

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

November 09, 2010

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Filed Pursuant to Rule 497

Registration Statement No. 333-166101

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 9, 2010

PROSPECTUS

5,750,000 Shares

Common Stock

We are offering 5,750,000 shares of our common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol HTGC. The last sale price, as reported on NASDAQ on November 8, 2010, was \$10.83 per share. The net asset value per share of our common stock at September 30, 2010 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$9.36. Individuals who purchase stock in this offering will not be eligible to receive the dividend declared on November 4, 2010.

We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended. 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.

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Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, or by telephone by calling collect at (650) 289-3060 or on our website at www.herculestech.com. The information on our website is not incorporated by reference into this prospectus or the accompanying prospectus. The SEC also maintains a website at www.sec.gov that contains such information.

An investment in our common stock involves risks, including the risk of a total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 13 of the accompanying prospectus and page S-10 in this prospectus supplement to read about risks that you should consider before investing in our common stock, including the risk of leverage.

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

PRICE \$ PER SHARE

| | Per Share | Total |
|--|-----------|-------|
| Price to Public | \$ | \$ |
| Underwriting Discounts and Commissions | \$ | \$ |
| Proceeds to us ⁽¹⁾ | \$ | \$ |

(1) Expenses payable by us are estimated to be \$500,000.

The underwriters have an option to purchase up to an additional 862,500 shares from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus supplement to cover overallocments. If the underwriters exercise this option in full, the total public offering price will be \$, the total underwriting discount and commissions (sales load) paid by us will be \$, and total proceeds, before expenses, will be \$.

Delivery of the shares of common stock will be made on or about November , 2010.

Joint Book-Running Managers

RBC Capital Markets

JMP Securities

Stifel Nicolaus Weisel

Co-Managers

BB&T Capital Markets

Janney Montgomery Scott

Macquarie Capital

The date of this prospectus supplement is November , 2010.

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You should only rely on the information contained in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. This prospectus supplement may only be used where it is legal to sell these securities. The information in this prospectus supplement may only be accurate on the date of this document.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more information. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus the information in this prospectus supplement shall control.

Unless the context requires otherwise, in this prospectus supplement the terms we, us, and/or the Company refer to Hercules Technology Growth Capital, Inc. and its subsidiaries.

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The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly assuming that the underwriters do not exercise their over-allotment option. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Technology Growth Capital.

| | |
|--|----------------------------|
| Stockholder Transaction Expenses (as a percentage of the public offering price): | |
| Sales load (as a percentage of offering price) ⁽¹⁾ | 4.5% |
| Offering expenses | 0.9% ⁽²⁾ |
| Dividend reinvestment plan fees | 0% |
| Total stockholder transaction expenses (as a percentage of the public offering price) | 5.4% |
| Annual Expenses (as a percentage of net assets attributable to common stock):⁽⁴⁾ | |
| Operating expenses | 5.4% ⁽⁵⁾⁽⁶⁾ |
| Interest payments on borrowed funds | 2.6% ⁽⁷⁾ |
| Fees paid in connection with borrowed funds | 0.5% ⁽⁸⁾ |
| Acquired fund fees and expenses ⁽⁹⁾ | 0.0% |
| Total annual expenses | 8.5%⁽¹⁰⁾ |

- (1) Represents the underwriting discount with respect to the shares to be sold by us in this offering.
- (2) The percentage reflects estimated offering expenses of approximately \$500,000.
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in the accompanying prospectus.
- (4) Average net assets attributable to common stock equals the weighted estimated average net assets for 2010, which is approximately \$355.7 million.
- (5) Operating expenses represent our estimated operating expenses for the year ending December 31, 2010 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2009 was 5.3%.
- (6) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (7) Interest payments on borrowed funds represents estimated interest payments on borrowed funds for 2010. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under our prior credit facility with Citigroup (the Citigroup Facility). For more details about the Citigroup Facility please see, Management's Discussion and Analysis of Financial Condition and Results of Operations Borrowings in this prospectus supplement and the accompanying prospectus. As a fee and incentive to Citigroup for the extension of the Citigroup Facility, we entered into a Warrant Participant Agreement with Citigroup in August 2005. Pursuant to the Warrant Participation Agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the Citigroup Facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equals \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue until the Maximum Participation Limit has been reached even though the Citigroup Facility was terminated. During the quarter ended September 30, 2010, we recorded a decrease of the derivative liability related to this obligation and decreased its unrealized appreciation by approximately \$177,000 for Citigroup.

