)</b>                          |  |   |                         | <b>16,885</b>             | <b>17,293</b>              |
| Cozi Group, Inc. (0.03%)                                  | Internet Consumer &<br>Business Services | Preferred Stock Warrants  |                         | 148                       | 122                        |
| Cozi Group, Inc. (0.06%)                                  |  | Preferred Stock   |                         | 177                       | 251                        |
| <b>Total Cozi Group, Inc.</b>                             |  |   |                         | <b>325</b>                | <b>373</b>                 |
| Invoke Solutions, Inc. (0.35%) <sup>(4)</sup>             | Internet Consumer &<br>Business Services | Senior Debt<br>Matures November 2009<br>Interest rate Prime + 3.75%             | \$ 1,298                | 1,296                     | 1,296                      |
|   |  | Preferred Stock Warrants  |                         | 56                        | 80                         |
|   |  | Preferred Stock Warrants  |                         |                           | 26                         |
| <b>Total Invoke Solutions, Inc.</b>                       |  |   |                         | <b>1,378</b>              | <b>1,402</b>               |
| Prism Education Group Inc. (0.44%)                        | Internet Consumer &<br>Business Services | Senior Debt<br>Matures December 2010<br>Interest rate 11.25%                    | \$ 1,682                | 1,656                     | 1,656                      |
|   |  | Preferred Stock Warrants  |                         |                           | 42                         |
| <b>Total Prism Education Group Inc.</b>                   |  |   |                         | <b>1,698</b>              | <b>1,758</b>               |
| RazorGator Interactive Group, Inc. (1.55%) <sup>(5)</sup> | Internet Consumer &<br>Business Services | Revolving Line of Credit<br>Matures January 2009<br>Interest rate Prime + 1.80% | \$ 3,000                | 3,000                     | 3,000                      |
|   |  | Preferred Stock Warrants  |                         | 14                        | 2,886                      |
|   |  | Preferred Stock Warrants  |                         |                           | 28                         |
| RazorGator Interactive Group, Inc. (1.19%)                |  | Preferred Stock   |                         | 1,000                     | 4,791                      |
| <b>Total RazorGator Interactive Group, Inc.</b>           |  |   |                         | <b>4,042</b>              | <b>11,029</b>              |
| Serious USA, Inc. (0.35%)                                 | Internet Consumer &<br>Business Services | Senior Debt<br>Matures February 2011<br>Interest rate Prime + 3.00%             | \$ 2,308                | 2,247                     | 748                        |
|   |  | Revolving Line of Credit<br>Interest rate Prime + 2.00%                         | \$ 654                  | 654                       | 654                        |

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|  |  |               |               |
|--|--|---------------|---------------|
|  | Preferred Stock Warrants                 | 94            | 0             |
| Total Serious USA, Inc.  |  | 2,995         | 1,402         |
| Spa Chakra, Inc. (1.24%)                                       | Internet Consumer &<br>Business Services |               |               |
|  | Senior Debt                              |               |               |
|  | Matures June 2010                        |               |               |
|  | Interest rate 14.45%%                    | \$ 5,000      | 5,000         |
| Total Spa Chakra, Inc.   |  | 5,000         | 5,000         |
| <b>Total Internet Consumer &amp; Business Services (5.21%)</b> |  | <b>15,438</b> | <b>20,964</b> |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2008

(unaudited)

(dollars in thousands)

| Portfolio Company                                  | Industry             | Type of Investment <sup>(1)</sup>                                  | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|----------------------|--|------------------|---------------------|----------------------|
| Lilliputian Systems, Inc. (1.28%) <sup>(4)</sup>   | Energy               | Senior Debt<br>Matures March 2010<br>Interest rate 9.75%           | \$ 5,068         | 5,051               | 5,051                |
|  |                      | Preferred Stock Warrants   |                  | 49                  | 86                   |
| Total Lilliputian Systems, Inc.                    |                      |  |                  | 5,100               | 5,137                |
| <b>Total Energy (1.28%)</b>                        |                      |  |                  | 5,100               | 5,137                |
| Active Response Group, Inc. (2.34%) <sup>(4)</sup> | Information Services | Senior Debt<br>Matures March 2012<br>Interest rate LIBOR + 6.55%   | \$ 9,309         | 9,215               | 9,215                |
|  |                      | Preferred Stock Warrants   |                  | 92                  | 115                  |
|  |                      | Common Stock Warrants  |                  | 46                  | 84                   |
| Total Active Response Group, Inc.                  |                      |  |                  | 9,353               | 9,414                |
| Box.net, Inc. (0.08%)                              | Information Services | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 1.50%    | \$ 322           | 262                 | 262                  |
|  |                      | Preferred Stock Warrants   |                  | 73                  | 59                   |
| Total Box.net, Inc.                                |                      |  |                  | 335                 | 321                  |
| Buzznet, Inc. (0.00%)                              | Information Services | Preferred Stock Warrants   |                  | 9                   | 14                   |
| Buzznet, Inc. (0.06%)                              |                      | Preferred Stock  |                  | 250                 | 250                  |
| Total Buzznet, Inc.                                |                      |  |                  | 259                 | 264                  |
| hi5 Networkss, Inc. (2.34%)                        | Information Services | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 2.5% | \$ 3,000         | 3,000               | 3,000                |
|  |                      | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 0.5%     | \$ 6,155         | 6,155               | 6,155                |
|  |                      | Preferred Stock Warrants   |                  | 212                 | 285                  |
| Total hi5 Networks, Inc.                           |                      |  |                  | 9,367               | 9,440                |
| Jab Wireless, Inc. (3.56%) <sup>(4)</sup>          | Information Services | Senior Debt<br>Matures January 2012<br>Interest rate 10.75%        | \$ 2,715         | 2,715               | 2,715                |
|  |                      | Senior Debt<br>Matures January 2012<br>Interest rate 10.00%        | \$ 1,793         | 1,793               | 1,793                |
|  |                      | Senior Debt<br>Matures January 2012<br>Interest rate 9.50%         | \$ 2,824         | 2,824               | 2,824                |
|  |                      | Senior Debt<br>Matures January 2012                                | \$ 6,700         | 6,700               | 6,700                |

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|                              |  |                             |          |        |        |
|------------------------------|--|-----------------------------|----------|--------|--------|
|                              |  | Interest rate 8.50%         |          |        |        |
|                              |  | Preferred Stock Warrants    |          | 264    | 323    |
| Total Jab Wireless, Inc.     |  |                             |          | 14,296 | 14,355 |
| Solutionary, Inc. (1.78%)(4) | Information Services                                       | Senior Debt                 |          |        |        |
|                              |  | Matures June 2010           |          |        |        |
|                              |  | Interest rate LIBOR + 5.50% | \$ 5,305 | 5,416  | 5,416  |
|                              |  | Revolving Line of Credit    |          |        |        |
|                              |  | Matures June 2010           |          |        |        |
|                              |  | Interest rate LIBOR + 5.00% | \$ 1,500 | 1,540  | 1,540  |
|                              |  | Preferred Stock Warrants    |          | 94     | 209    |
|                              |  | Preferred Stock Warrants    |          | 2      | 6      |
| Solutionary, Inc. (0.06%)    |  | Preferred Stock             |          | 250    | 250    |
| Total Solutionary, Inc.      |  |                             |          | 7,302  | 7,421  |
|                              | See notes to consolidated financial statements (unaudited) |                             |          |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2008****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                             | <b>Industry</b>      | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|----------------------|--|-------------------------|---------------------------|----------------------------|
| The Generation Networks, Inc. (1.47%) <sup>(4)</sup> | Information Services | Senior Debt<br>Matures March 2012<br>Interest rate Prime + 4.50%                 | \$ 6,185                | 6,012                     | 5,904                      |
| The Generation Networks, Inc. (0.13%)                |                      | Preferred Stock  |                         | 500                       | 500                        |
| <b>Total The Generation Networks, Inc.</b>           |                      |  |                         | <b>6,512</b>              | <b>6,404</b>               |
| Wallop Technologies, Inc. (0.04%)                    | Information Services | Senior Debt<br>Matures March 2010<br>Interest rate 10.00%                        | \$ 157                  | 153                       | 153                        |
|  |                      | Preferred Stock Warrants   |                         | 8                         |                            |
| <b>Total Wallop Technologies, Inc.</b>               |                      |  |                         | <b>161</b>                | <b>153</b>                 |
| Zeta Interactive Corporation (3.62%) <sup>(4)</sup>  | Information Services | Senior Debt<br>Matures November 2011<br>Interest rate Prime +2.00%               | \$ 6,530                | 6,385                     | 6,385                      |
|  |                      | Senior Debt<br>Matures November 2011<br>Interest rate Prime +3.00%               | \$ 8,000                | 8,000                     | 8,000                      |
|  |                      | Preferred Stock Warrants   |                         | 172                       | 208                        |
| Zeta Interactive Corporation (0.13%)                 |                      | Preferred Stock  |                         | 500                       | 500                        |
| <b>Total Zeta Interactive Corporation</b>            |                      |  |                         | <b>15,057</b>             | <b>15,093</b>              |
| <b>Total Information Services (15.61%)</b>           |                      |  |                         | <b>62,642</b>             | <b>62,865</b>              |
| Novadaq Technologies, Inc. (0.12%)                   | Diagnostic           | Common Stock   |                         | 1,626                     | 477                        |
| <b>Total Novadaq Technologies, Inc.</b>              |                      |  |                         | <b>1,626</b>              | <b>477</b>                 |
| Optiscan Biomedical, Corp. (2.41%) <sup>(4)</sup>    | Diagnostic           | Senior Debt<br>Matures June 2011<br>Interest rate 10.25%                         | \$ 10,000               | 9,437                     | 9,437                      |
|  |                      | Preferred Stock Warrants   |                         | 760                       | 250                        |
| Optiscan Biomedical, Corp. (0.74%)                   |                      | Preferred Stock  |                         | 3,000                     | 3,000                      |
| <b>Total Optiscan Biomedical, Corp.</b>              |                      |  |                         | <b>13,197</b>             | <b>12,687</b>              |
| <b>Total Diagnostic (3.27%)</b>                      |                      |  |                         | <b>14,823</b>             | <b>13,164</b>              |
| Guava Technologies, Inc. (1.08%) <sup>(4)</sup>      | Biotechnology Tools  | Senior Debt<br>Matures July 2009<br>Interest rate Prime + 3.25%                  | \$ 2,219                | 2,182                     | 2,182                      |
|  |                      | Convertible Debt   |                         | 250                       | 250                        |
|  |                      | Revolving Line of Credit<br>Matures December 2007<br>Interest rate Prime + 2.00% | \$ 1,875                | 1,575                     | 1,575                      |

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|  |                     |                             |           |               |               |
|--|---------------------|-----------------------------|-----------|---------------|---------------|
|  |                     | Preferred Stock Warrants    |           | 105           | 278           |
|  |                     | Preferred Stock Warrants    |           | 68            | 44            |
| <b>Total Guava Technologies, Inc.</b>    |                     |                             |           | <b>4,180</b>  | <b>4,329</b>  |
| Kamada, LTD. (3.69%)(6)                  | Biotechnology Tools | Senior Debt                 |           |               |               |
|  |                     | Matures November 2011       |           |               |               |
|  |                     | Interest rate 10.60%        | \$ 15,000 | 14,575        | 14,575        |
|  |                     | Common Stock Warrants       |           | 531           | 286           |
| <b>Total Kamada, LTD.</b>                |                     |                             |           | <b>15,106</b> | <b>14,861</b> |
| NuGEN Technologies, Inc. (0.77%)         | Biotechnology Tools | Senior Debt                 |           |               |               |
|  |                     | Matures November 2010       |           |               |               |
|  |                     | Interest rate Prime + 3.45% | \$ 1,706  | 1,683         | 1,683         |
|  |                     | Senior Debt                 |           |               |               |
|  |                     | Matures November 2010       |           |               |               |
|  |                     | Interest rate Prime + 1.70% | \$ 1,000  | 1,000         | 1,000         |
|  |                     | Preferred Stock Warrants    |           | 45            | 360           |
|  |                     | Preferred Stock Warrants    |           | 33            | 43            |
| NuGEN Technologies, Inc. (0.12%)         |                     | Preferred Stock             |           | 500           | 500           |
| <b>Total NuGEN Technologies, Inc.</b>    |                     |                             |           | <b>3,261</b>  | <b>3,586</b>  |
| <b>Total Biotechnology Tools (5.66%)</b> |                     |                             |           | <b>22,547</b> | <b>22,776</b> |

See notes to consolidated financial statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2008

(unaudited)

(dollars in thousands)

| Portfolio Company                           | Industry           | Type of Investment <sup>(1)</sup> | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|--------------------|-----------------------------------|------------------|---------------------|----------------------|
| Crux Biomedical, Inc. (0.34%)               | Surgical Devices   | Senior Debt                       |                  |                     |                      |
|   |                    | Matures October 2010              |                  |                     |                      |
|   |                    | Interest rate Prime + 1.75%       | \$ 1,395         | 1,376               | 1,376                |
| Crux Biomedical, Inc. (0.06%)               |                    | Preferred Stock Warrants          |                  | 37                  |                      |
|   |                    | Preferred Stock                   |                  | 250                 | 250                  |
| Total Crux Biomedical, Inc.                 |                    |                                   |                  | 1,663               | 1,626                |
| Transmedics, Inc. (1.49%) <sup>(5)</sup>    | Surgical Devices   | Senior Debt                       |                  |                     |                      |
|   |                    | Matures December 2011             |                  |                     |                      |
|   |                    | Interest rate Prime + 5.25%       | \$ 6,000         | 5,884               | 5,884                |
|   |                    |                                   |                  | 139                 | 122                  |
| Total Transmedics, Inc.                     |                    |                                   |                  | 6,023               | 6,006                |
| <b>Total Surgical Devices (1.89%)</b>       |                    |                                   |                  | <b>7,686</b>        | <b>7,632</b>         |
| Glam Media, Inc. (1.55%)                    | Media/Content/Info | Revolving Line of Credit          |                  |                     |                      |
|   |                    | Matures April 2009                |                  |                     |                      |
|   |                    | Interest rate Prime + 1.25%       | \$ 5,935         | 5,681               | 5,681                |
|   |                    |                                   |                  | 482                 | 552                  |
| Total Glam Media, Inc.                      |                    |                                   |                  | 6,163               | 6,233                |
| Waterfront Media Inc. (2.2%) <sup>(5)</sup> | Media/Content/Info | Senior Debt                       |                  |                     |                      |
|   |                    | Matures December 2010             |                  |                     |                      |
|   |                    | Interest rate Prime + 3.00%       | \$ 2,984         | 2,956               | 2,956                |
|   |                    | Revolving Line of Credit          |                  |                     |                      |
|   |                    | Matures October 2009              |                  |                     |                      |
|   |                    | Interest rate Prime + 1.25%       | \$ 5,000         | 5,000               | 5,000                |
|   |                    |                                   |                  | 61                  | 903                  |
| Waterfront Media Inc. (0.45%)               | Preferred Stock    |                                   |                  | 1,000               | 1,828                |
| Total Waterfront Media Inc.                 |                    |                                   |                  | 9,017               | 10,687               |
| <b>Total Media/Content/Info (4.2%)</b>      |                    |                                   |                  | <b>15,180</b>       | <b>16,920</b>        |
| Total Investments (158.12%)                 |                    |                                   |                  | \$ 628,019          | \$ 636,747           |

\* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing. Certain floating rate loans may also have interest rate floors.



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- (2) Gross unrealized appreciation, gross unrealized depreciation, and net appreciation for federal income tax purposes totaled \$17,275, \$12,659 and \$4,616, respectively. The tax cost of investments is \$632,130.
- (3) Except for warrants in seven publicly traded companies and common stock in three publicly traded companies, all investments are restricted at September 30, 2008 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Credit Facility. Citigroup has an equity participation right on loans collateralized under the Credit Facility. The value of their participation right on unrealized gains in the related equity investments was approximately \$896,000 at September 30, 2008 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2008.
- (5) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (6) Non-U.S. company or the company's principal place of business is outside the United States.
- (7) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company. All other investments are less than 5% owned.
- (8) Debt is on non-accrual status at September 30, 2008, and is therefore considered non-income producing.