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participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized appreciation in the related equity investments was approximately \$335,000 at September 30, 2010 and is included in accrued liabilities. Since inception of the warrant participation agreement, we have paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing.

- (8) Fees paid in connection with borrowed funds represents fees paid in connection with borrowed funds for 2010. This percentage for the year ended December 31, 2009 was approximately 0.5%.
- (9) For the quarter ended September 30, 2010 and for the year ended December 31, 2009, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.
- (10) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a \$1,000 hypothetical investment in our common stock, assuming (1) a 4.5% sales load (underwriting discounts and commissions) and offering expenses totaling 0.9%, (2) total net annual expenses of 8.5% of net assets attributable to common shares as set forth in the table above and (3) a 5% annual return. These amounts assume no additional leverage.

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return | \$ 134 | \$ 284 | \$ 424 | \$ 734 |

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

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PROSPECTUS SUPPLEMENT SUMMARY

Our Company

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

As of September 30, 2010 our total assets were approximately \$504.3 million, of which, our investments comprised \$407.5 million at fair value and \$427.8 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately \$349.1 million, \$19.0 million and \$39.4 million, respectively, or 85.7%, 4.6% and 9.7% of total investments, respectively. Our September 30, 2010 total investments at value in foreign companies were approximately \$32.3 million or 6.4% of total assets. During the year ended December 31, 2009 we made debt commitments to 21 portfolio companies totaling \$180.7 million and funded approximately \$95.5 million to 28 portfolio companies. During the three and nine-month periods ended September 30, 2010, we made debt commitments totaling \$82.7 million and \$391.9 million, respectively, and funded approximately \$55.7 million and \$286.0 million, respectively. Debt commitments for the nine months ended September 30, 2010 included commitments of approximately \$266.1 million to 18 new portfolio companies and \$125.8 million to 19 existing portfolio companies. During the three and nine-month periods ended September 30, 2010, we made and funded equity commitments of approximately \$187,000 and \$18.0 million to six and eight portfolio companies, respectively. Since inception through September 30, 2010, we have made debt and equity commitments of approximately \$2.0 billion to our portfolio companies.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of September 30, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston and Boulder. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology, clean technology and life science industries and to offer a full suite of growth capital products up and down of the capital structure. We invest primarily in structured debt and, to a lesser extent, in senior debt and equity investments. We use the term "structured debt with warrants" to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

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

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

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

Despite the current capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009 and into 2010, and we would expect it to continue to the extent the venture capital community continues to accelerate its own pace of new investments. We are encouraged by signs of an improving economy, including improved valuations and higher levels of liquidity for our portfolio companies, increased investment activity from venture capitalists and the opening of the initial public offering, or IPO, marketplace. See Risk Factor We are currently in a period of capital markets disruption and recession and we cannot predict whether these conditions will improve in the near future. To the extent that we are able, we intend to seek new investment opportunities; however, we remain cautious in our investment and credit management strategies as the pace of economic recovery continues to improve.

As of September 30, 2010, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 24 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Our Market Opportunity

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

Technology-related companies have generally been underserved by traditional lending sources;

Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil;

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Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds; and

Valuations currently assigned to technology-related companies in private financing rounds have decreased since 2008 as a result of the turmoil in the general market and should provide a good opportunity for attractive capital returns.

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

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

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

Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies. Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In the first nine months of 2010, venture capital-backed companies received, in approximately 2,016 transactions, equity financing in an aggregate amount of approximately \$18.0 billion, representing a 10% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the three-month periods ended September 30, 2010 and 2009 was approximately \$5.0 million. Overall, seed- and first-round deals made up 35% of the deal flow in the three months ended September 30, 2010 and later-stage deals made up roughly 40% of all capital invested.

We believe that demand for structured debt financing is currently under served, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies during 2008 and 2009. Despite the current capital market disruption and recession, venture capitalists increased their investment activity during the nine months ended September 30, 2010. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009, and we expect it to continue as the venture capital community continues to make new investments. In addition, lending requirements of traditional lenders have recently become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively

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impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

Our Business Strategy

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

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

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

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

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

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

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

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

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

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of September 30, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and over 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

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FORWARD-LOOKING STATEMENTS; MARKET DATA

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

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the impact of investments that we expect to make;

the impact of a protracted decline in the liquidity of credit markets on our business;

our informal relationships with third parties including in the venture capital industry;

the expected market for venture capital investments and our addressable market;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

our ability to operate as a business development company and a RIC;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our portfolio companies;

the timing, form and amount of any dividend distributions;

the impact of fluctuations in interest rates on our business;

the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and

our ability to recover unrealized losses.