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                                | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                                 | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| Accelaron Pharmaceuticals, Inc. (0.94%)* <sup>(4)</sup> | Drug Discovery  | Senior Debt<br>Matures June 2009<br>Interest rate 10.25%                | \$ 3,237                | \$ 3,184                  | \$ 3,184                   |
|   |                 | Preferred Stock Warrants  |                         | 69                        | 472                        |
|   |                 | Preferred Stock Warrants  |                         | 35                        | 109                        |
| Accelaron Pharmaceuticals, Inc. (0.45%)                 |                 | Preferred Stock   |                         | 1,243                     | 1,804                      |
| <b>Total Accelaron Pharmaceuticals, Inc.</b>            |                 |   |                         | <b>4,531</b>              | <b>5,569</b>               |
| Aveo Pharmaceuticals, Inc. (3.06%) <sup>(4)</sup>       | Drug Discovery  | Senior Debt<br>Matures September 2009<br>Interest rate 10.75%           | \$ 12,078               | 11,984                    | 11,984                     |
|   |                 | Preferred Stock Warrants  |                         | 144                       | 204                        |
|   |                 | Preferred Stock Warrants  |                         | 46                        | 74                         |
| <b>Total Aveo Pharmaceuticals, Inc.</b>                 |                 |   |                         | <b>12,174</b>             | <b>12,262</b>              |
| Elixir Pharmaceuticals, Inc. (3.58%) <sup>(4)</sup>     | Drug Discovery  | Senior Debt<br>Matures June 2010<br>Interest rate Prime + 2.45%         | \$ 13,997               | 13,836                    | 13,836                     |
|   |                 | Preferred Stock Warrants  |                         | 217                       | 511                        |
| <b>Total Elixir Pharmaceuticals, Inc.</b>               |                 |   |                         | <b>14,053</b>             | <b>14,347</b>              |
| EpiCept Corporation (1.77%) <sup>(4)</sup>              | Drug Discovery  | Senior Debt<br>Matures August 2009<br>Interest rate 11.70%              | \$ 7,307                | 6,878                     | 6,878                      |
|   |                 | Common Stock Warrants   |                         | 423                       | 214                        |
| <b>Total EpiCept Corporation</b>                        |                 |   |                         | <b>7,301</b>              | <b>7,092</b>               |
| Horizon Therapeutics, Inc. (0.30%) <sup>(4)</sup>       | Drug Discovery  | Senior Debt<br>Matures April 2011<br>Interest rate 8.75%                | \$ 12,000               | 1,022                     | 1,022                      |
|   |                 | Preferred Stock Warrants  |                         | 179                       | 179                        |
| <b>Total Horizon Therapeutics, Inc.</b>                 |                 |   |                         | <b>1,201</b>              | <b>1,201</b>               |
| Inotek Pharmaceuticals Corp. (0.37%)                    | Drug Discovery  | Preferred Stock   |                         | 1,500                     | 1,500                      |
| <b>Total Inotek Pharmaceuticals Corp.</b>               |                 |   |                         | <b>1,500</b>              | <b>1,500</b>               |
| Memory Pharmaceuticals Corp. (3.48%) <sup>(4)</sup>     | Drug Discovery  | Senior Debt<br>Matures February 2011<br>Interest rate 11.45%            | \$ 15,000               | 13,608                    | 13,608                     |
|   |                 | Common Stock Warrants   |                         | 1,751                     | 341                        |
| <b>Total Memory Pharmaceuticals Corp.</b>               |                 |   |                         | <b>15,359</b>             | <b>13,949</b>              |
| Merrimack Pharmaceuticals, Inc. (0.37%) <sup>(4)</sup>  | Drug Discovery  | Convertible Senior Debt<br>Matures October 2008<br>Interest rate 11.15% | \$ 1,024                | 994                       | 994                        |
|   |                 | Preferred Stock Warrants  |                         | 155                       | 502                        |
| Merrimack Pharmaceuticals, Inc. (0.70%)                 |                 | Preferred Stock   |                         | 2,000                     | 2,787                      |

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|                                       |   |                          |          |       |       |
|---------------------------------------|---|--------------------------|----------|-------|-------|
| Total Merrimack Pharmaceuticals, Inc. |   |                          |          | 3,149 | 4,283 |
| Neosil, Inc. (1.53%)                  | Drug Discovery  | Senior Debt              |          |       |       |
|                                       |   | Matures May 2010         |          |       |       |
|                                       |   | Interest rate 10.75%     | \$ 6,000 | 5,936 | 5,936 |
|                                       |   | Preferred Stock Warrants |          | 82    | 177   |
| Total Neosil, Inc.                    |   |                          |          | 6,018 | 6,113 |
|                                       | See notes to consolidated financial statements (unaudited). |                          |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                             | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                      | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|-----------------------------|--|-------------------------|---------------------------|----------------------------|
| Paratek Pharmaceuticals, Inc. (0.64%) <sup>(4)</sup> | Drug Discovery              | Senior Debt<br>Matures June 2008<br>Interest rate 11.10%                     | \$ 2,587                | 2,568                     | 2,568                      |
| Paratek Pharmaceuticals, Inc. (0.14%)                |                             | Preferred Stock Warrants   |                         | 137                       |                            |
|  |                             | Preferred Stock  |                         | 550                       | 550                        |
| <b>Total Paratek Pharmaceuticals, Inc.</b>           |                             |  |                         | <b>3,255</b>              | <b>3,118</b>               |
| Portola Pharmaceuticals, Inc. (3.80%) <sup>(4)</sup> | Drug Discovery              | Senior Debt<br>Matures September 2010<br>Interest rate Prime + 1.75%         | \$ 15,000               | 14,894                    | 14,894                     |
|  |                             | Preferred Stock Warrants   |                         | 152                       | 350                        |
| <b>Total Portola Pharmaceuticals, Inc.</b>           |                             |  |                         | <b>15,046</b>             | <b>15,244</b>              |
| Sirtris Pharmaceuticals, Inc. (2.46%) <sup>(4)</sup> | Drug Discovery              | Senior Debt<br>Matures April 2011<br>Interest rate 10.60%                    | \$ 9,079                | 9,022                     | 9,022                      |
|  |                             | Common Stock Warrants  |                         | 89                        | 818                        |
| Sirtris Pharmaceuticals, Inc. (0.19%)                |                             | Common Stock   |                         | 500                       | 776                        |
| <b>Total Sirtris Pharmaceuticals, Inc.</b>           |                             |  |                         | <b>9,611</b>              | <b>10,616</b>              |
| <b>Total Drug Discovery (23.78%)</b>                 |                             |  |                         | <b>93,198</b>             | <b>95,294</b>              |
| E-band Communications, Inc. (0.50%) <sup>(6)</sup>   | Communications & Networking | Preferred Stock  |                         | 2,000                     | 2,000                      |
| <b>Total E-Band Communications, Inc.</b>             |                             |  |                         | <b>2,000</b>              | <b>2,000</b>               |
| IKANO Communications, Inc. (5.09%) <sup>(4)</sup>    | Communications & Networking | Senior Debt<br>Matures March 2011<br>Interest rate 11.00%                    | \$ 19,983               | 19,983                    | 19,983                     |
|  |                             | Preferred Stock Warrants   |                         | 45                        | 163                        |
|  |                             | Preferred Stock Warrants   |                         | 72                        | 256                        |
| <b>Total IKANO Communications, Inc.</b>              |                             |  |                         | <b>20,100</b>             | <b>20,402</b>              |
| Ping Identity Corporation (0.40%) <sup>(4)</sup>     | Communications & Networking | Senior Debt<br>Matures June 2009<br>Interest rate 11.50%                     | \$ 1,630                | 1,608                     | 1,608                      |
|  |                             | Preferred Stock Warrants   |                         | 52                        | 11                         |
| <b>Total Ping Identity Corporation</b>               |                             |  |                         | <b>1,660</b>              | <b>1,619</b>               |
| Purcell Systems, Inc. (2.33%)                        | Communications & Networking | Senior Debt<br>Matures June 2009<br>Interest rate Prime + 3.50%              | \$ 2,224                | 3,126                     | 3,126                      |
|  |                             | Revolving Line of Credit<br>Matures June 2008<br>Interest rate Prime + 2.00% | \$ 7,000                | 6,000                     | 6,000                      |
|  |                             | Preferred Stock Warrants   |                         | 122                       | 198                        |

Total Purcell Systems, Inc.

9,248

9,324

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                            | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                       | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------------------|---|-------------------------|---------------------------|----------------------------|
| Rivulet Communications, Inc. (0.83%) <sup>(4)</sup> | Communications & Networking | Senior Debt<br>Matures September 2009<br>Interest rate 10.60%                 | \$ 3,500                | 3,272                     | 3,272                      |
|   |                             | Preferred Stock Warrants  |                         | 50                        | 63                         |
| Rivulet Communications, Inc. (0.06%)                |                             | Preferred Stock   |                         | 250                       | 250                        |
| Total Rivulet Communications, Inc.                  |                             |   |                         | 3,572                     | 3,585                      |
| Seven Networks, Inc. (2.89%) <sup>(4)</sup>         | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate Prime + 3.75%              | \$ 9,419                | 9,291                     | 9,291                      |
|   |                             | Revolving Line of Credit<br>Matures April 2008<br>Interest rate Prime + 3.00% | \$ 2,000                | 2,000                     | 2,000                      |
|   |                             | Preferred Stock Warrants  |                         | 174                       | 295                        |
| Total Seven Networks, Inc.                          |                             |   |                         | 11,465                    | 11,586                     |
| Simpler Networks Corp. (1.01%) <sup>(4)</sup>       | Communications & Networking | Senior Debt<br>Matures July 2009<br>Interest rate 11.75%                      | \$ 4,112                | 4,046                     | 4,046                      |
|   |                             | Preferred Stock Warrants  |                         | 160                       |                            |
| Simpler Networks Corp. (0.00%)                      |                             | Preferred Stock   |                         | 500                       |                            |
| Total Simpler Networks Corp.                        |                             |   |                         | 4,706                     | 4,046                      |
| Stoke, Inc. (0.57%)                                 | Communications & Networking | Senior Debt<br>Matures August 2010<br>Interest rate 10.55%                    | \$ 2,250                | 2,204                     | 2,204                      |
|   |                             | Preferred Stock Warrants  |                         | 53                        | 79                         |
| Total Stoke, Inc.                                   |                             |   |                         | 2,257                     | 2,283                      |
| Tectura Corporation (5.26%) <sup>(4)</sup>          | Communications & Networking | Senior Debt<br>Matures March 2012<br>Interest rate LIBOR + 6.15%              | \$ 9,051                | 9,007                     | 9,007                      |
|   |                             | Revolving Line of Credit<br>Matures March 2008<br>Interest rate LIBOR + 5.15% | \$ 12,000               | 12,000                    | 12,000                     |
|   |                             | Preferred Stock Warrants  |                         | 52                        | 83                         |
| Total Tectura Corporation                           |                             |   |                         | 21,059                    | 21,090                     |
| Teleflip, Inc. (0.25%)                              | Communications & Networking | Senior Debt<br>Matures May 2010<br>Interest rate Prime + 2.75%                | \$ 1,000                | 992                       | 992                        |
|   |                             | Preferred Stock Warrants  |                         | 10                        | 9                          |
| Total Teleflip, Inc.                                |                             |   |                         | 1,002                     | 1,001                      |
| Wireless Channels, Inc. (3.02%)                     | Communications & Networking | Senior Debt -Second Lien<br>Matures April 2010<br>Interest rate 9.25%         | \$ 11,949               | 1,719                     | 1,719                      |
|   |                             | Senior Debt -Second Lien<br>Matures April 2010                                | \$ 10,118               | 10,118                    | 10,118                     |

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|                               |   |        |        |
|-------------------------------|---|--------|--------|
|                               | Interest rate Prime + 4.25%                                 |        |        |
|                               | Preferred Stock Warrants                                    | 155    | 241    |
| Total Wireless Channels, Inc. |   | 11,992 | 12,078 |
|                               | See notes to consolidated financial statements (unaudited). |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>                | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|--------------------------------|--|-------------------------|---------------------------|----------------------------|
| Zayo Bandwith, Inc. (6.24%) <sup>(4)</sup>            | Communications<br>& Networking | Senior Debt -Second Lien<br>Matures April 2013<br>Interest rate Prime + 3.50%  | \$ 25,000               | 25,000                    | 25,000                     |
| Total Zayo Bandwith, Inc.                             |                                |  |                         | 25,000                    | 25,000                     |
| <b>Total Communications &amp; Networking (28.45%)</b> |                                |  |                         | <b>114,061</b>            | <b>114,014</b>             |
| Atrenta, Inc. (0.98%) <sup>(4)</sup>                  | Software                       | Senior Debt<br>Matures June 2009<br>Interest rate 11.50%                       | \$ 3,680                | 3,638                     | 3,638                      |
|   |                                | Preferred Stock Warrants   |                         | 102                       | 220                        |
|   |                                | Preferred Stock Warrants   |                         | 34                        | 73                         |
| Atrenta, Inc. (0.06%)                                 |                                | Preferred Stock  |                         | 250                       | 250                        |
| Total Atrenta, Inc.                                   |                                |  |                         | 4,024                     | 4,181                      |
| Blurb, Inc. (0.63%)                                   | Software                       | Senior Debt<br>Matures December 2009<br>Interest rate 9.55%                    | \$ 2,500                | 2,482                     | 2,482                      |
|   |                                | Preferred Stock Warrants   |                         | 25                        | 44                         |
| Total Blurb, Inc.                                     |                                |  |                         | 2,507                     | 2,526                      |
| Bullhorn, Inc. (0.25%) <sup>(4)</sup>                 | Software                       | Senior Debt<br>Matures March 2010<br>Interest rate Prime + 3.75%               | \$ 1,000                | 959                       | 959                        |
|   |                                | Preferred Stock Warrants   |                         | 43                        | 41                         |
| Total Bullhorn, Inc.                                  |                                |  |                         | 1,002                     | 1,000                      |
| Cittio, Inc. (0.25%)                                  | Software                       | Senior Debt<br>Matures April 2010<br>Interest rate 11.00%                      | \$ 1,000                | 1,000                     | 1,000                      |
| Total Cittio, Inc.                                    |                                |  |                         | 1,000                     | 1,000                      |
| Compete, Inc. (0.63%) <sup>(4)</sup>                  | Software                       | Senior Debt<br>Matures March 2009<br>Interest rate Prime + 3.50%               | \$ 2,409                | 2,384                     | 2,384                      |
|   |                                | Preferred Stock Warrants   |                         | 62                        | 136                        |
| Total Compete, Inc.                                   |                                |  |                         | 2,446                     | 2,520                      |
| Forescout Technologies, Inc. (0.64%) <sup>(4)</sup>   | Software                       | Senior Debt<br>Matures August 2009<br>Interest rate 11.15%                     | \$ 1,998                | 1,970                     | 1,970                      |
|   |                                | Revolving Line of Credit<br>Matures August 2007<br>Interest rate Prime + 1.49% | \$ 500                  | 500                       | 500                        |
|   |                                | Preferred Stock Warrants   |                         | 58                        | 76                         |



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|  |          |                              |          |       |       |
|--|----------|------------------------------|----------|-------|-------|
| Total Forescout Technologies, Inc.     |          |                              |          | 2,528 | 2,546 |
| GameLogic, Inc. (0.74%) <sup>(4)</sup> | Software | Senior Debt                  |          |       |       |
|  |          | Matures December 2009        |          |       |       |
|  |          | Interest rate Prime + 4.125% | \$ 3,000 | 2,887 | 2,887 |
|  |          | Preferred Stock Warrants     |          | 93    | 91    |
| Total GameLogic, Inc.                  |          |                              |          | 2,980 | 2,978 |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                    | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                                       | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| Gomez, Inc. (0.15%) <sup>(4)</sup>          | Software        | Senior Debt<br>Matures December 2007<br>Interest rate 12.25%                  | \$ 98                   | 98                        | 98                         |
|   |                 | Preferred Stock Warrants  |                         | 35                        | 513                        |
| <b>Total Gomez, Inc.</b>                    |                 |   |                         | <b>133</b>                | <b>611</b>                 |
| HighRoads, Inc. (0.01%) <sup>(4)</sup>      | Software        | Preferred Stock Warrants  |                         | 44                        | 58                         |
| <b>Total HighRoads, Inc.</b>                |                 |   |                         | <b>44</b>                 | <b>58</b>                  |
| Intelliden, Inc. (0.60%)                    | Software        | Senior Debt<br>Matures February 2010<br>Interest rate 13.20%                  | \$ 2,360                | 2,349                     | 2,349                      |
|   |                 | Preferred Stock Warrants  |                         | 18                        | 60                         |
| <b>Total Intelliden, Inc.</b>               |                 |   |                         | <b>2,367</b>              | <b>2,409</b>               |
| Oatsystems, Inc. (1.08%) <sup>(4)</sup>     | Software        | Senior Debt<br>Matures September 2009<br>Interest rate 11.00%                 | \$ 4,374                | 4,336                     | 4,336                      |
|   |                 | Preferred Stock Warrants  |                         | 67                        | 4                          |
| <b>Total Oatsystems, Inc.</b>               |                 |   |                         | <b>4,403</b>              | <b>4,340</b>               |
| Proficiency, Inc. (0.38%) <sup>(4)(6)</sup> | Software        | Senior Debt<br>Matures July 2008<br>Interest rate 12.00%                      | \$ 1,500                | 1,497                     | 1,497                      |
|   |                 | Preferred Stock Warrants  |                         | 96                        |                            |
| Proficiency, Inc. (0.19%)                   |                 | Preferred Stock   |                         | 2,750                     | 750                        |
| <b>Total Proficiency, Inc.</b>              |                 |   |                         | <b>4,343</b>              | <b>2,247</b>               |
| PSS Systems, Inc. (0.89%) <sup>(4)</sup>    | Software        | Senior Debt<br>Matures March 2010<br>Interest rate 10.74%                     | \$ 3,500                | 3,463                     | 3,463                      |
|   |                 | Preferred Stock Warrants  |                         | 51                        | 86                         |
| <b>Total PSS Systems, Inc.</b>              |                 |   |                         | <b>3,514</b>              | <b>3,549</b>               |
| Savvion, Inc. (1.62%) <sup>(4)</sup>        | Software        | Senior Debt<br>Matures March 2009<br>Interest rate Prime + 3.45%              | \$ 1,268                | 1,268                     | 1,268                      |
|   |                 | Revolving Line of Credit<br>Matures March 2008<br>Interest rate Prime + 2.00% | \$ 3,000                | 3,000                     | 3,000                      |
|   |                 | Revolving Line of Credit<br>Matures March 2008<br>Interest rate Prime + 3.45% | \$ 1,985                | 1,985                     | 1,985                      |
|   |                 | Preferred Stock Warrants  |                         | 52                        | 243                        |
| <b>Total Savvion, Inc.</b>                  |                 |   |                         | <b>6,305</b>              | <b>6,496</b>               |
| Sportvision, Inc. (0.01%)                   | Software        | Preferred Stock Warrants  |                         | 39                        | 50                         |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                       | <b>Industry</b>           | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|---------------------------|--|-------------------------|---------------------------|----------------------------|
| Talisma Corp. (0.11%) <sup>(4)</sup>           | Software                  | Preferred Stock Warrants   |                         | 49                        | 448                        |
| Total Talisma Corp.                            |                           |  |                         | 49                        | 448                        |
| WildTangent, Inc. (0.50%) <sup>(4)</sup>       | Software                  | Senior Debt<br>Matures March 2011<br>Interest rate 9.65%                         | \$ 2,000                | 1,766                     | 1,766                      |
|  |                           | Preferred Stock Warrants   |                         | 238                       | 238                        |
| Total WildTangent, Inc.                        |                           |  |                         | 2,004                     | 2,004                      |
| <b>Total Software (9.72%)</b>                  |                           |  |                         | <b>39,688</b>             | <b>38,963</b>              |
| Agami Systems, Inc. (1.30%) <sup>(4)</sup>     | Electronics &<br>Computer | Senior Debt<br>Matures August 2009<br>Interest rate 11.00%                       |                         |                           |                            |
|  | Hardware                  |  | \$ 5,103                | 5,056                     | 5,056                      |
|  |                           | Preferred Stock Warrants   |                         | 85                        | 137                        |
| Total Agami Systems, Inc.                      |                           |  |                         | 5,141                     | 5,193                      |
| Luminus Devices, Inc. (2.95%) <sup>(4)</sup>   | Electronics &<br>Computer | Senior Debt<br>Matures August 2009<br>Interest rate 12.50%                       |                         |                           |                            |
|  | Hardware                  |  | \$ 15,115               | 11,318                    | 11,318                     |
|  |                           | Preferred Stock Warrants   |                         | 183                       | 113                        |
|  |                           | Preferred Stock Warrants   |                         | 84                        | 61                         |
|  |                           | Preferred Stock Warrants   |                         | 334                       | 334                        |
| Total Luminus Devices, Inc.                    |                           |  |                         | 11,919                    | 11,826                     |
| Maxvision Holding, LLC. (2.87%) <sup>(4)</sup> | Electronics &<br>Computer | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 5.50%                   |                         |                           |                            |
|  | Hardware                  |  | \$ 5,012                | 5,012                     | 5,012                      |
|  |                           | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 2.25%                   | \$ 5,500                | 5,000                     | 5,000                      |
|  |                           | Revolving Line of Credit<br>Matures September 2012<br>Interest rate Prime +2.25% | \$ 972                  | 1,472                     | 1,472                      |
| Total Maxvision Holding, LLC                   |                           |  |                         | 11,484                    | 11,484                     |
| NetEffect, Inc. (0.61%)                        | Electronics &<br>Computer | Senior Debt<br>Matures May 2010<br>Interest rate 11.95%                          | \$ 2,431                | 2,396                     | 2,396                      |