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

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

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

SUPPLEMENTARY RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the following supplementary risk factors together with the risk factors beginning on page 13 of the accompanying prospectus before making an investment in our common stock. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us might also impair our operations and performance. If any of the events described herein or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

We are currently in a period of capital markets disruption and recession and we cannot predict whether these conditions will improve in the near future.

Since late 2007, and particularly since mid-2008, the financial services industry and the securities markets generally have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a lack of liquidity. Initially, these market conditions were triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. During this period of disruption, the global markets were characterized by substantially increased volatility, short-selling and an overall loss of investor confidence. While recent economic indicators have shown modest improvements in the capital markets, these indicators could worsen. In the event of renewed financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity and extreme volatility in fixed-income, credit, currency and equity markets. In addition, the risk remains that there could be a number of follow-on effects from the credit crisis on our business.

Despite the capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we continue to experience an increase in new investment origination activities which commenced in the fourth quarter of 2009 and has continued throughout 2010, and we would expect it to continue as the venture capital community continues to accelerate its own pace of new investments. To the extent that we are able, we intend to continue to seek new investment opportunities; however, we remain cautious in our investment and credit management strategies as the pace of economic recovery continues to improve.

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

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

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

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

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at September 30, 2010 that represent greater than 5% of net assets:

| (in thousands) | September 30, 2010 | |
|-------------------------------|--------------------|--------------------------|
| | Fair Value | Percentage of Net Assets |
| Infologix, Inc. | \$ 33,935 | 10.02% |
| Unify Corporation | 27,563 | 8.14% |
| Aveo Pharmaceuticals, Inc. | 25,879 | 7.64% |
| Velocity Technology Solutions | 24,280 | 7.17% |
| Labopharm USA, Inc. | 20,135 | 5.95% |
| Tectura Corporation | 18,292 | 5.40% |

InfoLogix, Inc. is a provider of enterprise mobility and radio frequency identification (RFID) solutions. The Company provides these solutions to its customers by utilizing a combination of products and services, including consulting, business software applications, managed services, mobile workstations and devices, and wireless infrastructure. At September 30, 2010 we owned a controlling interest in this portfolio company. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Subsequent Events in this prospectus supplement for more information regarding InfoLogix.

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

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

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

Labopharm USA, Inc. is a specialty pharmaceutical company that, together with its subsidiaries, develops drugs using its proprietary controlled-release technologies.

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

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

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 Company Activities, our net asset value could decrease and our level of distributions and liquidity could be affected adversely.

As of September 30, 2010, we had no outstanding borrowings under the Wells Facility or the Union Bank Facility and \$160.0 million of SBA guaranteed debentures under the SBA debenture program.

As of September 30, 2010, we have been unable to secure additional lenders under our Wells Facility. There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

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

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

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

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

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public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation.

The continuing unprecedented declines in prices and liquidity in the capital markets have resulted in some net unrealized depreciation in our portfolio. As of September 30, 2010, conditions in the public and private debt and equity markets had continued to deteriorate and pricing levels continued to decline. While the U.S. government has acted to restore liquidity and stability to the financial system, there can be no assurance these regulatory programs and proposals will have a long-term beneficial impact. As a result, in the future, depending on market conditions, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 5,750,000 shares of common stock we are offering will be approximately \$59.0 million, and approximately \$67.9 million if the underwriters' overallotment option is exercised in full, assuming a public offering price of \$10.83 per share (based on the last reported sales price of our common stock on November 8, 2010) and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We may change the size of this offering based on demand and market conditions.

We expect to use the net proceeds from this offering to fund additional Company growth through possible portfolio acquisitions, provide capital to fund the remaining \$12.5 million of committed capital under our second small business investment company, or SBIC, license, from the U.S. Small Business Administration, fund investments in debt and equity securities and for other general corporate purposes.