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|                                     |               |                          |       |       |
|-------------------------------------|---------------|--------------------------|-------|-------|
|                                     | Hardware      | Preferred Stock Warrants | 44    | 50    |
| Total NetEffect, Inc.               |               |                          | 2,440 | 2,446 |
| Shocking Technologies, Inc. (0.02%) | Electronics & | Preferred Stock Warrants |       |       |
|                                     | Computer      |                          |       |       |
|                                     | Hardware      |                          | 63    | 63    |
| Total Shocking Technologies, Inc.   |               |                          | 63    | 63    |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                                  | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| SiCortex, Inc. (2.52%)                                    | Electronics &   |   |                         |                           |                            |
|   | Computer        | Senior Debt<br>Matures December 2010    |                         |                           |                            |
|   | Hardware        | Interest rate 10.95%                    | \$ 10,000               | 9,861                     | 9,861                      |
|   |                 | Preferred Stock Warrants                |                         | 164                       | 230                        |
| <b>Total SiCortex, Inc.</b>                               |                 |   |                         | <b>10,025</b>             | <b>10,091</b>              |
| Spatial Photonics, Inc. (0.93%) <sup>(4)</sup>            | Electronics &   |   |                         |                           |                            |
|   | Computer        | Senior Debt<br>Matures May 2011         |                         |                           |                            |
|   | Hardware        | Interest rate 10.75%                    | \$ 3,751                | 3,623                     | 3,623                      |
|   |                 | Preferred Stock Warrants                |                         | 130                       | 126                        |
| Spatial Photonics, Inc. (0.12%)                           |                 | Preferred Stock                         |                         | 500                       | 500                        |
| <b>Total Spatial Photonics Inc.</b>                       |                 |   |                         | <b>4,253</b>              | <b>4,249</b>               |
| VeriWave, Inc. (1.35%)                                    | Electronics &   |   |                         |                           |                            |
|   | Computer        | Senior Debt<br>Matures May 2010         |                         |                           |                            |
|   | Hardware        | Interest rate 10.75%                    | \$ 4,250                | 5,340                     | 5,340                      |
|   |                 | Preferred Stock Warrants                |                         | 54                        | 85                         |
| <b>Total VeriWave, Inc.</b>                               |                 |   |                         | <b>5,394</b>              | <b>5,425</b>               |
| ViDeOnline Communications, Inc. (0.04%) <sup>(4)</sup>    | Electronics &   |   |                         |                           |                            |
|   | Computer        |   |                         |                           |                            |
|   | Hardware        | Preferred Stock Warrants                |                         | 298                       | 176                        |
| <b>Total ViDeOnline Communications, Inc.</b>              |                 |   |                         | <b>298</b>                | <b>176</b>                 |
| <b>Total Electronics &amp; Computer Hardware (12.71%)</b> |                 |   |                         | <b>51,017</b>             | <b>50,953</b>              |
| Aegerion Pharmaceuticals, Inc. (2.48%) <sup>(4)</sup>     | Specialty       | Senior Debt<br>Matures August 2010      |                         |                           |                            |
|   | Pharmaceuticals | Interest rate Prime + 2.50%             | \$ 9,735                | 9,682                     | 9,682                      |
|   |                 | Preferred Stock Warrants                |                         | 70                        | 243                        |
| Aegerion Pharmaceuticals, Inc. (0.25%)                    |                 | Preferred Stock                         |                         | 1,000                     | 1,000                      |
| <b>Total Aegerion Pharmaceuticals, Inc.</b>               |                 |   |                         | <b>10,752</b>             | <b>10,925</b>              |
| Panacos Pharmaceuticals, Inc. (4.84%) <sup>(4)</sup>      | Specialty       | Senior Debt<br>Matures January 2011     | \$ 20,000               | 19,270                    | 19,270                     |

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|   |                 |                             |           |               |               |
|---|-----------------|-----------------------------|-----------|---------------|---------------|
|   | Pharmaceuticals | Interest rate 11.20%        |           |               |               |
| Panacos Pharmaceuticals, Inc. (0.04%)           |                 | Common Stock Warrants       |           | 876           | 137           |
|   |                 | Common Stock                |           | 410           | 157           |
| <b>Total Panacos Pharmaceuticals, Inc.</b>      |                 |                             |           | <b>20,556</b> | <b>19,564</b> |
| Quatrx Pharmaceuticals Company (3.60%)(4)       | Specialty       | Senior Debt                 |           |               |               |
|   |                 | Matures January 2010        |           |               |               |
|   | Pharmaceuticals | Interest rate Prime + 3.00% | \$ 14,324 | 14,214        | 14,214        |
|   |                 | Preferred Stock             |           |               |               |
| Quatrx Pharmaceuticals Company (0.19%)          |                 | Warrants                    |           | 220           | 193           |
|   |                 | Preferred Stock             |           | 750           | 750           |
| <b>Total Quatrx Pharmaceuticals Company</b>     |                 |                             |           | <b>15,184</b> | <b>15,157</b> |
| <b>Total Specialty Pharmaceuticals (11.40%)</b> |                 |                             |           | <b>46,492</b> | <b>45,646</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>                    | <b>Type of Investment<sup>(1)</sup></b>                              | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|------------------------------------|--|-------------------------|---------------------------|----------------------------|
| BabyUniverse, Inc. (0.05%) <sup>(4)</sup>             | Consumer &<br>Business<br>Products | Common Stock   |                         | 267                       | 219                        |
| Total BabyUniverse, Inc.                              |                                    |  |                         | 267                       | 219                        |
| Market Force Information, Inc. (0.34%) <sup>(4)</sup> | Consumer &<br>Business<br>Products | Senior Debt<br>Matures May 2009<br>Interest rate 10.45%              | \$ 1,294                | 1,284                     | 1,284                      |
| Market Force Information, Inc. (0.12%)                |                                    | Preferred Stock Warrants   |                         | 23                        | 92                         |
| Market Force Information, Inc. (0.12%)                |                                    | Preferred Stock  |                         | 500                       | 500                        |
| Total Market Force Information, Inc.                  |                                    |  |                         | 1,807                     | 1,876                      |
| Wageworks, Inc. (0.12%) <sup>(4)</sup>                | Consumer &<br>Business<br>Products | Preferred Stock Warrants   |                         | 252                       | 513                        |
| Wageworks, Inc. (0.05%)                               |                                    | Preferred Stock  |                         | 250                       | 209                        |
| Total Wageworks, Inc.                                 |                                    |  |                         | 502                       | 722                        |
| <b>Total Consumer &amp; Business Products (0.70%)</b> |                                    |  |                         | <b>2,576</b>              | <b>2,817</b>               |
| Ageia Technologies, Inc. (1.25%) <sup>(4)</sup>       | Semiconductors                     | Senior Debt<br>Matures August 2008<br>Interest rate 10.25%           | \$ 5,047                | 4,904                     | 4,904                      |
|   |                                    | Convertible Debt   |                         | 124                       | 124                        |
|   |                                    | Preferred Stock Warrants   |                         | 99                        |                            |
| Ageia Technologies, Inc. (0.00%)                      |                                    | Preferred Stock  |                         | 500                       |                            |
| Total Ageia Technologies                              |                                    |  |                         | 5,627                     | 5,028                      |
| Custom One Design, Inc. (0.26%)                       | Semiconductors                     | Senior Debt<br>Matures September 2010<br>Interest rate 11.50%        | \$ 1,000                | 984                       | 984                        |
|   |                                    | Common Stock Warrants  |                         | 18                        | 43                         |
| Total Custom One Design, Inc.                         |                                    |  |                         | 1,002                     | 1,027                      |
| iWatt Inc. (1.19%) <sup>(4)</sup>                     | Semiconductors                     | Senior Debt<br>Matures September 2009<br>Interest rate Prime + 2.75% | \$ 1,457                | 1,382                     | 1,382                      |



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|                  |                             |          |       |       |
|------------------|-----------------------------|----------|-------|-------|
|                  | Revolving Line of Credit    |          |       |       |
|                  | Matures September 2007      |          |       |       |
|                  | Interest rate Prime + 1.75% | \$ 3,235 | 3,235 | 3,235 |
|                  | Preferred Stock Warrants    |          | 46    | 101   |
|                  | Preferred Stock Warrants    |          | 51    | 51    |
| Total iWatt Inc. |                             |          | 4,714 | 4,769 |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                               | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>  | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|-----------------|--|-------------------------|---------------------------|----------------------------|
| NEXX Systems, Inc. (3.26%) <sup>(4)</sup>              | Semiconductors  | Senior Debt<br>Matures February 2010<br>Interest rate Prime + 2.75%              | \$ 4,557                | 4,438                     | 4,438                      |
|  |                 | Revolving Line of Credit<br>Matures December 2009<br>Interest rate Prime + 1.75% | \$ 5,000                | 5,000                     | 5,000                      |
|  |                 | Revolving Line of Credit<br>Matures December 2009<br>Interest rate Prime + 3.75% | \$ 3,000                | 3,000                     | 3,000                      |
|  |                 | Preferred Stock Warrants   |                         | 165                       | 623                        |
| <b>Total NEXX Systems, Inc.</b>                        |                 |  |                         | <b>12,603</b>             | <b>13,061</b>              |
| Quartics, Inc. (0.09%) <sup>(4)</sup>                  | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 11.05%                       | \$ 300                  | 254                       | 254                        |
|  |                 | Preferred Stock Warrants   |                         | 53                        | 115                        |
| <b>Total Quartics, Inc.</b>                            |                 |  |                         | <b>307</b>                | <b>369</b>                 |
| Solarflare Communications, Inc. (0.19%)                | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 11.75%                       | \$ 625                  | 553                       | 553                        |
|  |                 | Preferred Stock Warrants   |                         | 84                        | 194                        |
| Solarflare Communications, Inc. (0.12%)                |                 | Preferred Stock  |                         | 500                       | 500                        |
| <b>Total Solarflare Communications, Inc.</b>           |                 |  |                         | <b>1,137</b>              | <b>1,247</b>               |
| <b>Total Semiconductors (6.36%)</b>                    |                 |  |                         | <b>25,390</b>             | <b>25,501</b>              |
| Labopharm USA, Inc. (3.74%) <sup>(4)(5)</sup>          | Drug Delivery   | Senior Debt<br>Matures July 2008<br>Interest rate 11.95%                         | \$ 15,000               | 14,547                    | 14,547                     |
|  |                 | Preferred Stock Warrants   |                         | 459                       | 454                        |
| <b>Total Labopharm USA, Inc.</b>                       |                 |  |                         | <b>15,006</b>             | <b>15,001</b>              |
| Transcept Pharmaceuticals, Inc. (1.80%) <sup>(4)</sup> | Drug Delivery   | Senior Debt<br>Matures October 2009<br>Interest rate 10.69%                      | \$ 6,993                | 6,944                     | 6,944                      |
|  |                 | Preferred Stock Warrants   |                         | 36                        | 107                        |
|  |                 | Preferred Stock Warrants   |                         | 50                        | 173                        |
| Transcept Pharmaceuticals, Inc. (0.13%)                |                 | Preferred Stock  |                         | 500                       | 500                        |
| <b>Total Transcept Pharmaceuticals, Inc.</b>           |                 |  |                         | <b>7,530</b>              | <b>7,724</b>               |
| <b>Total Drug Delivery (5.67%)</b>                     |                 |  |                         | <b>22,536</b>             | <b>22,725</b>              |
| BARRX Medical, Inc. (0.19%)                            | Therapeutic     | Preferred Stock  |                         | 1,500                     | 758                        |

Total BARRX Medical, Inc.

See notes to consolidated financial statements (unaudited).

1,500

758

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                                  | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>     | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| EKOS Corporation (1.28%)                                  | Therapeutic     | Senior Debt                                 |                         |                           |                            |
|   |                 | Matures November 2010                       |                         |                           |                            |
|   |                 | Interest rate Prime + 2.00%                 | \$ 5,000                | 4,707                     | 4,707                      |
|   |                 | Preferred Stock Warrants                    |                         | 174                       | 281                        |
|   |                 | Preferred Stock Warrants                    |                         | 153                       | 150                        |
| Total EKOS Corporation                                    |                 |   |                         | 5,035                     | 5,138                      |
| Gynesonics, Inc. (0.01%) <sup>(4)</sup>                   | Therapeutic     | Preferred Stock Warrants                    |                         | 18                        | 40                         |
| Gynesonics, Inc. (0.06%)                                  |                 | Preferred Stock                             |                         | 250                       | 250                        |
| Total Gynesonics, Inc.                                    |                 |   |                         | 268                       | 290                        |
| Novasys Medical, Inc. (1.65%) <sup>(4)</sup>              | Therapeutic     | Senior Debt                                 |                         |                           |                            |
|   |                 | Matures January 2010                        |                         |                           |                            |
|   |                 | Interest rate 9.70%                         | \$ 6,609                | 6,609                     | 6,609                      |
| Total Novasys Medical, Inc.                               |                 |   |                         | 6,609                     | 6,609                      |
| Power Medical Interventions, Inc. (0.02%)                 | Therapeutic     | Common Stock Warrants                       |                         | 21                        | 58                         |
| Total Power Medical Interventions, Inc.                   |                 |   |                         | 21                        | 58                         |
| <b>Total Therapeutic (3.21%)</b>                          |                 |   |                         | <b>13,432</b>             | <b>12,853</b>              |
| Invoke Solutions, Inc. (0.56%) <sup>(4)</sup>             | Internet        | Consumer                                    |                         |                           |                            |
|   |                 | & Business                                  |                         |                           |                            |
|   |                 | Services                                    |                         |                           |                            |
|   |                 | Senior Debt                                 |                         |                           |                            |
|   |                 | Matures December 2008                       |                         |                           |                            |
|   |                 | Interest rate 11.25%                        | \$ 2,187                | 2,155                     | 2,155                      |
|   |                 | Preferred Stock Warrants                    |                         | 56                        | 74                         |
|   |                 | Preferred Stock Warrants                    |                         | 11                        | 10                         |
| Total Invoke Solutions, Inc.                              |                 |   |                         | 2,222                     | 2,239                      |
| Prism Education Group Inc. (0.51%)                        | Internet        | Consumer                                    |                         |                           |                            |
|   |                 | & Business                                  |                         |                           |                            |
|   |                 | Services                                    |                         |                           |                            |
|   |                 | Senior Debt                                 |                         |                           |                            |
|   |                 | Matures December 2010                       |                         |                           |                            |
|   |                 | Interest rate 11.25%                        | \$ 2,000                | 1,964                     | 1,964                      |
|   |                 | Preferred Stock Warrants                    |                         | 44                        | 67                         |
| Total Prism Education Group Inc.                          |                 |   |                         | 2,008                     | 2,031                      |
| RazorGator Interactive Group, Inc. (1.17%) <sup>(4)</sup> | Internet        | Senior Debt                                 | \$ 1,134                | 1,119                     | 1,119                      |
|   | Consumer        | Matures January 2008<br>Interest rate 9.95% |                         |                           |                            |