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

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The following table sets forth (i) our actual capitalization as of September 30, 2010, and (ii) our capitalization as adjusted to reflect the effects of the sale of 5,750,000 shares of our common stock in this offering (assuming no exercise of the underwriters' overallotment option) at an assumed public offering price of \$10.83 per share (based on the last reported sales price of our common stock on November 8, 2010), and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. You should read this table together with "Use of Proceeds" and our statement of assets and liabilities included elsewhere in this prospectus supplement.

| (in thousands) | As of September 30, 2010 | |
|-------------------------------------|--------------------------|--|
| | Actual | As Adjusted for November 2010 Offering(1)(3) |
| Cash and cash equivalents | \$ 83,011 | \$ 141,977 |
| Total assets | 504,282 | 563,248 |
| Long-term SBA debentures | 160,000 | 160,000 |
| Common stock, par value | 36 | 42 |
| Capital in excess of par value | 409,389 | 468,349 |
| Distributable earnings | (70,876) | (70,876) |
| Total stockholders' equity | 338,549 | 397,515 |
| Total capitalization ⁽²⁾ | 498,549 | 557,515 |

- (1) Does not include the underwriters' overallotment option.
- (2) As of September 30, 2010, we had \$50.0 million available to borrow under the Wells Facility, \$20.0 million available to borrow under the Union Bank Facility and approximately \$40 million available to borrow under the SBA debenture program through HT III, our SBIC subsidiary, subject to existing terms and advance rates.
- (3) On November 4, 2010, our Board of Directors declared a quarterly cash dividend of \$0.20 per share that is payable on December 17, 2010 to stockholders of record as of November 10, 2010. This dividend is not reflected in this table. Individuals who purchase stock in this offering will not be eligible to receive this dividend.

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

Overview

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

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

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations. We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. As a business development company, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

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

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with

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regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Since 2007, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

Portfolio and Investment Activity

The total value of our investment portfolio was \$407.5 million at September 30, 2010 as compared to \$370.4 million at December 31, 2009. During the three and nine-month periods ended September 30, 2010 we made debt commitments totaling \$82.7 million and \$391.9 million and funded approximately \$55.7 million and \$286.0 million, respectively. Debt commitments for the nine-month period ended September 30, 2010 included commitments of approximately \$266.1 million to eighteen new portfolio companies and \$125.8 million to nineteen existing companies. During the three and nine-month periods ended September 30, 2010 we made and funded equity commitments of approximately \$187,000 and \$18.0 million to six and eight companies, respectively. These commitments further diversify our portfolio by stage and industry sector. During the three and nine-month periods ended September 30, 2009, we made debt commitments totaling \$15.8 million and \$150.6 million and funded approximately \$8.2 million and \$76.4 million, respectively. During the three and nine-month periods ended September 30, 2009, we made an equity investment of approximately \$444,000 in one existing portfolio company and approximately \$816,000 in two existing portfolio companies.

At September 30, 2010, we had unfunded contractual commitments of \$122.3 million to 22 portfolio companies. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we had approximately \$70.1 million of non-binding term sheets outstanding to six new and existing companies at September 30, 2010. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at September 30, 2010 was approximately \$349.1 million, compared to a fair value of approximately \$369.5 million at September 30, 2009. The fair value of the equity portfolio at September 30, 2010 and 2009 was approximately \$39.4 million and \$31.1 million, respectively. The fair value of our warrant portfolio at September 30, 2010 and 2009 was approximately \$19.0 million and \$14.2 million, respectively.

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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, 2010, we received normal principal amortization repayments of \$69.2 million, and early repayments and working line of credit pay-downs totaling \$154.2 million. Total portfolio investment activity (exclusive of unearned income) as of the nine-month periods ended September 30, 2010 and 2009 is as follows:

| (in millions) | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|--|---|---|
| Beginning Portfolio | \$ 370.4 | \$ 581.3 |
| Purchase of debt investments | 286.8 | 76.7 |
| Equity Investments | 3.0 | 1.0 |
| Sale of Investments | (24.3) | (23.3) |
| Principal payments received on investments | (69.2) | (68.7) |
| Early pay-offs and recoveries | (154.2) | (149.6) |
| Accretion of loan discounts and paid-in-kind principal | 5.4 | 6.5 |
| Net change in unrealized depreciation in investments | (10.4) | (9.1) |
| Ending Portfolio | \$ 407.5 | \$ 414.8 |

The following table shows the fair value of our portfolio of investments by asset class (excluding unearned income):