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|  |   |                          |       |       |
|--|---|--------------------------|-------|-------|
|  | & Business  |                          |       |       |
|  | Services  | Preferred Stock Warrants | 13    | 3,203 |
|  |   | Preferred Stock Warrants | 28    | 362   |
| RazorGator Interactive Group, Inc. (1.23%) |   | Preferred Stock          | 1,000 | 4,935 |
| Total RazorGator Interactive Group, Inc.   |   |                          | 2,160 | 9,619 |
|  | See notes to consolidated financial statements (unaudited). |                          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                                       | <b>Industry</b>                       | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|---------------------------------------|---|-------------------------|---------------------------|----------------------------|
| Serious USA, Inc. (0.75%)                                      | Internet Consumer & Business Services | Senior Debt                             |                         |                           |                            |
|  |                                       | Matures February 2011                   |                         |                           |                            |
|  |                                       | Interest rate Prime + 3.00%             | \$ 2,450                | 2,370                     | 2,370                      |
|  |                                       | Revolving Line of Credit                |                         |                           |                            |
|  |                                       | Matures July 2008                       |                         |                           |                            |
|  |                                       | Interest rate Prime + 2.00%             | \$ 654                  | 654                       | 654                        |
|  |                                       | Preferred Stock Warrants                |                         | 93                        | 5                          |
| Total Serious USA, Inc.  |                                       |   |                         | 3,117                     | 3,029                      |
| <b>Total Internet Consumer &amp; Business Services (4.22%)</b> |                                       |   |                         | <b>9,507</b>              | <b>16,918</b>              |
| Lilliputian Systems, Inc. (1.75%) <sup>(4)</sup>               | Energy                                | Senior Debt                             |                         |                           |                            |
|  |                                       | Matures March 2010                      |                         |                           |                            |
|  |                                       | Interest rate 9.75%                     | \$ 6,956                | 6,931                     | 6,931                      |
|  |                                       | Preferred Stock Warrants                |                         | 48                        | 85                         |
| Total Lilliputian Systems, Inc.                                |                                       |   |                         | 6,979                     | 7,016                      |
| <b>Total Energy (1.75%)</b>                                    |                                       |   |                         | <b>6,979</b>              | <b>7,016</b>               |
| Active Response Group, Inc. (2.50%)                            | Information Services                  | Senior Debt                             |                         |                           |                            |
|  |                                       | Matures March 2012                      |                         |                           |                            |
|  |                                       | Interest rate LIBOR + 6.55%             | \$ 10,000               | 9,885                     | 9,885                      |
|  |                                       | Preferred Stock Warrants                |                         | 92                        | 83                         |
|  |                                       | Common Stock Warrants                   |                         | 46                        | 60                         |
| Total Active Response Group, Inc.                              |                                       |   |                         | 10,023                    | 10,028                     |
| Buzznet, Inc. (0.25%)  | Information Services                  | Senior Debt                             |                         |                           |                            |
|  |                                       | Matures March 2010                      |                         |                           |                            |
|  |                                       | Interest rate 10.25%                    | \$ 914                  | 908                       | 908                        |
|  |                                       | Preferred Stock Warrants                |                         | 9                         | 86                         |
| Buzznet, Inc. (0.06%)  |                                       | Preferred Stock                         |                         | 250                       | 250                        |
| Total Buzznet, Inc.  |                                       |   |                         | 1,167                     | 1,244                      |
| hi5 Networks, Inc. (1.00%)                                     | Information Services                  | Senior Debt                             |                         |                           |                            |
|  |                                       | Matures March 2011                      |                         |                           |                            |
|  |                                       | Interest rate Prime + 2.5%              | \$ 3,000                | 2,789                     | 2,789                      |
|  |                                       | Revolving Line of Credit                |                         |                           |                            |
|  |                                       | Matures June 2011                       |                         |                           |                            |
|  |                                       | Interest rate 7.75%                     |                         | 1,000                     | 1,000                      |
|  |                                       | Preferred Stock Warrants                |                         | 213                       | 214                        |
| Total hi5 Networks, Inc.                                       |                                       |   |                         | 4,002                     | 4,003                      |
| Jab Wireless, Inc. (0.78%)                                     |                                       |   | \$ 3,097                | 2,834                     | 2,834                      |

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|                          |   |   |       |       |
|--------------------------|---|---|-------|-------|
|                          | Information Services  | Senior Debt<br>Matures March 2012<br>Interest rate 10.75% |       |       |
|                          |   | Preferred Stock Warrants                                  | 264   | 265   |
| Total Jab Wireless, Inc. |   |   | 3,098 | 3,099 |
|                          | See notes to consolidated financial statements (unaudited). |   |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                            | <b>Industry</b>      | <b>Type of Investment<sup>(1)</sup></b>                                      | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|----------------------|--|-------------------------|---------------------------|----------------------------|
| Solutionary, Inc. (1.78%)                           | Information Services | Senior Debt<br>Matures June 2010<br>Interest rate LIBOR + 5.50%              | \$ 5,528                | 5,454                     | 5,454                      |
|   |                      | Revolving Line of Credit<br>Matures June 2010<br>Interest rate LIBOR + 5.00% | \$ 1,505                | 1,505                     | 1,505                      |
|   |                      | Preferred Stock Warrants   |                         | 94                        | 150                        |
|   |                      | Preferred Stock Warrants   |                         | 2                         | 5                          |
| Solutionary, Inc. (0.06%)                           |                      | Preferred Stock  |                         | 250                       | 250                        |
| Total Solutionary, Inc.                             |                      |  |                         | 7,305                     | 7,364                      |
| The Generation Networks, Inc. (4.12%)               | Information Services | Senior Debt<br>Matures March 2012<br>Interest rate Prime + 4.50%             | \$ 16,500               | 16,500                    | 16,500                     |
| The Generation Networks, Inc. (0.12%)               |                      | Preferred Stock  |                         | 500                       | 500                        |
| Total The Generation Networks, Inc.                 |                      |  |                         | 17,000                    | 17,000                     |
| Wallop Technologies, Inc. (0.06%)                   | Information Services | Senior Debt<br>Matures March 2010<br>Interest rate 10.00%                    | \$ 223                  | 218                       | 218                        |
|   |                      | Preferred Stock Warrants   |                         | 7                         | 9                          |
| Total Wallop Technologies, Inc.                     |                      |  |                         | 225                       | 227                        |
| Zeta Interactive Corporation (3.74%) <sup>(4)</sup> | Information Services | Senior Debt<br>Matures November 2011<br>Interest rate Prime +2.00%           | \$ 15,000               | 6,828                     | 6,828                      |
|   |                      | Senior Debt<br>Matures November 2011<br>Interest rate Prime +3.00%           |                         | 8,000                     | 8,000                      |
|   |                      | Preferred Stock Warrants   |                         | 172                       | 171                        |
| Zeta Interactive Corporation (0.12%)                |                      | Preferred Stock  |                         | 500                       | 500                        |
| Total Zeta Interactive Corporation                  |                      |  |                         | 15,500                    | 15,499                     |
| <b>Total Information Services (14.59%)</b>          |                      |  |                         | <b>58,320</b>             | <b>58,464</b>              |
| Novadaq Technologies, Inc. (0.32%)                  | Diagnostic           | Common Stock   |                         | 1,626                     | 1,284                      |
| Total Novadaq Technologies, Inc.                    |                      |  |                         | 1,626                     | 1,284                      |
| Optiscan Biomedical, Corp. (0.08%) <sup>(4)</sup>   | Diagnostic           | Senior Debt<br>Matures March 2008<br>Interest rate 15.00%                    | \$ 271                  | 263                       | 263                        |
|   |                      | Preferred Stock Warrants   |                         | 80                        | 47                         |
| Optiscan Biomedical, Corp. (0.18%)                  |                      | Preferred Stock  |                         | 1,000                     | 722                        |



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|                                  |              |              |
|----------------------------------|--------------|--------------|
| Total Optiscan Biomedical, Corp. | 1,343        | 1,032        |
| <b>Total Diagnostic (0.58%)</b>  | <b>2,969</b> | <b>2,316</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>  | <b>Industry</b>                             | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|---|---|---|-------------------------|---------------------------|----------------------------|
| Guava Technologies, Inc. (1.77%) <sup>(4)</sup>                   | Biotechnology Tools                         | Senior Debt                             |                         |                           |                            |
|   |   | Matures July 2009                       |                         |                           |                            |
|   |   | Interest rate Prime + 3.25%             | \$ 4,076                | 4,790                     | 4,790                      |
|   |   | Convertible Debt                        |                         | 250                       | 250                        |
|   |   | Revolving Line of Credit                |                         |                           |                            |
|   |   | Matures December 2007                   |                         |                           |                            |
|   |   | Interest rate Prime + 2.00%             | \$ 2,598                | 1,778                     | 1,778                      |
|   |   | Preferred Stock Warrants                |                         | 105                       | 200                        |
|   |   | Preferred Stock Warrants                |                         | 69                        | 93                         |
| Total Guava Technologies, Inc.                                    |   |   |                         | 6,992                     | 7,111                      |
| NuGEN Technologies, Inc. (0.53%)                                  | Biotechnology Tools                         | Senior Debt                             |                         |                           |                            |
|   |   | Matures March 2010                      |                         |                           |                            |
|   |   | Interest rate 11.70%                    | \$ 1,884                | 1,819                     | 1,819                      |
|   |   | Preferred Stock Warrants                |                         | 45                        | 252                        |
|   |   | Preferred Stock Warrants                |                         | 32                        | 32                         |
| NuGEN Technologies, Inc. (0.12%)                                  |   | Preferred Stock                         |                         | 500                       | 500                        |
| Total NuGEN Technologies, Inc.                                    |   |   |                         | 2,396                     | 2,603                      |
| <b>Total Biotechnology Tools (2.42%)</b>                          |   |   |                         | <b>9,388</b>              | <b>9,714</b>               |
| Rubicon Technology Inc. (0.69%) <sup>(4)</sup>                    | Advanced Specialty<br>Materials & Chemicals | Preferred Stock Warrants                |                         | 82                        | 2,764                      |
| Total Rubicon Technology Inc.                                     |   |   |                         | 82                        | 2,764                      |
| <b>Total Advanced Specialty Materials &amp; Chemicals (0.69%)</b> |   |   |                         | <b>82</b>                 | <b>2,764</b>               |
| Crux Biomedical, Inc. (0.15%)                                     | Surgical Devices                            | Senior Debt                             |                         |                           |                            |
|   |   | Matures December 2010                   |                         |                           |                            |
|   |   | Interest rate Prime + 3.375%            | \$ 600                  | 565                       | 565                        |
|   |   | Preferred Stock Warrants                |                         | 37                        | 36                         |
| Crux Biomedical, Inc. (0.06%)                                     |   | Preferred Stock                         |                         | 250                       | 250                        |
| Total Crux Biomedical, Inc.                                       |   |   |                         | 852                       | 851                        |
| Diomed Holdings, Inc. (1.49%) <sup>(4)</sup>                      | Surgical Devices                            | Senior Debt                             |                         |                           |                            |
|   |   | Matures July 2010                       |                         |                           |                            |
|   |   | Interest rate Prime + 3.00%             | \$ 6,000                | 5,962                     | 5,962                      |
|   |   | Common Stock Warrants                   |                         | 43                        | 8                          |
| Total Diomed Holdings, Inc.                                       |   |   |                         | 6,005                     | 5,970                      |
| Light Science Oncology, Inc. (2.50%)                              | Surgical Devices                            | Senior Debt                             |                         |                           |                            |
|   |   | Matures July 2011                       |                         |                           |                            |
|   |   | Interest rate 11.20%                    | \$ 10,000               | 9,605                     | 9,605                      |

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Preferred Stock Warrants 395 395

Total Light Science Oncology, Inc. 10,000 10,000

**Total Surgical Devices (4.20%)** 16,857 16,821

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS - (Continued)****December 31, 2007****(dollars in thousands)**

| <b>Portfolio Company</b>                     | <b>Industry</b>        | <b>Type of Investment<sup>(1)</sup></b>                                       | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--|------------------------|---|-------------------------|---------------------------|----------------------------|
| Waterfront Media Inc. (1.54%) <sup>(4)</sup> | Media/Content/<br>Info | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 3.00%           | \$ 3,941                | 3,898                     | 3,898                      |
|  |                        | Revolving Line of Credit<br>Matures March 2008<br>Interest rate Prime + 1.25% | \$ 2,000                | 2,000                     | 2,000                      |
|  |                        | Preferred Stock Warrants  |                         | 60                        | 295                        |
|  |                        | Preferred Stock   |                         | 1,000                     | 1,000                      |
| Waterfront Media Inc. (0.25%)                |                        |   |                         |                           |                            |
| <b>Total Waterfront Media Inc.</b>           |                        |   |                         | <b>6,958</b>              | <b>7,193</b>               |
| <b>Total Media/Content/Info (1.79%)</b>      |                        |   |                         | <b>6,958</b>              | <b>7,193</b>               |
| <b>Total Investments (132.24%)</b>           |                        |   |                         | <b>\$ 519,450</b>         | <b>\$ 529,972</b>          |

\* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net appreciation for federal income tax purposes totaled \$16,430, \$9,009 and \$7,421, respectively. The tax cost of investments is \$522,551.

(3) Except for warrants in ten publicly traded companies and common stock in four publicly traded companies, all investments are restricted at December 31, 2007 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Credit Facility. Citigroup has an equity participation right on loans collateralized under the Credit Facility. The value of their participation right on unrealized gains in the related equity investments was approximately \$690,000 at December 31, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2007.

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

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

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF OPERATIONS****(unaudited)****(In thousands, except per share data)**

|   | Three Months Ended September 30, 2008 |           | Nine Months Ended September 30, 2007 |           |
|---|---------------------------------------|-----------|--------------------------------------|-----------|
|   | 2008                                  | 2007      | 2008                                 | 2007      |
| <b>Investment income:</b>   |                                       |           |                                      |           |
| Interest  | \$ 17,348                             | \$ 13,569 | \$ 47,669                            | \$ 34,396 |
| Fees  | 1,900                                 | 1,572     | 6,202                                | 3,698     |
| Total investment income   | 19,248                                | 15,141    | 53,871                               | 38,094    |
| <b>Operating expenses:</b>  |                                       |           |                                      |           |
| Interest  | 3,929                                 | 553       | 8,694                                | 3,003     |
| Loan fees   | 618                                   | 419       | 1,564                                | 935       |
| General and administrative  | 1,937                                 | 1,420     | 5,307                                | 4,442     |
| <b>Employee Compensation:</b>   |                                       |           |                                      |           |
| Compensation and benefits   | 2,544                                 | 2,404     | 8,198                                | 6,358     |
| Stock-based compensation  | 228                                   | 300       | 1,144                                | 847       |
| Total employee compensation   | 2,772                                 | 2,704     | 9,342                                | 7,205     |
| Total operating expenses  | 9,256                                 | 5,096     | 24,907                               | 15,585    |
| Net investment income   | 9,992                                 | 10,044    | 28,964                               | 22,509    |
| Net realized gain on investments  | 126                                   | 49        | 4,993                                | 3         |
| Net increase (decrease) in unrealized appreciation on investments                 | 2,420                                 | (2,915)   | (2,024)                              | (733)     |
| Net realized and unrealized gain (loss)   | 2,546                                 | (2,866)   | 2,969                                | (730)     |
| Net increase in net assets resulting from operations                              | \$ 12,538                             | \$ 7,178  | \$ 31,933                            | \$ 21,779 |
| <b>Net investment income before investment gains and losses per common share:</b> |                                       |           |                                      |           |
| Basic   | \$ 0.31                               | \$ 0.31   | \$ 0.89                              | \$ 0.84   |
| Diluted   | \$ 0.31                               | \$ 0.31   | \$ 0.89                              | \$ 0.83   |
| <b>Change in net assets per common share:</b>                                     |                                       |           |                                      |           |
| Basic   | \$ 0.38                               | \$ 0.22   | \$ 0.98                              | \$ 0.81   |
| Diluted   | \$ 0.38                               | \$ 0.22   | \$ 0.98                              | \$ 0.81   |
| <b>Weighted average shares outstanding</b>  |                                       |           |                                      |           |
| Basic   | 32,634                                | 32,427    | 32,600                               | 26,864    |
| Diluted   | 32,634                                | 32,526    | 32,600                               | 26,992    |

See notes to consolidated financial statements (unaudited).



**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

(unaudited)

(in thousands)

|  | Common Stock |           | Capital in excess of par value | Deferred Stock Compensation | Unrealized Appreciation | 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, 2006                                       | 21,927       | \$ 22     | \$ 257,235                     | \$                          | \$ 2,861                | (\$ 1,972)   | (\$ 2,733)                                   | \$   | \$ 255,413 |
| Net increase net assets resulting from operations                  |              |           |                                |                             | (733)                   | 3  | 22,509                                       |  | 21,779     |
| Issuance of common stock   | 25           |           | 349                            |                             |                         |  |  |  | 349        |
| Issuance of common stock in public offering overallotment exercise | 10,040       | 10        | 128,405                        |                             |                         |  |  |  | 128,415    |
| Issuance of common stock from warrant exercises                    | 291          |           | 3,071                          |                             |                         |  |  |  | 3,071      |
| Issuance of common stock under dividend reinvestment plan          | 250          |           | 3,304                          |                             |                         |  |  |  | 3,304      |
| Issuance of common stock under restricted stock plan               | 7            |           | 90                             | (90)                        |                         |  |  |  |            |
| Dividends declared   |              |           |                                |                             |                         |  | (23,551)                                     |  | (23,551)   |
| Stock-based compensation   |              |           | 842                            | 5                           |                         |  |  |  | 847        |
| Balance at September 30, 2007                                      | 32,540       | \$ 32     | \$ 393,296                     | (\$ 85)                     | \$ 2,128                | (\$ 1,969)   | (\$ 3,775)                                   | \$   | \$ 389,627 |
| Balance at December 31, 2007                                       | 32,541       | \$ 33     | \$ 393,530                     | (\$ 78)                     | \$ 10,129               | \$ 819   | (\$ 3,557)                                   | (\$ 139)                                       | \$ 400,737 |
| Net increase in net assets resulting from operations               |              |           |                                |                             | (2,024)                 | 4,993  | 28,964                                       |  | 31,933     |
| Issuance of common stock   | 6            |           | 43                             |                             |                         |  |  |  | 43         |
| Issuance of common stock from exercise of warrants                 | 88           |           | 933                            |                             |                         |  |  |  | 933        |
| Issuance of common stock under restricted stock plan               | 228          |           | 2,743                          | (2,743)                     |                         |  |  |  |            |
| Dividends declared   |              |           |                                |                             |                         |  | (32,100)                                     |  | (32,100)   |
| Stock-based compensation   |              |           | 741                            | 403                         |                         |  |  |  | 1,144      |
| Balance at September 30, 2008                                      | 32,863       | \$ 33     | \$ 397,990                     | (\$ 2,418)                  | \$ 8,105                | \$ 5,812   | (\$ 6,693)                                   | (\$ 139)                                       | \$ 402,690 |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF CASH FLOWS****(unaudited)****(in thousands)**

|   | <b>Nine Months Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                            | <b>2007</b> |
| <b>Cash flows from operating activities:</b>  |  |             |
| Net increase in net assets resulting from operations  | \$ 31,933                              | \$ 21,779   |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities: |  |             |
| Purchase of investments   | (290,550)                              | (219,307)   |
| Principal payments received on investments  | 184,780                                | 86,617      |
| Proceeds from sale of investments   | 7,313                                  | 1,646       |
| Net unrealized appreciation (depreciation) on investments   | 2,024                                  | 520         |
| Net unrealized appreciation on investments due to lender  | (247)                                  | 214         |
| Net realized gain on investments  | (4,993)                                | (3)         |
| Warrant values for loans not funded   |  |             |
| Accretion of paid-in-kind principal   | (664)                                  |             |
| Accretion of loan discounts   | (4,353)                                | (1,744)     |
| Accretion of loan exit fees   | (1,149)                                | (1,127)     |
| Depreciation  | 218                                    | 152         |
| Stock-based compensation  | 741                                    | 842         |
| Amortization of restricted stock  | 403                                    |             |
| Common stock issued in lieu of Director compensation  | 54                                     | 349         |
| Amortization of deferred loan origination revenue   | (3,758)                                | (2,139)     |
| Change in operating assets and liabilities:   |  |             |
| Interest receivable   | (338)                                  | (1,578)     |
| Prepaid expenses and other assets   | (8,718)                                | 1,769       |
| Income tax receivable   |  | 29          |
| Accounts payable  | 598                                    | (249)       |
| Income tax payable  | (105)                                  |             |
| Accrued liabilities   | (534)                                  | (274)       |
| Deferred loan origination revenue   | 4,934                                  | 3,761       |
| Net cash (used in) operating activities   | (82,411)                               | (108,744)   |
| <b>Cash flows from investing activities:</b>  |  |             |
| Purchases of capital equipment  | (576)                                  | (146)       |
| Other long-term assets  | (8)                                    | (1,378)     |
| Net cash provided by (used in) investing activities   | (584)                                  | (1,544)     |
| <b>Cash flows from financing activities:</b>  |  |             |
| Proceeds from issuance of common stock, net   | 933                                    | 131,492     |
| Dividends paid  | (32,100)                               | (20,246)    |
| Borrowings of credit facilities   | 234,850                                | 148,250     |
| Repayments of credit facilities   | (104,000)                              | (137,300)   |
| Fees paid for credit facilities and debentures  | (4,055)                                | (2,126)     |
| Net cash provided by financing activities   | 95,628                                 | 120,070     |
| Net increase in cash  | 12,633                                 | 9,782       |



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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 7,856     | 16,404    |
| Cash and cash equivalents at end of period       | \$ 20,489 | \$ 26,186 |

See notes to consolidated financial statements (unaudited).