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|---------------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Senior secured debt with warrants | \$ 302,870 | 74.3% | \$ 229,454 | 61.9% |
| Senior secured debt | 65,229 | 16.0% | 99,725 | 26.9% |
| Preferred stock | 22,713 | 5.6% | 22,875 | 6.2% |
| Senior debt-second lien with warrants | | 0.0% | 6,173 | 1.7% |
| Common Stock | 16,689 | 4.1% | 12,210 | 3.3% |
| | \$ 407,501 | 100.0% | \$ 370,437 | 100% |

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

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|----------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States | \$ 375,231 | 92.1% | \$ 344,984 | 93.1% |
| Canada | 20,805 | 5.1% | 21,567 | 5.8% |
| England | 9,976 | 2.4% | | 0.0% |
| Israel | 1,489 | 0.4% | 1,310 | 0.4% |
| Netherlands | | 0.0% | 2,576 | 0.7% |
| | \$ 407,501 | 100.0% | \$ 370,437 | 100% |

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

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

At September 30, 2010, the Company's investment in InfoLogix, Inc. was classified as a Control Investment. Approximately \$796,000 in investment income was derived from our debt investment in this Software and Internet Consumer portfolio company during the three month period, and approximately \$2.4 million during the nine-month period ended September 30, 2010. Approximately \$2.5 million of realized gains and net unrealized depreciation of approximately \$1.4 million on this control investment were recognized during the nine-month period ended September 30, 2010.

InfoLogix, Inc., a public company, is a provider of enterprise mobility and radio frequency identification (RFID) solutions. Our investment in InfoLogix, Inc. represents 6.3% and 8.3% of our total investments at cost and value, respectively at September 30, 2010. We currently have a greater than 60% equity interest in InfoLogix, Inc. and have representation on its board of directors. We also have a total debt investment of approximately \$17.9 million at fair value in InfoLogix, Inc. On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of InfoLogix's non-compliance with the minimum \$2.5 million stockholders equity requirement, set forth in Nasdaq Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. In October, Hercules made \$2.9 million of additional debt investments in InfoLogix. InfoLogix continues to explore strategic options as previously disclosed by the company. Our financial results could be negatively affected if this company encounters financial difficulty and fails to repay its obligations or to perform as expected.

Our investments in Spa Chakra Acquisition Corporation, a company that was a Control Investment as of July 1, 2010, was a realized loss during the quarter. We recognized investment income during the nine-month period of approximately \$285,000 and a realized loss of approximately \$18.9 million in the third quarter of 2010 in this portfolio company prior to the disposal of the investment. The elimination of this investment from our portfolio resulted in a reversal of unrealized depreciation in the third quarter of approximately \$17.8 million. During the nine-month period ended September 30, 2009, no portfolio companies were deemed to be Control Investments.

At September 30, 2010 we had an investment in one portfolio company deemed to be an Affiliate. Income derived from this investment was zero, as this is a non-income producing equity investment. At September 30, 2009, we had investments in two portfolio companies deemed to be affiliates. Income derived from our investments in these portfolio companies was less than \$500,000 since these investments became affiliates. We recognized a realized loss of approximately \$4.0 million during the nine-month period ended September 30, 2009 in a portfolio company that was an affiliate prior to the disposal of the investment.

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The following table shows the fair value of our portfolio by industry sector at September 30, 2010 and December 31, 2009 (excluding unearned income):

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Software | \$ 87,620 | 21.5% | \$ 61,647 | 16.6% |
| Consumer & Business Products | 52,840 | 13.0% | 25,467 | 6.9% |
| Drug Discovery | 51,360 | 12.6% | 51,848 | 14.0% |
| Communications & Networking | 49,909 | 12.2% | 58,088 | 15.7% |
| Specialty Pharma | 40,265 | 9.9% | 25,193 | 6.8% |
| Drug Delivery | 35,550 | 8.7% | 21,493 | 5.8% |
| Therapeutic | 20,597 | 5.1% | 13,470 | 3.6% |
| Clean Tech | 15,343 | 3.8% | 0 | 0.0% |
| Surgical Devices | 9,560 | 2.3% | 2,410 | 0.7% |
| Information Services | 8,934 | 2.2% | 37,740 | 10.2% |
| Internet Consumer & Business Services | 8,635 | 2.1% | 20,352 | 5.5% |
| Electronics & Computer Hardware | 8,536 | 2.1% | 17,701 | 4.8% |
| Diagnostic | 8,512 | 2.1% | 11,399 | 3.1% |
| Biotechnology Tools | 6,536 | 1.6% | 9,669 | 2.6% |
| Semiconductors | 2,118 | 0.5% | 11,481 | 3.1% |
| Media/Content/Info | 1,185 | 0.3% | 2,375 | 0.6% |
| Energy | 1 | 0.0% | 104 | 0.0% |
| | \$ 407,501 | 100% | \$ 370,437 | 100% |

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. 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, 2010 and December 31, 2009.