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**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development from seed and emerging growth to expansion and established stages of development, including expanding into select publicly listed companies and lower middle market companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts, Boulder, Colorado, Chicago, Illinois and San Diego, California areas. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003. The Company commenced operations on February 2, 2004 and commenced investment activities in September 2004.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, (the Code). Effective January 1, 2006, the Company elected to be treated for tax purposes as a regulated investment company, or RIC, under the Code (see Note 4).

The Company formed Hercules Technology II, L.P. (HT II), which was licensed on September 27, 2006, to operate as a Small Business Investment Company (SBIC) under the authority of the Small Business Administration (SBA). As an SBIC, HT II is subject to a variety of regulations concerning, among other things, the size and nature of the companies in which it may invest and the structure of those investments. The Company also formed Hercules Technology SBIC Management, LLC (HTM), a limited liability company. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner (see Note 3).

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

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X 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 period have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2007. 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**

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value. The Company adopted FAS 157 effective January 1, 2008. FAS 157 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.

Consistent with FAS 157, the Company determines fair value to be the amount for which an investment could be exchanged in a current sale, which assumes an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests. In accordance with FAS 157, the Company has considered the principal market, or the market in which it exits its portfolio investments with the

greatest volume and level of activity. FAS 157 requires that the portfolio investment is assumed to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. The Company believes that the market participants for its investments are primarily other technology and life science companies. Such participants acquire the company's investments in order to gain access to the underlying assets of the portfolio company. As such, the Company believes the estimated value of the collateral of the portfolio company, up to the cost value of the investment, represents the fair value of the investment.

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Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment, although the Company's valuation policy is intended to provide a constant basis for determining the fair value of portfolio investments. Unlike banks, the Company is not permitted to provide a general reserve for anticipated loan losses. Instead, the Company must determine the fair value of each individual investment on a quarterly basis. The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a loan or realization of an equity security is doubtful. 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.

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

At September 30, 2008, approximately 94% of the Company's total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Since there is typically no readily available market value for the investments in the Company's portfolio, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of FAS 157 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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.

At each reporting date, privately held debt and equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company's operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company's valuation of the debt and equity securities. 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. The Company may consider, but is not limited to, industry valuation methods such as price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks in its evaluation of the fair value of its investment.

An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower's ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, unrealized appreciation is recorded when the investment has appreciated in value. Securities that are traded in the over the counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer's earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors.

The Company has categorized all investments recorded at fair value in accordance with FAS 157 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by FAS 157 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.

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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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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:

| (in thousands)          | Fair Value Measurements at Reporting Date Using Quoted Prices In Active Markets For Identifiable |                  |   |   |
|-------------------------|--|------------------|---|---|
|                         | 9/30/2008  | Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Description</b>      |  |                  |   |   |
| Senior secured debt     | \$ 572,517   | \$               | \$  | \$ 572,517                                |
| Senior debt-second lien | 5,768  |                  |   | 5,768                                     |
| Preferred stock         | 32,532   |                  |   | 32,532                                    |
| Common stock            | 576  | 576              |   |   |
| Warrants                | 25,354   |                  | 1,618   | 23,736                                    |
|                         | \$ 636,747   | \$ 576           | \$ 1,618                                      | \$ 634,553                                |

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three months ended September 30, 2008:

| Fair Value Measurements Using Significant Unobservable Inputs (\$ in thousands)   | Three Months Ended September 30, 2008 |
|---|---------------------------------------|
| Balance at June 30, 2008  | \$ 599,498                            |
| Total gains or losses   |                                       |
| Net realized gains/(losses) <sup>(1)</sup>  | (300)                                 |
| Net change in unrealized appreciation or depreciation <sup>(2)</sup>  | 4,214                                 |
| Purchases, repayments, and exits, net   | 31,141                                |
| Transfer in and/or out of level 3   |                                       |
| Balance at September 30, 2008   | \$ 634,553                            |
| Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date <sup>(3)</sup> | \$ 4,214                              |

<sup>(1)</sup> Includes net realized gains /(losses) recorded as realized gains or losses in the accompanying consolidated statement of operations.

<sup>(2)</sup> Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations.

<sup>(3)</sup> Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2008:

| Fair Value Measurements Using Significant Unobservable Inputs (\$ in thousands) | Nine Months Ended September 30, 2008 |
|---|--------------------------------------|
| Balance at December 31, 2007  | \$ 522,740                           |
| Total gains or losses   |                                      |
| Net realized gains/(losses) <sup>(1)</sup>                                      | (516)                                |

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|   |           |                |
|---|-----------|----------------|
| Net change in unrealized appreciation or depreciation <sup>(2)</sup>  |           | 4,590          |
| Purchases, repayments, and exits, net   |           | 107,739        |
| Transfer in and/or out of level 3   |           |                |
| <b>Balance at September 30, 2008</b>  | <b>\$</b> | <b>634,553</b> |
| Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date <sup>(3)</sup> | \$        | 4,590          |

- <sup>(1)</sup> Includes net realized gains /(losses) recorded as realized gains or losses in the accompanying consolidated statement of operations.
- <sup>(2)</sup> Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations.
- <sup>(3)</sup> Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

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

At September 30, 2008 and December 31, 2007, the Company had investments in two portfolio companies deemed to be Affiliates. One investment is a non-income producing equity investment and one is an investment in a portfolio company that became an Affiliate on December 17, 2007 upon a restructure of the company. Income derived from these investments was less than \$98,000 since these investments became Affiliates.

Security transactions are recorded on the trade-date basis.

A summary of the Company's investment portfolio by asset class as of September 30, 2008 and December 31, 2007 at fair value is shown as follows:

| (in thousands)                        | September 30, 2008        |                               | December 31, 2007         |                               |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                                       | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Senior debt with warrants             | \$ 490,363                | 77.0%                         | \$ 441,838                | 83.4%                         |
| Senior debt                           | 107,173                   | 16.8%                         | 61,483                    | 11.6%                         |
| Preferred stock                       | 32,532                    | 5.1%                          | 23,265                    | 4.4%                          |
| Senior debt-second lien with warrants | 6,103                     | 1.0%                          |                           |                               |
| Common Stock                          | 576                       | 0.1%                          | 2,938                     | 0.5%                          |
| Subordinated debt with warrants       |                           |                               | 448                       | 0.1%                          |
|                                       | \$ 636,747                | 100.0%                        | \$ 529,972                | 100.0%                        |

A Summary of the Company's investment portfolio at fair value, by geographic location as of September 30, 2008 and December 31, 2007 is as follows:

| (in thousands) | September 30, 2008        |                               | December 31, 2007         |                               |
|----------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States  | \$ 601,462                | 94.4%                         | \$ 512,724                | 96.8%                         |
| Canada         | 15,177                    | 2.4%                          | 15,001                    | 2.8%                          |
| Israel         | 17,108                    | 2.7%                          | 2,247                     | 0.4%                          |
| Netherlands    | 3,000                     | 0.5%                          |                           |                               |
|                | \$ 636,747                | 100.0%                        | \$ 529,972                | 100.0%                        |



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The following table shows the fair value of the Company's portfolio by industry sector at September 30, 2008 and December 31, 2007 (excluding unearned income):

| (in thousands)                           | September 30, 2008        |                               | December 31, 2007         |                               |
|--|---------------------------|-------------------------------|---------------------------|-------------------------------|
|  | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Communications & networking              | \$ 131,914                | 20.7%                         | \$ 114,014                | 21.5%                         |
| Information services                     | 62,865                    | 9.9%                          | 58,464                    | 11.0%                         |
| Drug discovery                           | 76,332                    | 12.0%                         | 95,294                    | 18.0%                         |
| Software                                 | 86,442                    | 13.6%                         | 38,963                    | 7.4%                          |
| Specialty pharmaceuticals                | 48,135                    | 7.6%                          | 45,646                    | 8.6%                          |
| Electronics & computer hardware          | 46,818                    | 7.4%                          | 50,953                    | 9.6%                          |
| Semiconductors                           | 27,031                    | 4.2%                          | 25,501                    | 4.8%                          |
| Consumer & business products             | 33,124                    | 5.2%                          | 2,817                     | 0.5%                          |
| Drug delivery                            | 20,200                    | 3.2%                          | 22,725                    | 4.3%                          |
| Internet consumer & business services    | 20,964                    | 3.3%                          | 16,918                    | 3.2%                          |
| Biotechnology tools                      | 22,776                    | 3.5%                          | 9,714                     | 1.8%                          |
| Therapeutic                              | 17,293                    | 2.7%                          | 12,853                    | 2.4%                          |
| Diagnostic                               | 13,164                    | 2.0%                          | 2,316                     | 0.5%                          |
| Media/Content/Info                       | 16,920                    | 2.7%                          | 7,193                     | 1.4%                          |
| Surgical Devices                         | 7,632                     | 1.2%                          | 16,821                    | 3.2%                          |
| Energy                                   | 5,137                     | 0.8%                          | 7,016                     | 1.3%                          |
| Advanced Specialty Materials & Chemicals |                           |                               | 2,764                     | 0.5%                          |
|  | \$ 636,747                | 100.0%                        | \$ 529,972                | 100.0%                        |

During the three and nine-month periods ended September 30, 2008, the Company made investments in debt securities totaling \$99.7 million and \$303.4 million, respectively. The Company didn't make any equity investment during the three month periods ended September 30, 2008. The Company made investments in equity securities of approximately \$7.1 million in the nine-month periods ended September 30, 2008.

During the three month period ended September 30, 2008, the Company recognized net realized gains of approximately \$126,000 due to realized gains totaling approximately \$430,000 from the exercise of warrants and sale of common stock on one biopharmaceutical offset by the realized loss of approximately \$304,000 from the companies in which we held and one portfolio loan.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. These fees are reflected as adjustments to the loan yield in accordance with Statement of Financial Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring loans and Initial Direct Costs of Leases* ( FAS 91 ). The Company had approximately \$7.8 million and \$6.6 million of unamortized fees at September 30, 2008 and December 31, 2007, respectively, and approximately \$3.1 million and \$2.0 million in exit fees receivable at September 30, 2008 and December 31, 2007, respectively.

While not significant to the total debt investment portfolio, 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. For the three and nine-month periods ended September 30, 2008, approximately \$283,000 and \$698,000 in PIK income was recorded, respectively. For the three and nine month periods ended September 30, 2007, approximately \$134,000 and \$209,000 in PIK income was recorded.

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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 portfolio company's intellectual property. At September 30, 2008, approximately 44 portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 42 portfolio company loans were prohibited from pledging or encumbering their intellectual property and one portfolio company investment was secured by a second lien position on its assets. See Part II Item 1A Risk Factors.

### **3. Borrowings**

The Company, through Hercules Funding Trust I, an affiliated statutory trust, has a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. and Deutsche Bank Securities Inc. The initial Credit Facility was a one year facility with an interest rate of LIBOR plus a spread of 1.20% and a borrowing capacity of \$250.0 million.

On May 7, 2008, the Company amended and renewed its Credit Facility with Citigroup and Deutsche Bank providing for a borrowing capacity of \$134.9 million and extending the expiration date to October 31, 2008. Under the terms of the amended agreement, the Company paid a renewal fee of approximately \$1.3 million, interest on all borrowings was set at LIBOR plus a spread of 5.0%, and a fee of 2.50% is charged on any unused portion of the facility. The Credit Facility is collateralized by loans from the Company's investment in portfolio companies, and includes an advance rate of approximately 45% of eligible loans. The Credit Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Credit Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. At September 30, 2008, the Company had \$127.9 million outstanding under the Credit Facility, and was in compliance with all covenants. Unless extended, the Credit Facility terminates on October 31, 2008 and all subsequent payments secured from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are 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 equals \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2008, the Company recorded an derivative additional liability related to this obligation and reduced its unrealized gains by approximately \$300,000 for Citigroup's participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately \$896,000 at September 30, 2008 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2008. Based on the Company's average borrowings for the year ended December 31, 2007 and the quarter ended September 30, 2008 and the amount of expense it recorded for its realized and unrealized gains for the related periods, the additional cost of borrowings as a result of the warrant participation agreement could increase by approximately 0.55% and 1.03%, respectively. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately \$927,000 under the warrant participation agreement thereby reducing its realized gains by this amount.

As of September 30, 2008, the Company, through its special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately \$323.0 million to Hercules Funding Trust I and had drawn \$127.9 million under the Credit Facility. Transfers of loans have not met the requirements of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Credit Facility for the three and nine-month periods ended September 30, 2008 was approximately \$118.2 and \$97.8 million and the average interest rate was approximately 7.68% and 6.25%, excluding facility fees, respectively.

In January 2005, the Company formed HT II and HTM. HT II is licensed as a SBIC. HT II borrows funds from the SBA against eligible investments and additional deposits to regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2008, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$130.6 million, subject to periodic adjustments by the SBA. The Company has submitted a leverage request to borrow to the maximum statutory limit and received the approval in November. With \$65.3 million of regulatory capital as of September 30, 2008, HT II has the current capacity to issue up to a total of \$130.6 million of SBA guaranteed debentures, subject to the payment of a 1% commitment fee to the SBA on the amount of the commitment. Currently, HT II has paid commitment fees of approximately \$1.3 million and has a commitment from the SBA to issue a total of \$127.2 million of SBA guaranteed debentures, of which approximately \$127.2 million was outstanding as of September 30, 2008. There is no

assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

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SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 20.0% 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 subsidiary HTII, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HTII is periodically examined and audited by the Small Business Administration's staff to determine its compliance with small business investment company regulations. As of September 30, 2008, HTII could draw up to \$127.2 million of leverage from the SBA as noted above. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the \$12 million of borrowings originated from March 13, 2007 to September 10, 2007 was set by the SBA on September 26, 2007 at 5.528%. The rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA on September 24, 2008 at 5.725%. 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 2008 and 2007 annual fee has been set at 0.906%. Interest payments are payable semi-annually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed.

On August 25, 2008, the Company, through a special purpose wholly-owned subsidiary of the Company, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of \$50 million, with Wells Fargo Foothill as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to \$300 million if additional lenders are added to the syndicate. The Wells Facility expires on August 25, 2010, unless the option to extend the facility is exercised by the parties to the agreement.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to Libor plus 325 basis points or PRIME plus 200 basis points. The Wells Facility requires the payment of a non-use fee of 50 basis points annually, which reduces to 30 basis points on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. We paid a one time \$750,000 structuring fee in connection with the Wells Facility which is being amortized over a 2 year period. The average debt outstanding under the Wells Facility for the three-month period ended September 30, 2008 was approximately \$1.8 million and the average interest rate was approximately 7.0%.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum net worth. 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 Wells Facility also required a minimum draw down of \$10.0 million no later than September 30, 2008.

At September 30, 2008 and December 31, 2007, the Company had the following borrowing capacity and outstandings:

| (in thousands)  | September 30, 2008 |                    | December 31, 2007 |                    |
|-----------------|--------------------|--------------------|-------------------|--------------------|
|                 | Facility Amount    | Amount Outstanding | Facility Amount   | Amount Outstanding |
| Credit Facility | \$ 134,900         | \$ 127,900         | \$ 250,000        | \$ 79,200          |
| Wells Facility  | 50,000             | 10,000             |                   |                    |
| SBA Debenture   | 127,200            | 127,200            | 127,200           | 55,050             |
| Total           | \$ 312,100         | \$ 265,100         | \$ 377,200        | \$ 134,250         |

**4. Income taxes**

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The Company intends to continue to operate so as to qualify to be taxed as a RIC under the Code and, as such, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required, among other requirements, to distribute at least 90% of its annual investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon

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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 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. Taxable income includes non-cash income and such as changes in accrued and reinvested interest which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual payment-in-kind 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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For the quarter ended September 30, 2008, the Company declared a distribution of \$0.34 per share. For 2008, the Company estimates that it will distribute \$1.32 in dividends. A portion of the dividend is payable in all common stock through our Dividend Reinvestment Plan. The Company may distribute the dividend from its authorized stock as the Company shareholders approved the sell or distribution of up to 20% of its outstanding shares below NAV at its 2008 Annual Meeting of Stockholders. This estimate takes into account the Company's expectations for the performance of its business for 2008, and its estimates of operating income, capital gains, net income and taxable income for 2008. The Company's actual distributions for 2008 may differ from this estimate. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company had determined the tax attributes of its distributions year-to-date as of September 30, 2008, approximately \$0.98 or 100.0% would be from ordinary income, however there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2008 distributions to shareholders will actually be.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

At December 31, 2007, we recorded a provision for exercise tax of approximately \$139,000 on income and capital gains of approximately \$4.2 million available for distribution to shareholders in 2008. Excess taxable income for 2007 represents ordinary income and capital gains. In accordance with regulated investment company distribution rules, the Company is required to declare current year dividends to be paid from carried over excess taxable income from 2007 before the Company files its 2007 tax return in September, 2008, and the Company must pay such dividends by December 31, 2008. The Company has complied with these requirements.

As of September 30, 2008 the Company has paid \$32.1 million in dividends to shareholders during 2008. On October 21, 2008 the Company announced that its Board of Directors approved a dividend of \$0.34 per share to shareholders of record as of November 14, 2008 and payable on December 15, 2008.

**5. Shareholders' Equity**

The Company is authorized to issue 60,000,000 shares of common stock with a par value of \$0.001. Each share of common stock entitles the holder to one vote.

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

A summary of activity in the 5 Year Warrants initially attached to units issued for the nine months ended September 30, 2008 is as follows:

|                                  | <b>Five-Year<br/>Warrants</b> |
|----------------------------------|-------------------------------|
| Outstanding at December 31, 2007 | 371,937                       |
| Warrants issued                  |                               |
| Warrants cancelled               |                               |
| Warrants exercised               | (88,323)                      |

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Outstanding at September 30, 2008

283,614

The Company received net proceeds of approximately \$933,000 from the exercise of the 5-Year Warrants in the nine-month period ended September 30, 2008.

On January 3, 2007, in connection with the December 12, 2006 common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 840,000 shares of common stock for additional net proceeds of approximately \$10.9 million.

On June 4, 2007, the Company raised approximately \$102.2 million, net of issuance costs, in a public offering of 8.0 million shares of its common stock. On June 19, 2007, in connection with the same common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 1.2 million shares of common stock for additional net proceeds of approximately \$15.4 million.



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**6. Equity Incentive Plan**

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

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

On June 21, 2007, the shareholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company's stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The proposed 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 stock to Messrs. Badavas, Chow and Woodward, its independent Board of Directors, in the amounts of 1,667, 1,667 and 3,334 shares, respectively. The shares were issued pursuant to the 2006 Plan on July 31, 2007 and vest 33% on an annual basis from the date of grant. Deferred compensation cost of approximately \$91,000 will be recognized ratably over the three year vesting period. During the three and nine-month periods ended September 30, 2008 the Company recognized compensation expense related to restricted stock to the Board of Directors of approximately \$7,500 and \$22,600, respectively. Approximately \$5,000 of compensation expense related to restricted stock was recognized during the three and nine-month periods ended September 30, 2007.

During the nine months ended September 30, 2008, the Company granted approximately 248,650 restricted shares, of which 228,150 shares remain unvested and outstanding at September 30, 2008, pursuant to the 2004 Plan that vest 25% on an annual basis from the date of grant. During the nine months ended September 30, 2008, the Company cancelled 20,500 shares of restricted stock. Deferred compensation cost of approximately \$2.4 million will be recognized ratably over the four year vesting period. During the three and nine-month periods ended September 30, 2008 the Company recognized compensation expense related to restricted stock pursuant to the 2004 Plan of approximately \$171,000 and \$403,000 respectively. There was no compensation expense related to restricted stock pursuant to the 2004 Plan during the three and nine-month periods ended September 30, 2007.

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

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

|   | Common Stock<br>Options | Five-Year<br>Warrants |
|---|-------------------------|-----------------------|
| Outstanding at December 31, 2007                      | 2,920,513               | 10,692                |
| Granted   | 1,286,086               |                       |
| Exercised   |                         |                       |
| Cancelled   | (260,792)               |                       |
| <b>Outstanding at September 30, 2008</b>              | <b>3,945,807</b>        | <b>10,692</b>         |
| Weighted-average exercise price at September 30, 2008 | \$ 13.18                | \$ 10.57              |

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, 2008, options for approximately 2.1 million shares were exercisable at a weighted average exercise price of approximately \$13.18 per share with an expected term of 4.5 years. The outstanding five year warrants have an expected life of 5 years.

The Company determined that the fair value of options and warrants granted under the 2006 and 2004 Plan during the nine month periods ended September 30, 2008 and 2007 was approximately \$1.1 million and \$1.4 million, respectively. During the nine month periods ended September 30, 2008 and 2007, approximately \$741,000 and \$842,000 of share-based cost was expensed, respectively. As of September 30, 2008, there was approximately \$1.6 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.6 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, 2008 and 2007:

|                          | 2008          | 2007          |
|--------------------------|---------------|---------------|
| Expected Volatility      | 23%           | 24%           |
| Expected Dividends       | 8% - 10%      | 8%            |
| Expected term (in years) | 4.5           | 4.5           |
| Risk-free rate           | 2.27% - 3.18% | 4.47% - 4.92% |

**7. Earnings per Share**

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

| (in thousands, except per share data)                           | Three months ended September 30, Nine months ended September 30, |          |           |           |
|---|--|----------|-----------|-----------|
|   | 2008   | 2007     | 2008      | 2007      |
| Net increase in net assets resulting from operations            | \$ 12,538  | \$ 7,178 | \$ 31,933 | \$ 21,779 |
| Weighted average common shares outstanding - basic              | 32,634   | 32,427   | 32,600    | 26,864    |
| Change in net assets per common share - basic                   | \$ 0.38  | \$ 0.22  | \$ 0.98   | \$ 0.81   |
| Net increase (decrease) in net assets resulting from operations | \$ 12,538  | \$ 7,178 | \$ 31,933 | \$ 21,779 |
| Weighted average common shares outstanding                      | 32,634   | 32,427   | 32,600    | 26,864    |
| Dilutive effect of warrants and stock options                   |  | 99       |           | 128       |
| Weighted average common shares outstanding - diluted            | 32,634   | 32,526   | 32,600    | 26,992    |
| Change in net assets per common share - diluted                 | \$ 0.38  | \$ 0.22  | \$ 0.98   | \$ 0.81   |

The calculation of change in net assets per common share assuming dilution, excludes all anti-dilutive shares. For the three months ended September 30, 2008 and 2007, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 4.1 million and 2.1 million, respectively. For the nine months ended September 30, 2008 and

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2007, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 4.1 million and 1.1 million shares, respectively.

### **8. Related-Party Transactions**

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

In conjunction with the Company's public offering completed on June 4, 2007 and the related over-allotment exercise, the Company agreed to pay JMP Securities LLC a fee of approximately \$1.6 million as co-manager of the offering.

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In connection with the sale of public equity investments, the Company paid JMP Securities LLC approximately \$26,000 in brokerage commissions during the nine month period ended September 30, 2008. The Company paid approximately \$8,000 in brokerage commissions during the nine months ended September 30, 2007.

**9. Financial Highlights**

Following is a schedule of financial highlights for the nine months ended September 30, 2008 and 2007:

| (in thousands, except per share data)  | Nine Months Ended September 30, |                      |
|--|---------------------------------|----------------------|
|  | 2008                            | 2007                 |
| <b>Per share data:</b>   |                                 |                      |
| Net asset value at beginning of period   | \$ 12.31                        | \$ 11.65             |
| Net investment income  | 0.89                            | 0.84                 |
| Net realized gain on investments   | 0.15                            |                      |
| Net unrealized appreciation on investments   | (0.06)                          | (0.03)               |
| Total from investment operations   | 0.98                            | 0.81                 |
| Net increase/(decrease) in net assets from capital share transactions                                | (0.09)                          | 0.38                 |
| Distributions  | (0.98)                          | (0.90)               |
| Stock-based compensation expense included in investment income <sup>(1)</sup>                        | 0.03                            | 0.03                 |
| Net asset value at end of period   | \$ 12.25                        | \$ 11.97             |
| <b>Ratios and supplemental data:</b>   |                                 |                      |
| Per share market value at end of period  | \$ 9.70                         | \$ 13.27             |
| Total return   | -9.34% <sup>(2)</sup>           | 0.56% <sup>(2)</sup> |
| Shares outstanding at end of period  | 32,863                          | 32,539               |
| Weighted average number of common shares outstanding   | 32,600 <sup>(3)</sup>           | 26,864               |
| Net assets at end of period  | \$ 402,690                      | \$ 389,628           |
| Ratio of operating expense to average net assets (annualized)  | 8.20%                           | 6.69%                |
| Ratio of net investment income before investment gains and losses to average net assets (annualized) | 9.54%                           | 9.67%                |
| Average debt outstanding   | \$ 180,457                      | \$ 59,809            |
| Weighted average debt per common share   | \$ 5.51                         | \$ 2.23              |
| Portfolio turnover   | 3.01%                           | 0.45%                |

<sup>(1)</sup> Stock-based compensation expense is a non-cash expense that has no effect on net asset value. Pursuant to Financial Accounting Standards No. 123R, net investment income includes the expense associated with the granting of stock options and restricted stock and other stock based compensation, which is offset by a corresponding increase in paid-in capital.

<sup>(2)</sup> The total return equals the change in the ending market value over the beginning of period price per share plus dividends per share during the period, divided by the beginning price.

<sup>(3)</sup> Weighted average number of common shares outstanding excludes unvested restricted stock.

**10. Commitments and Contingencies**

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the Company's portfolio companies. The balance of unused commitments to extend credit at September 30, 2008 totaled approximately \$141.8 million. Since this commitment may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately \$714,500 and \$551,700 during the nine-month periods ended September 30, 2008 and 2007, respectively.



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The following table shows our contractual obligations as of September 30, 2008:

| Contractual Obligations <sup>(1)</sup> | Total             | Payments due by period<br>(in thousands) |                          |                 |                   |
|--|-------------------|--|--------------------------|-----------------|-------------------|
|  |                   | Less than 1 year <sup>(2)(3)</sup>       | 1-3 years <sup>(2)</sup> | 3-5 years       | After 5 years     |
| Borrowings <sup>(4)</sup>              | \$ 265,100        | \$ 127,900                               | \$ 10,000                | \$              | \$ 127,200        |
| Operating Lease Obligations            | 4,891             | 981                                      | 1,965                    | 1,878           | 67                |
| <b>Total</b>                           | <b>\$ 269,991</b> | <b>\$ 128,881</b>                        | <b>\$ 11,965</b>         | <b>\$ 1,878</b> | <b>\$ 127,267</b> |

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

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

(3) The Company also has a warrant participation agreement with Citigroup. See Note 3.

(4) Includes borrowings under the Credit Facility, Wells Facility and the SBA debentures.

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 September 2006, the FASB issued FAS 157. FAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether an instrument is carried at fair value.

FAS 157 also (i) nullifies the guidance in EITF 02-3 that precluded recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments trading in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

The Company adopted FAS 157 effective January 1, 2008. No material change to the Company's financial statements resulted from its adoption of FAS 157. For additional information regarding the Company's adoption of FAS 157, see Note 2, Investments, to the Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In October 2008, the FASB issued FSP 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on our financial results or fair value determinations.

**12. Subsequent Events**

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On October 21, 2008, the Board of Directors declared a dividend of \$0.34 per share for the second quarter, payable on December 15, 2008 to shareholders of record as of November 14, 2008.

In October, Hercules paid down the Wells Fargo credit facility by \$10.0 million, resulting in borrowing capacity of \$50.0 million.

On October 31, 2008 the Company's Credit Facility expired under the normal terms. All subsequent payments secured from the portfolio companies whose debt is included in the Credit Facility collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable. During the amortization period, the Company no longer pays a non-use fee on the Credit Facility, although borrowings under the Credit Facility bear interest at a rate per annum equal to Libor plus 650 basis points during the amortization period.

In October, Hercules received full repayment of \$2.5 million from NetEffect representing principal and interest outstanding. Intel, Inc. acquired the assets of the company in bankruptcy.

In October, Hercules received a repayment of approximately \$700,000 in common stock from an undisclosed buyer for the assets of Teleflip.

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

#### **Forward-Looking Statements**

The information set forth in this report includes forward-looking statements. Such statements may include, but are not limited to: projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs, or plans of Hercules, as well as assumptions relating to the foregoing. The terms may, will, should, expects, plans, anticipates, could, target, projects, contemplates, believes, estimates, predicts, potential, or continue, or the negatives of these terms, or other similar expressions generally identify forward-looking statements.

The forward-looking statements made in this Form 10-Q speak only to events as of the date on which the statements are made. You should not place undue reliance on such forward-looking statements, as substantial risks and uncertainties could cause actual results to differ materially from those projected in or implied by these forward-looking statements due to a number of risks and uncertainties affecting its business. The forward-looking statements contained in this Form 10-Q are made as of the date hereof, and Hercules assumes no obligation to update the forward-looking statements for subsequent events.

#### **Overview**

We are a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development from seed and emerging growth to expansion and established stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and may also finance select publicly listed companies and lower middle market companies. Our principal office is located in the Silicon Valley and we have additional offices in the Boston, Boulder, Chicago, Columbus and San Diego areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of companies active in the technology and life science industries and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity investments. We use the term structured mezzanine debt investment to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured mezzanine debt investments will typically be secured by some or all of the assets of the portfolio company.

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code (the Code). We are treated for federal income tax purposes as a RIC under Subchapter M of the Code as of January 1, 2006. To qualify for the benefits allowable to a RIC, we must, among other things, meet certain source-of-income and asset diversification and income distribution requirements. 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 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. During 2007 and the nine month period ended September 30, 2008, 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 thinly traded public companies, which we refer to as established-stage companies. In the near-term we are shifting our investment focus to expansion- and established-stage companies as we believe these investments currently provide higher yield returns. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

#### **Portfolio and Investment Activity**



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The total value of our investment portfolio was \$636.7 million at September 30, 2008 as compared to \$530.0 million at December 31, 2007. During the three and nine-month periods ended September 30, 2008, we made debt commitments to 7 and 35 portfolio companies totaling \$54.2 million and \$348.8 million, respectively. We funded \$99.7 million to 29 companies and \$291.6 million to 59 companies during the three and nine-month periods ended September 30, 2008, respectively. No equity investment was made during the three-month period ended September 30, 2008. We made equity investments in 10 portfolio companies totaling \$5.9 million in the nine-month period ended September 30, 2008, bringing total equity investments at fair value to approximately \$33.1 million. The fair value of our warrant portfolio at September 30, 2008 and December 31, 2007 was approximately \$25.4 million and \$21.6 million respectively. At September 30, 2008, we had unfunded contractual commitments of \$141.8 million to 34 portfolio companies. In addition, as of September 30, 2008, we executed non-binding term sheets with nine prospective portfolio companies, representing approximately \$95.5 million. However, we have determined to reduce the number of non-binding term sheets that we will continue to perform diligence on to approximately \$17 million. We will postpone the remainder of these non-binding term sheets until the overall economy and credit markets stabilize.

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We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the nine month period ended September 30, 2008, we received normal principal repayments of \$70.1 million, and early repayments and working line of credit paydowns totaling \$114.8 million. Total portfolio investment activity (exclusive of unearned income) as of the nine month period ended September 30, 2008 is as follows:

| (in millions)  | September 30,<br>2008 |
|--|-----------------------|
| Beginning Portfolio                                    | \$ 530.0              |
| Purchase of debt investments                           | 283.5                 |
| Purchase of equity investments                         | 7.0                   |
| Sale of equity investments                             | 5.2                   |
| Principal payments received on investments             | (70.1)                |
| Early pay-offs and recoveries                          | (114.8)               |
| Accretion of loan discounts and paid-in-kind principal | 5.0                   |
| Net realized and unrealized change in investments      | (9.1)                 |
| <b>Ending Portfolio</b>                                | <b>\$ 636.7</b>       |

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2008 and December 31, 2007 (excluding unearned income):

| (in thousands)                        | September 30, 2008           |                                  | December 31, 2007            |                                  |
|---------------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
|                                       | Investments at Fair<br>Value | Percentage of Total<br>Portfolio | Investments at Fair<br>Value | Percentage of Total<br>Portfolio |
| Senior debt with warrants             | \$ 490,363                   | 77.0%                            | \$ 441,838                   | 83.4%                            |
| Senior debt                           | 107,173                      | 16.8%                            | 61,483                       | 11.6%                            |
| Preferred stock                       | 32,532                       | 5.1%                             | 23,265                       | 4.4%                             |
| Senior debt-second lien with warrants | 6,103                        | 1.0%                             |                              |                                  |
| Common Stock                          | 576                          | 0.1%                             | 2,938                        | 0.5%                             |
| Subordinated debt with warrants       |                              |                                  | 448                          | 0.1%                             |
|                                       | <b>\$ 636,747</b>            | <b>100.0%</b>                    | <b>\$ 529,972</b>            | <b>100.0%</b>                    |

A summary of our investment portfolio at value by geographic location as of September 30, 2008 and December 31, 2007 is as follows.

| (in thousands) | September 30, 2008           |                                  | December 31, 2007            |                                  |
|----------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
|                | Investments at Fair<br>Value | Percentage of Total<br>Portfolio | Investments at Fair<br>Value | Percentage of Total<br>Portfolio |
| United States  | \$ 601,462                   | 94.4%                            | \$ 512,724                   | 96.8%                            |
| Canada         | 15,177                       | 2.4%                             | 15,001                       | 2.8%                             |
| Israel         | 17,108                       | 2.7%                             | 2,247                        | 0.4%                             |
| Netherlands    | 3,000                        | 0.5%                             |                              |                                  |
|                | <b>\$ 636,747</b>            | <b>100.0%</b>                    | <b>\$ 529,972</b>            | <b>100.0%</b>                    |

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

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At September 30, 2008, we had investments in two portfolio companies deemed to be Affiliates. One investment is a non income producing equity investment and one portfolio company became an Affiliate on December 17, 2007 upon a restructure of the company. Income derived from these investments was less than \$98,000 since these investments became Affiliates. No realized gains or losses related to Affiliates were recognized during the three and nine-month periods ended September 30, 2008.