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|---------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Investment Grading | | | | |
| 1 | \$ 11,961 | 3.4% | \$ 15,777 | 4.9% |
| 2 | 254,608 | 72.9% | 147,520 | 46.0% |
| 3 | 71,822 | 20.6% | 108,716 | 33.9% |
| 4 | 10,374 | 3.0% | 38,384 | 12.0% |
| 5 | 368 | 0.1% | 10,505 | 3.2% |
| | \$ 349,133 | 100.0% | \$ 320,902 | 100.0% |

As of September 30, 2010, our investments had a weighted average investment grading of 2.34 as compared to 2.71 at December 31, 2009. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At September 30, 2010, 6 portfolio companies were graded 3, 2 portfolio companies were graded 4, and 4 portfolio companies were graded 5 as compared to 17 portfolio companies that were graded 3, 4 portfolio companies that were graded 4 and 5

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portfolio companies that were graded 5 at December 31, 2009. The improvement in investment grading for the period ended September 30, 2010 was driven in part by meaningful progress in the economy and among our portfolio companies, many of which have experienced improved operating performance and greater access to the venture capital market as they secure new equity financings.

At September 30, 2010, there were four portfolio companies on non-accrual status with a fair value of approximately \$368,000. There were five loans on non-accrual status as of December 31, 2009 with a fair value of approximately \$10.5 million. The significant decrease in this balance is related to the elimination of Spa Chakra Acquisition Corporation from our investment portfolio during the third quarter of 2010.

The effective yield on our debt investments for the three month periods ended September 30, 2010 and 2009 was 16.2% and 15.1%, respectively. This yield was higher period over period due to higher interest rate yield enhancers on new loans originated in 2010 relative to the loans that have been paid off or have amortized.

The overall weighted average yield to maturity of our loan obligations was approximately 13.8% and 13.6% at September 30, 2010 and December 31, 2009. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$30.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from PRIME to 18% as of September 30, 2010. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In most cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property.

At September 30, 2010, approximately 69.0% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 27.5% of portfolio company loans were prohibited from pledging or encumbering their intellectual property, 2.6% of the portfolio loans had a custom lien structure and 0.9% of portfolio company loans were equipment only liens. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of September 30, 2010, we held warrants in 91 technology and life science portfolio companies, with a fair value of approximately \$19.0 million. These warrant holdings would require us to invest approximately \$64.3 million to exercise such warrants. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

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Results of Operations

Comparison of the Three and Nine-month Periods Ended September 30, 2010 and 2009

Investment Income

Interest income totaled approximately \$14.1 and \$38.1 million for the three and nine-month periods ended September 30, 2010, compared with \$14.6 million and \$48.4 million for the three and nine-month periods ended September 30, 2009, respectively. Income from commitment, facility and loan related fees totaled approximately \$1.5 million and \$4.5 million for the three and nine-month periods ended September 30, 2010, compared with \$3.1 million and \$9.2 million for the same periods ended September 30, 2009, respectively. The decreases in interest income and income from commitment, facility and loan related fees are the result of a reduction in accelerated one-time and restructuring fees, attributable to improvement in credit performance in the portfolio and due to a lower average interest earning investment portfolio.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately \$7.5 million and \$7.3 million during the three month periods ended September 30, 2010 and 2009, respectively. Operating expenses totaled approximately \$22.0 million and \$23.9 million for the nine-month periods ended September 30, 2010 and 2009, respectively.

Interest and fees totaled approximately \$2.5 million and \$2.4 million during the three month periods ended September 30, 2010 and 2009 and \$7.2 million and \$8.9 million for the nine-month periods ended September 30, 2010 and 2009, respectively. This \$1.7 million year over year decrease is primarily attributable to the interest expense and one time fees on the Citigroup Credit Facility that was paid off in full in March of 2009.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to \$1.7 million from \$2.1 million for the three month periods ended September 30, 2010 and 2009, respectively, and expenses decreased to \$5.2 million from \$5.5 million for the nine-month periods ended September 30, 2010 and 2009, respectively, primarily due to lower workout related expenses.