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The following table shows the fair value of our portfolio by industry sector at September 30, 2008 and December 31, 2007 (excluding unearned income):

| (in thousands)                           | September 30, 2008        |                               | December 31, 2007         |                               |
|--|---------------------------|-------------------------------|---------------------------|-------------------------------|
|  | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Communications & networking              | \$ 131,914                | 20.7%                         | \$ 114,014                | 21.5%                         |
| Information services                     | 62,865                    | 9.9%                          | 58,464                    | 11.0%                         |
| Drug discovery                           | 76,332                    | 12.0%                         | 95,294                    | 18.0%                         |
| Software                                 | 86,442                    | 13.6%                         | 38,963                    | 7.4%                          |
| Specialty pharmaceuticals                | 48,135                    | 7.6%                          | 45,646                    | 8.6%                          |
| Electronics & computer hardware          | 46,818                    | 7.4%                          | 50,953                    | 9.6%                          |
| Semiconductors                           | 27,031                    | 4.2%                          | 25,501                    | 4.8%                          |
| Consumer & business products             | 33,124                    | 5.2%                          | 2,817                     | 0.5%                          |
| Drug delivery                            | 20,200                    | 3.2%                          | 22,725                    | 4.3%                          |
| Internet consumer & business services    | 20,964                    | 3.3%                          | 16,918                    | 3.2%                          |
| Biotechnology tools                      | 22,776                    | 3.5%                          | 9,714                     | 1.8%                          |
| Therapeutic                              | 17,293                    | 2.7%                          | 12,853                    | 2.4%                          |
| Diagnostic                               | 13,164                    | 2.0%                          | 2,316                     | 0.5%                          |
| Media/Content/Info                       | 16,920                    | 2.7%                          | 7,193                     | 1.4%                          |
| Surgical Devices                         | 7,632                     | 1.2%                          | 16,821                    | 3.2%                          |
| Energy                                   | 5,137                     | 0.8%                          | 7,016                     | 1.3%                          |
| Advanced Specialty Materials & Chemicals |                           |                               | 2,764                     | 0.5%                          |
|  | \$ 636,747                | 100.0%                        | \$ 529,972                | 100.0%                        |

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2008 and December 31, 2007:

| (in thousands)            | September 30, 2008        |                               | December 31, 2007         |                               |
|---------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                           | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| <b>Investment Grading</b> |                           |                               |                           |                               |
| 1                         | \$ 20,840                 | 3.6%                          | \$ 27,678                 | 5.7%                          |
| 2                         | 401,523                   | 69.4                          | 341,598                   | 70.9                          |
| 3                         | 149,041                   | 25.8                          | 103,380                   | 21.4                          |
| 4                         | 2,264                     | 0.4                           | 9,467                     | 2.0                           |
| 5                         | 4,617                     | 0.8                           |                           |                               |
|                           | \$ 578,285                | 100.00%                       | \$ 482,123                | 100.00%                       |

As of September 30, 2008, our investments had a weighted average investment grading of 2.25 as compared to 2.20 at December 31, 2007. Our policy is to downgrade the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until the funding is complete or their operations improve. At September 30, 2008, twenty one portfolio companies were graded 3, two portfolio companies were graded 4 and two portfolio companies were graded 5, as compared to fifteen, three and zero portfolio companies, respectively, at December 31, 2007. At September 30, 2008, there was one portfolio company on non-accrual status. In general, interest is not accrued on loans and debt securities if we have doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. To the extent interest payments are received on a loan that is not accruing interest, we may use such payments to reduce our cost basis in the investment in lieu of recognizing interest income. No loans or debt securities were on non-accrual at December 31, 2007.

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The effective yield on our debt investments during the quarter was 13.1% which was lower than the effective yield of 14.3% in the preceding quarter due to the acceleration of fee income recognition from early loan repayments in the second quarter. The overall weighted average yield to maturity of our loan obligations was approximately 12.67% at September 30, 2008 as compared to 12.70% at December 31, 2007, attributed to increased investments to both expansion- and established-stage companies and asset based financing offered to more mature companies seeking revolver type financing solutions. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related

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securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$30.0 million, with an average initial principal balance of between \$1.0 million and \$15.0 million. Our debt investments have a term of between two and seven years and typically bear interest at rates ranging from Prime rate to 14.0% (based on current interest rate conditions). In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In most cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property. At September 30, 2008, approximately 44 portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 42 portfolio company loans were prohibited from pledging or encumbering their intellectual property and one portfolio company was secured with a second lien position. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Our senior debt investments also generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. As of September 30, 2008, we have received warrants in connection with the majority of our debt investments in each portfolio company, and have realized gains on 13 warrant positions since inception. During the three-month period ended September 30, 2008, we recognized realized gains of approximately \$430,000 primarily from our warrant exercise and sale of common stock on one biopharmaceutical company. We recognized realized losses during the three-month period ended September 30, 2008 of approximately \$304,000 from the sale of a debt investment to a syndication partner and the write off of warrants in two companies.

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. We currently hold warrants in 95 portfolio companies, with a fair value of approximately \$25.4 million which is included in the investment portfolio of \$636.7 million. The fair value of the warrant portfolio has increased by \$12.2 million or 92.4% as compared to the fair value of \$13.2 million at September 30, 2007. These warrant holdings would allow us to invest approximately \$59 million if such warrants are exercised. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

**Table of Contents****Results of Operations*****Comparison of the Three and Nine-Month Periods Ended September 30, 2008 and 2007*****Operating Income**

Interest income totaled approximately \$17.3 and \$47.7 million for the three and nine-month periods ended September 30, 2008, respectively, compared with \$13.6 and \$34.4 for the three and nine-month periods ended September 30, 2007. These increases were primarily due to higher outstanding investment balances and accelerated interest income from early repayments. Income from commitment, facility and loan related fees totaled approximately \$1.9 and \$6.2 million for the three and nine-month periods ended September 30, 2008, respectively, as compared with approximately \$1.6 and \$3.7 million for the three and nine-month periods ended September 30, 2007. The increases in investment income and income from commitment, facility and loan related fees for both periods presented are the result of higher average loan balances outstanding due to origination activity and yield from the related investments and additional fees collected during the quarter from loan amendments and prepayments. At September 30, 2008, we had approximately \$7.8 million of deferred revenue related to commitment and facility fees, as compared to approximately \$5.1 million as of September 30, 2007.

**Operating Expenses**

Operating expenses totaled approximately \$9.3 million and \$24.9 million during the three and nine-month periods ended September 30, 2008, respectively, compared with \$5.1 million and \$15.6 million during the three and nine-month periods ended September 30, 2007, respectively. Operating expenses for the three and nine-month periods ended September 30, 2008 included interest expense, loan fees and unused commitment fees of approximately \$4.5 million and \$10.3 million, respectively, compared with \$972,000 and \$3.9 million for the three and nine-month periods ended September 30, 2007, respectively. The 363% increase in these expenses was due to the higher average outstanding debt balance of approximately \$221.4 million during the three months ended September 30, 2008 as compared to \$33.2 million during the three months ended September 30, 2007, higher cost of debt under our Credit Facility and higher fees for our SBA debenture. The expense was higher for the nine month period of 2008 compared to 2007 by 164% due to a higher average debt balance of \$180.5 million compared to \$59.8 million.

Employee compensation and benefits were approximately \$2.5 million and \$8.2 million during the three and nine-month periods ended September 30, 2008, respectively, compared with \$2.4 million and \$6.4 million during the three and nine-month periods ended September 30, 2007, respectively. The increase in compensation expense was primarily related to an increase in our headcount from 39 employees at September 30, 2007 to 46 employees at September 30, 2008 with increases for salaries. General and administrative expenses which include legal and accounting fees, insurance premiums, rent and various other expenses increased to \$1.9 million and \$5.3 million for the three and nine-month periods ended September 30, 2008, up from \$1.4 million and \$4.4 million during the three and nine-month periods ended September 30, 2007, primarily due to increases in recruiting expense and rent expenses. In addition, we incurred approximately \$0.2 million and \$1.1 million of stock-based compensation expense during the three and nine-month periods ended September 30, 2008, as compared to \$0.3 million and \$0.8 million in 2007, respectively.

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

Net investment income before provision for income tax expense for the three and nine-month periods ended September 30, 2008 totaled \$10.0 and \$29.0 million, respectively, as compared with net investment income before provision for income tax expense of approximately \$10.0 and \$22.5 million for the three and nine-month periods ended September 30, 2007. The changes are made up of the items described above under Operating Income and Operating Expenses.

**Net Investment Gains/Losses**

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

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During the three-month period ended September 30, 2008, we generated realized gains totaling approximately \$430,000 mainly from the exercise of warrants and sale of common stock on one biopharmaceutical Company. We recognized realized losses in the third quarter of 2008 of approximately \$304,000 due to the write off of the of two company warrants and sale of one loan portfolio. This brings the total net realized gains to approximately \$126,000 for the three month period ended September 30, 2008. A summary of realized and unrealized gains and losses for the three and nine-month periods ended September 30, 2008 and 2007 is as follows:

| (in thousands)     | Three Months Ended September 30, |       | Nine Months Ended September 30, |       |
|--------------------|----------------------------------|-------|---------------------------------|-------|
|                    | 2008                             | 2007  | 2008                            | 2007  |
| Realized gains     | 430                              | 433   | 5,912                           | 722   |
| Realized losses    | (304)                            | (384) | (919)                           | (719) |
| Net realized gains | \$ 126                           | \$ 49 | \$ 4,993                        | \$ 3  |

During the three month period ended September 30, 2008, net unrealized investment appreciation totaled \$2.4 million. During the nine month period ended September 30, 2008 net unrealized investment depreciation totaled approximately \$2.0 million. Net unrealized depreciation was approximately \$2.9 million and \$733,000 for the three and nine-month periods ended September 30, 2007. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. As of September 30, 2008, the net unrealized investment appreciation recognized by the Company was reduced by approximately \$896,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see the discussion set forth under Note 3 to the consolidated financial statements. The following table itemizes the change in net unrealized appreciation (depreciation) of investments for the three and nine-month periods ended September 30, 2008:

| (\$ in thousands)   | Three months ended<br>September 30, 2008 |          | Nine Months Ended<br>September 30, 2008 |            |
|---|--|----------|---|------------|
|   | Companies                                | Amount   | Companies                               | Amount     |
| Gross unrealized appreciation on portfolio investments                  | 47                                       | \$ 5,681 | 47                                      | \$ 13,662  |
| Gross unrealized depreciation on portfolio investments                  | 41                                       | (3,370)  | 41                                      | (12,304)   |
| Reversal of prior period net unrealized appreciation upon a realization |  | 221      |   | (3,023)    |
| Citigroup Warrant Participation   |  | (112)    |   | (359)      |
| Net unrealized appreciation/(depreciation) on portfolio investments     |  | \$ 2,420 |   | \$ (2,024) |

We previously announced that we anticipated achieving eight to 10 exit events during 2008. As of September 30, 2008, thirteen of our portfolio companies have achieved exit events.

**Income Taxes and Excise Taxes**

We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires that deferred income taxes be determined based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances are used to reduce deferred tax assets to the amount likely to be realized.

We elected to be treated as a RIC under Subchapter M of the Code with the filing of our 2006 federal income tax return. Such election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code. Provided we continue to qualify as a RIC, our income generally will not be subject to federal income or excise taxes to the extent we make the requisite distributions to stockholders.

If we do not distribute at least 98% of our annual taxable income in the year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes on estimated excess taxable income as taxable income is earned using an annual



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effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

At December 31, 2007, we had excess taxable income of \$4.2 million available for distribution to shareholders in 2008. Excess taxable income for 2007 represents ordinary income and capital gains.

As of September 30, 2008 we have paid \$32.1 million in dividends to shareholders during 2008. On October 21, 2008, we announced that our Board of Directors approved a dividend of \$0.34 per share to shareholders of record as of November 14, 2008 and payable on December 15, 2008. For 2008, we estimate that we will distribute \$1.32 in dividends. This estimate takes into account the Company's expectations for the performance of its business for 2008, and its estimates of operating income, capital gains, net income and taxable income for 2008. The Company's actual distributions for 2008 may differ from this estimate.

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In accordance with regulated investment company distribution rules, we declared current year dividends to be paid from carried over excess taxable income from 2007 before we file our 2007 tax return in September, 2008, and we paid such dividends as of September 30, 2008.

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

For the three and nine-month periods ended September 30, 2008, net income totaled approximately \$12.5 million and \$31.9 million, respectively, compared to net income of approximately \$7.2 million and \$21.8 million for the three and nine-month periods ended September 30, 2007. These changes are made up of the items previously described.

Basic and fully diluted net income per share for the three and nine-month periods ended September 30, 2008 was \$0.38 and \$0.98, respectively, as compared to a basic and fully diluted net income per share of \$0.22 and \$0.81 for the three and nine-month periods ended September 30, 2007, respectively.

### **Financial Condition, Liquidity, and Capital Resources**

At September 30, 2008, we had approximately \$20.5 million in cash and cash equivalents and available borrowing capacity of approximately \$7.0 million under our Credit Facility and approximately \$40.0 million available under the Wells Facility. We primarily invest cash on hand in interest bearing deposit accounts. We have determined to de-leverage our balance sheet in the short term in order to support our liquidity position. In addition, our debt lending activities focus on providing portfolio companies short-term, 36-60 month amortizing credit facilities, which also continues to support our liquidity position.

For the nine months ended September 30, 2008, net cash used in operating activities totaled approximately \$82.4 million as compared to \$108.7 million for the nine months ended September 30, 2007. This decrease was due primarily due to \$290.6 million used for investment in our portfolio companies offset by \$185.0 million of principal payments during the nine months ended September 30, 2008 as compared \$219.3 million used for investment in our portfolio companies offset by \$86.6 million in principal repayments during the nine months ended September 30, 2007. Cash used in investing activities totaled approximately \$584,300 for the nine months ended September 30, 2008 compared with net cash used in investing activities of \$1.5 million for the nine months ended September 30, 2007. Net cash provided by financing activities totaled \$95.6 million for the nine months ended September 30, 2008 compared to \$120.1 million for the nine months ended September 30, 2007. This change is due to borrowings of \$234.9 million on the credit facilities offset by repayment of \$104.0 million and dividends paid of approximately \$32.1 million in the nine months ended September 30, 2008.

As of September 30, 2008, net assets totaled \$402.7 million, with a net asset value per share of \$12.25. We intend to generate additional cash primarily from equity capital, future borrowings as well as cash flows from operations, including income earned from investments in our portfolio companies repayments, and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. After we have used our current capital resources, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. As a result of the exemptive relief we received related to our SBA debt, we are not required to include SBA debt in the leverage ratio required by the 1940 Act. In order to fully leverage the Company, we would need to obtain additional credit. There can be no assurances that we will seek to, or be successful in, leveraging the Company further.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of September 30, 2008 was approximately 484%, excluding SBA leverage.

We anticipate that we will continue to fund our investment activities through a combination of debt and additional equity capital over the next year. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, which we have received shareholder approval to do, existing investors will experience dilution.

As of September 30, 2008, we had \$127.9 million outstanding under the Credit Facility, \$10.0 million outstanding under the Wells Facility and approximately \$127.2 million under the SBA program. As of September 30, 2008, there were \$375.8 million of loans in the collateral pools and, based on eligible loans in the pools and existing advance rates, we have access to approximately \$7 million of borrowing capacity available under our \$134.9 million securitized credit facility and \$40 million of borrowings under our Wells Facility. Our Credit Facility terminated on October 31, 2008 and unless we obtain an extension, all subsequent payments received from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable.

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In addition, Citigroup has an equity participation right of 10% of the realized gains on warrants collateralized under the Credit Facility. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. See Note 3 to the consolidated financial statements for discussion of the participation right.

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At September 30, 2008 and December 31, 2007, we had the following borrowing capacity and outstandings:

| (in thousands)  | September 30, 2008 |                    | December 31, 2007 |                    |
|-----------------|--------------------|--------------------|-------------------|--------------------|
|                 | Facility Amount    | Amount Outstanding | Facility Amount   | Amount Outstanding |
| Credit Facility | \$ 134,900         | \$ 127,900         | \$ 250,000        | \$ 79,200          |
| Wells Facility  | 50,000             | 10,000             |                   |                    |
| SBA Debenture   | 127,200            | 127,200            | 127,200           | 55,050             |
| Total           | \$ 312,100         | \$ 265,100         | \$ 377,200        | \$ 134,250         |

On September 27, 2006, HT II received a license to operate as a Small Business Investment Company under the SBIC program and is able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. We have a commitment from the SBA permitting us to draw up to \$127.2 million from the SBA, subject to certain regulatory requirements. At September 30, 2008, we had a net investment of \$63.6 million in HT II, and there are investments in 47 companies with a fair value of approximately \$197.1 million. The Company is the sole limited partner of HT II and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company.

At our Annual Meeting of Stockholders on May 29, 2008, stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below our net asset value per share, subject to Board approval of the offering. If we determine to conduct an offering to raise equity capital at a price below our net asset value, stockholders will experience immediate dilution following the offering. See Item 1A Risk Factors.

**Current Market Conditions**

The debt and equity capital markets in the United States have been negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages, the re-pricing of credit risk in the broadly syndicated market, and the current financial turmoil affecting the banking system and financial market. These events have led to worsening general economic conditions, which have resulted in a tightening in the broader financial and credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. The effects of the current financial turmoil have significantly reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. We and other commercial finance companies have previously utilized the securitization market to finance some investment activities. Due to the current dislocation of the securitization market, which we believe may continue for an extended period of time, we and other companies in the commercial finance sector may have to access alternative debt markets in order to grow. The debt capital that will be available may be at a higher cost, if at all, and terms and conditions may be less favorable which could negatively affect our financial performance and results.

**Off Balance Sheet Arrangements**

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2008, we had unfunded commitments of approximately \$141.8 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon and may be withdrawn under certain circumstances. Accordingly, the total commitment amount does not necessarily represent future cash requirements.

**Contractual Obligations**

The following table shows our contractual obligations as of September 30, 2008:

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| Contractual Obligations <sup>(1)</sup> | Payments due by period<br>(in thousands) |                                    |                 |                 |                   |
|--|--|------------------------------------|-----------------|-----------------|-------------------|
|  | Total                                    | Less than 1 year <sup>(2)(3)</sup> | 1-3 years       | 3-5 years       | After 5 years     |
| Borrowings <sup>(4)</sup>              | \$ 265,100                               | \$ 137,900                         | \$              | \$              | \$ 127,200        |
| Operating Lease Obligations            | 4,891                                    | 981                                | 1,965           | 1,878           | 67                |
| <b>Total</b>                           | <b>\$ 269,991</b>                        | <b>\$ 138,881</b>                  | <b>\$ 1,965</b> | <b>\$ 1,878</b> | <b>\$ 127,267</b> |

<sup>(1)</sup> Excludes commitments to extend credit to our portfolio companies.

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- (2) Borrowings under the Credit Facility are listed based on the contractual maturity of the facility. Actual repayments could differ significantly due to prepayments by our existing portfolio companies, modifications of the current agreements with existing portfolio companies and modification of the credit facility.
- (3) We also have a warrant participation agreement with Citigroup. See Note 3.
- (4) Includes borrowings under our Credit Facility, Wells Facility and the SBA debentures.

**Borrowings**

We, through Hercules Funding Trust I, an affiliated statutory trust, have a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. and Deutsche Bank Securities Inc. The initial Credit Facility was a one year facility with an interest rate of LIBOR plus a spread of 1.20% and a borrowing capacity of \$250 million.

On May 7, 2008, we amended and renewed our Credit Facility with Citigroup and Deutsche Bank providing for a borrowing capacity of \$134.9 million and extending the expiration date to October 31, 2008. Under the terms of the agreement, we paid a renewal fee of approximately \$1.3 million, interest on all borrowings was set at LIBOR plus a spread of 5.0%, and a fee of 2.50% that is charged on any unused portion of the facility. The Credit Facility is collateralized by debt investment in our portfolio companies, and includes an advance rate of approximately 45% of eligible loans. The Credit Facility contains covenants that, among other things, require us to maintain a minimum net worth and to restrict the loans securing the Credit Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. At September 30, 2008, we had \$127.9 million outstanding under the Credit Facility and were in compliance with all covenants. The Credit Facility terminated on October 31, 2008 and unless we obtain an extension all subsequent payments secured from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding principal and interest are due and payable.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are 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 equals \$3,750,000 (the Maximum Participation Limit). The Obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2008, we recorded an additional liability and reduced our unrealized and realized gains by approximately \$300,000 for Citigroup's participation in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately \$896,000 at September 30, 2008 and is included in accrued liabilities. Since inception of the agreement, we have paid Citigroup approximately \$927,000 under the warrant participation agreement thereby reducing its realized gains. There was approximately \$91,000 realized gain unpaid and recorded as liability at September 30, 2008.

As of September 30, 2008, we, through our special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately \$324.3 million to Hercules Funding Trust I and had drawn \$127.9 million under the Credit Facility. Transfers of loans have not met the requirements of Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Credit Facility for the three and nine-month periods ended September 30, 2008 was approximately \$118.2 and \$97.8 million and the average interest rate was approximately 7.68% and 6.25%, excluding facility fees, respectively.

In January 2005, we formed HT II and HTM. HT II is licensed as a SBIC. HT II borrows funds from the SBA against eligible investments and additional deposits to regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2008, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$130.6 million, subject to periodic adjustments by the SBA. We have submitted a leverage request to increase our borrowing capacity to the full \$130.6 million and received the approval in November. With \$65.3 million of regulatory capital as of September 30, 2008, HT II would have the current capacity to issue up to a total of \$130.6 million of SBA guaranteed debentures, subject to the payment of a 1% commitment fee to the SBA on the amount of the commitment. Currently, HT II has paid commitment fees of approximately \$1.3 million and has a commitment from the SBA to issue a total of \$127.2 million of SBA guaranteed debentures, of which approximately \$127.2 million was outstanding as of September 30, 2008. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

As of September 30, 2008, assets held by HT II represented approximately 31.3% of the total assets of the Company.



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SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 20.0% 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 our wholly-owned subsidiary HTII, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HTII is periodically examined and audited by the Small Business Administration's staff to determine its compliance with small business investment company regulations. As of September 30, 2008, HTII could draw up to \$127.2 million of leverage from the SBA as noted above. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the \$12 million of borrowings originated from March 13, 2007 to September 10, 2007 was set by the SBA on September 26, 2007 at 5.528%. The rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA on September 24, 2008 at 5.725%. In addition, the SBA charges an annual 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 2008 and 2007 annual fee has been set at 0.906%. Interest payments are payable semi-annually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed.

On August 25, 2008, we, through a special purpose wholly-owned subsidiary of the Company, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of \$50 million, with Wells Fargo Foothill, as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to \$300 million if additional lenders are added to the syndicate. The Wells Facility expires on August 25, 2010, unless the option to extend is exercised by the parties to the agreement.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to Libor plus 325 basis points or PRIME plus 200 basis points. The Wells Facility requires the payment of a non-use fee of 50 basis points annually, which reduces to 30 basis points on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investment in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. We paid a one-time \$750,000 structuring fee in connection with the Wells Facility. The weighted average debt outstanding under the Wells Facility for the three-months period ended September 30, 2008 was approximately \$1.8 million and the average interest rate was approximately 7.0%.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum net worth. 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 Wells Facility also required a minimum draw down of \$10.0 million no later than September 30, 2008.



**Table of Contents****Dividends**

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

| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount Per Share</b> |
|----------------------|--------------------|---------------------|-------------------------|
| October 27, 2005     | November 1, 2005   | November 17, 2005   | \$ 0.025                |
| December 9, 2005     | January 6, 2006    | January 27, 2006    | 0.300                   |
| April 3, 2006        | April 10, 2006     | May 5, 2006         | 0.300                   |
| July 19, 2006        | July 31, 2006      | August 28, 2006     | 0.300                   |
| October 16, 2006     | November 6, 2006   | December 1, 2006    | 0.300                   |
| February 7, 2007     | February 19, 2007  | March 19, 2007      | 0.300                   |
| May 3, 2007          | May 16, 2007       | June 18, 2007       | 0.300                   |
| August 2, 2007       | August 16, 2007    | September 17, 2007  | 0.300                   |
| November 1, 2007     | November 16, 2007  | December 17, 2007   | 0.300                   |
| February 7, 2008     | February 15, 2008  | March 17, 2008      | 0.300                   |
| May 8, 2008          | May 16, 2008       | June 16, 2008       | 0.340                   |
| August 7, 2008       | August 15, 2008    | September 15, 2008  | 0.340                   |
|                      |                    |                     | \$ 3.405                |

On October 21, 2008, we announced that our Board of Directors approved a dividend of \$0.34 per share to shareholders of record as of November 14, 2008 and payable on December 15, 2008.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we determined the tax attributes of its distributions year-to-date as of September 30, 2008, \$0.98 or 100.0% would be from ordinary income and spill-over earnings from 2007, however there can be no certainty to stockholders that this determination is representative of what the tax attributes of its 2007 distributions to stockholders will actually be.

**Recent Developments**

In October, Hercules paid down the Wells Fargo credit facility by \$10.0 million, resulting in borrowing capacity of \$50.0 million.

On October 31, 2008 the Company's Credit Facility expired under the normal terms. All subsequent payments secured from the portfolio companies whose debt is included in the Credit Facility collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable. During the amortization period, the Company no longer pays a non-use fee on the Credit Facility, although borrowings under the Credit Facility bear interest at a rate per annum equal to Libor plus 650 basis points during the amortization period.

In October, Hercules received full repayment of \$2.5 million from NetEffect representing principal and interest outstanding. Intel, Inc. acquired the assets of the company in bankruptcy.

In October, Hercules received a repayment of approximately \$700,000 in common stock from an investor for the assets of Teleflip.

**Critical Accounting Policies**

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

operations and financial condition.

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

At September 30, 2008, approximately 94% of our total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our board pursuant to a valuation policy and a consistent valuation process in accordance with the provisions of FAS No. 157, *Fair Value Measurement* ( FAS 157 ) 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 ready market existed for such investments, and the differences could be material.

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In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* ( FAS 157 ). FAS 157, which defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value. We adopted FAS 157 effective January 1, 2008. FAS 157 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.

Consistent with FAS 157, we determine fair value to be the amount for which an investment could be exchanged in a current sale, which assumes an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Our valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests. In accordance with FAS 157, we have considered the principal market, or the market in which we exit our portfolio investments with the greatest volume and level of activity. FAS 157 requires that the portfolio investment is assumed to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. The Company believes that the market participants for its investments are primarily other technology and life science companies. Such participants acquire the company's investments in order to gain access to the underlying assets of the portfolio company. As such, the Company believes the estimated value of the collateral of the portfolio company, up to the cost value of the investment, represents the fair value of the investment.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment, although our valuation policy is intended to provide a constant basis for determining the fair value of portfolio investments. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. Instead, we must determine the fair value of each individual investment on a quarterly basis. The Company records unrealized depreciation on investments when we believe that an investment has decreased in value, including where collection of a loan or realization of an equity security is doubtful. Conversely, where appropriate, the Company records unrealized appreciation if we believe that the underlying portfolio company has appreciated in value and, therefore, that our investment has also appreciated in value.

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

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.

At each reporting date, privately held debt and equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company's operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate our valuation of the debt and equity 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. We may consider, but are not limited to, industry valuation methods such as price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks in its evaluation of the fair value of its investment.

An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower's ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, unrealized appreciation is recorded when the investment has appreciated in value. Securities that are traded in the over the counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer's earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors.

All investments recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by FAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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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.

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**Income Recognition.** Interest income is recorded on the accrual basis and is recognized as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount, OID, initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, the Company will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. However, Hercules may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of September 30, 2008 we had two loans on non-accrual status. There was one loan on non-accrual status as of September 30, 2007.

**Paid-In-Kind and End of Term Income.** Contractual paid-in-kind ( PIK ) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the three and nine-months period ended September 30, 2008, approximately \$1.7 million and \$3.8 million in PIK and end-of-term income was recorded. There was approximately \$682,000 and \$1.5 million in PIK and end-of-term income recorded during the three and nine-month periods ended September 30, 2007.

**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.

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

**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 ordinary taxable income each calendar year and 98% of our net capital gain net income for the 1 year period ending on October 31.

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.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to financial market risks, including changes in interest rates. As of September 30, 2008, approximately 55% of our portfolio loans were at fixed rates and 45% of our loans were at variable rates. Over time additional investments may be at variable rates. We may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten-year treasury every March and September for borrowings of the preceding six months. At September 30, 2008, the borrowing rate under the Credit Facility was LIBOR plus a spread of 5.0%. The borrowing rate under the SBA facility for approximately \$12.0 million of fixed rate borrowings was approximately 5.5% and the rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA as announced on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA as announced on September 24, 2008 at 5.725%. In addition, the SBA charges an annual fee of 0.906%. Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 325 basis points or PRIME plus 200 basis points. The Wells Facility requires the payment of a non-use fee of 50 basis points annually, which reduces to 30 basis points on the one year anniversary of the credit facility.

**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 Exchange Act 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 Exchange Act 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 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 our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II: OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

At September 30, 2008, 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 with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**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, 2007.

*There can be no assurance that recently enacted legislation authorizing the U.S. government to purchase large amounts of illiquid mortgages and mortgage-backed securities from financial institutions will help stabilize the U.S. financial system.*

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the EESA). The legislation was the result of a proposal by Treasury Secretary Henry Paulson to the U.S. Congress on September 20, 2008 in response to the financial crises

affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. There can be no assurance, however, as to the actual impact that the EESA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

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*We are currently in a period of capital markets disruption and recession and we do not expect these conditions to improve in the near future.*

The U.S. capital markets have been experiencing extreme volatility and disruption for more than 12 months and we believe that the U.S. capital markets appear to have entered into a period of recession. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the debt capital markets. We believe these conditions may continue for a prolonged period of time or worsen in the future. A prolonged period of market illiquidity may cause us to reduce the value of loans we originate and/or fund, which could have an adverse effect on our business, financial condition, and results of operations. 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. These events could prevent us from increasing our investment originations and negatively impact our operating results.

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

At our Annual Meeting of Stockholders on May 29, 2008, stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company's net asset value per share, subject to Board approval of the offering. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

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

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted.

*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 of 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 made smaller investments in more companies. The following table shows the fair value of investments held at September 30, 2008 that are greater than 5% of net assets:

| (in thousands)       | Industry                    | September 30, 2008 |                          |
|----------------------|-----------------------------|--------------------|--------------------------|
|                      |                             | Fair Value         | Percentage of Net Assets |
| Tectura Corporation  | Communications & Networking | \$ 25,449          | 6.3%                     |
| Zayo Bandwidth, Inc. | Communications & Networking | 25,000             | 6.2%                     |
| Infologix, Inc.      | Software                    | 21,000             | 5.2%                     |

Zayo Bandwidth Corporation provides bandwidth services to carriers, web-centric companies, public institutions and enterprises. Zayo's mission is to be a highly reliable and responsive bandwidth provider in those geographies where it has fiber networks.

Tectura Corporation provides business value and competitive advantage to more than 4,000 clients worldwide through its Microsoft integrated business solutions. With successful implementations in over 50 countries, Tectura is a leading global provider of integrated business solutions to mid-market companies and large enterprise divisions.

InfoLogix, Inc., a public traded company, provides enterprise mobility and radio frequency identification (RFID) solutions in North America. It offers consulting, business software applications, managed services, mobile workstations and devices, and wireless infrastructure services for healthcare, distribution, manufacturing, retail, and transportation and field services sectors.

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.

*Current market conditions have materially and adversely impacted debt and equity capital markets in the United States.*



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The debt and equity capital markets in the United States have been negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broadly syndicated market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institution and the resulting United States Federal government actions have led to worsening general economic conditions, which have materially and adversely impacted the broader financial and credit markets and have reduced the availability of debt and equity capital for the market as a whole and

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financial firms in particular. We and other commercial finance companies have previously utilized the securitization market to finance some investment activities. Due to the current dislocation of the securitization market, which we believe may continue for an extended period of time, we and other companies in the commercial finance sector may have to access alternative debt markets in order to grow. The debt capital that will be available may be at a higher cost, and terms and conditions may be less favorable which could negatively affect our financial performance and results. In addition, the prolonged continuation of further deterioration of current market conditions could adversely impact our business.

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

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

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

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

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

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

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

***Further economic recessions or downturns could impair the value of the collateral for our loans to our portfolio companies.***

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

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

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

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.

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

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

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that most of our initial investments in debt securities will be at floating rates. However, in the event that we make investments in debt securities at variable rates, a significant increase in market interest rates could also result in an increase

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

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

The capital and credit market have been experiencing extreme volatility and disruption for more than 12 months. In recent weeks the volatility and disruption have reached unprecedented levels, and we have experienced greater than usual stock price volatility.

In addition, the trading price of our common stock following an offering may fluctuate substantially. The price of the common stock that will prevail in the market after an offering may be higher or lower than the price you paid and the liquidity of our common stock may be limited, in each case depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;

any inability to deploy or invest our capital;

fluctuations in interest rates;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the financial performance of specific industries in which we invest in on a recurring basis; announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;

changes in regulatory policies or tax guidelines with respect to RICs or business development companies;

losing RIC status;

actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;

changes in the value of our portfolio of investments;

realized losses in investments in our portfolio companies;

general economic conditions and trends;

loss of a major funded source; or

departures of key personnel.

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

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

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

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

On August 25, 2008, we entered into the Wells Facility, a two-year revolving senior secured credit facility with an optional one-year extension with initial commitments of \$50 million at closing. The Wells Facility has the capacity to increase to \$300 million if additional lenders are added to the lending syndicate. See Note 3 to our consolidated financial statements. As of October 31, 2008, we didn't have outstanding balance under the Wells Facility.

We expect to add additional lenders under the Wells Facility in the future and under the terms of the facility have a borrowing capacity of up to \$300 million. Due to current credit conditions as a result of the overall downturn in the market, our cost of borrowing may increase with the addition of additional lenders under the Wells Facility. The current lenders have, and any future lender or lenders will have fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets. In addition, we may grant a security interest in our assets in connection with any such borrowing. We expect such a facility to contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. An event of default under any credit facility would likely result, among other things, in termination of the availability of further funds under that facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans that we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

On May 7, 2008, the Company renewed its Credit Facility with Citigroup and Deutsche Bank providing for a borrowing capacity of \$135 million and extending the expiration date to October 31, 2008. See Note 12 to our consolidated financial statements. Unless extended, our Credit Facility terminates on October 31, 2008, and all subsequent payments received from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable.

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

The current economic and capital markets conditions in the U.S. have severely reduced capital availability. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit have led to increased market volatility and widespread reduction of business activity generally.

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

As of September 30, 2008, we had \$10 million in outstanding borrowings under the Wells Facility and \$127.2 million under SBA debenture and \$50.0 million available borrowing capacity under these facilities. Our Credit Facility terminated on October 31, 2008 and unless we obtain an extension all subsequent payments received from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable. As of September 30, 2008 we had \$127.9 million outstanding under the Credit Facility.

If we are not able to extend our Credit Facility and are unable to secure additional lenders under our Wells Facility, the amount of borrowing capacity available to us will be significantly reduced upon the termination of the Credit Facility. There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

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

On May 7, 2008, the Company renewed its Credit Facility with Citigroup and Deutsche Bank providing for a borrowing capacity of \$135 million and extending the expiration date to October 31, 2008. Our Credit Facility terminated on October 31, 2008 and unless we obtain an

extension all subsequent payments received from the portfolio companies whose debt is included in the collateral pool will be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal are due and payable.

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

be forced to reduce or discontinue our operations;

not be able to expand or acquire complementary businesses; and

not be able to develop new services or otherwise respond to changing business conditions or competitive pressures.

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

During the three months ended September 30, 2008, one of our Directors elected to take part of their compensation in the form of common stock in lieu of cash. We issued a total of 1,667 shares of common stock to the Director with an aggregate price for the shares of common stock of approximately \$14,866.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.



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**ITEM 6. EXHIBITS**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 31.1                  | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002       |
| 31.2                  | Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002       |
| 32.1                  | Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2                  | Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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**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 10, 2008

*/s/ MANUEL A. HENRIQUEZ*  
**Manuel A. Henriquez**  
**Chairman, President, and Chief Executive Officer**

Dated: November 10, 2008

*/s/ DAVID M. LUND*  
**David M. Lund**  
**Chief Financial Officer**

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