Employee compensation and benefits totaled approximately \$2.6 million and \$2.4 million during the three month periods ended September 30, 2010 and 2009, respectively. This increase is primarily due to an increase in headcount as compared to the same period of 2009. Employee compensation and benefits totaled approximately \$7.7 million and \$8.1 million for the nine-month periods ended September 30, 2010 and 2009, respectively. This decrease is primarily due to a lower bonus accrual during the nine-month period ended September 30, 2010 as compared to the same period of 2009. Stock-based compensation totaled approximately \$752,000 and \$470,000 during the three month periods ended September 30, 2010 and 2009, respectively, and \$2.0 million and \$1.4 million for the nine-month periods ended September 30, 2010 and 2009, respectively. These increases were due to the expense on restricted stock grants issued in the first quarter of 2010.

Net Investment Income Before Investment Gains and Losses

Net investment income per share was \$0.23 for the quarter ended September 30, 2010 compared to \$0.30 per share in the quarter ended September 30, 2009. Net investment income before investment gains and losses for the three and nine-month periods ended September 30, 2010 totaled \$8.1 million and \$20.6 million, respectively as compared to \$10.3 million and \$33.7 million in the three and nine-month periods ended September 30, 2009, respectively. The changes are made up of the items described above under Investment Income and Operating Expenses.

Table of Contents***Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation***

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

During the nine months ended September 30, 2010, we recognized net realized gains of approximately \$3.6 million from the sale of common stock in our public portfolio companies, approximately \$465,000 from mergers of private portfolio companies and realized losses of approximately \$19.2 million from equity and warrant investments in portfolio companies that have been liquidated. During the three months ended September 30, 2010 we recognized realized losses of approximately \$18.9 million from equity and loan investments in portfolio companies that have been liquidated including Spa Chakra Acquisition Corporation.

During the three and nine-month periods ended September 30, 2009, the Company recognized net realized gains of approximately \$533,000 and \$200,000, respectively, from the sale of common stock in public companies, approximately \$5,000 and \$119,000 from mergers of private portfolio companies and realized losses of approximately \$14.7 million and \$19.8 million, respectively, from equity, loan and warrant investments in portfolio companies that have been liquidated.

A summary of realized gains and losses for the three and nine-month periods ended September 30, 2010 and 2009 is as follows:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------|----------------------------------|--------|---------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Realized gains | \$ | \$ 0.5 | \$ 4.4 | \$ 2.1 |
| Realized losses | | (18.9) | (19.5) | (21.6) |
| Net realized gains (losses) | \$ | (18.9) | \$ (15.1) | \$ (19.5) |

During the three months period ended September 30, 2010 and September 30, 2009, net unrealized appreciation totaled approximately \$2.9 million and \$17.5 million, respectively. During the nine-months period ended September 30, 2010 and September 30, 2009, net unrealized depreciation totaled approximately \$12.2 million and \$9.1 million, respectively.

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors. This net unrealized depreciation was primarily comprised of decreases in the fair value of our portfolio companies due to company performance and market conditions. For the three month period ended September 30, 2010 approximately \$4.3 million and \$2.7 million of the net unrealized depreciation recognized was attributable to debt and warrant investments based on company performance, respectively and \$11.2 million of net unrealized appreciation on our equity investments. Included in these amounts are unrealized appreciation of approximately \$2.8 million and \$15.0 million in debt and equity investments attributable to the reversal of prior period net unrealized depreciation upon being realized as a loss. For the nine month period ended September 30, 2010 approximately \$5.4 million, \$3.1 million and \$1.9 million of the net unrealized depreciation recognized was attributable to debt, warrant and equity investments, respectively. As of September 30, 2010, the net unrealized appreciation recognized by the Company was increased by approximately \$177,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

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The following table itemizes the change in net unrealized depreciation of investments for the three and nine-month periods ended September 30, 2010 and 2009:

| (in thousands) | Three Months Ended September 30, | |
|---|----------------------------------|-----------|
| | 2010 | 2009 |
| | Amount | Amount |
| Gross unrealized appreciation on portfolio investments | \$ 4,565 | \$ 16,387 |
| Gross unrealized depreciation on portfolio investments | (15,824) | (13,326) |
| Reversal of prior period net unrealized appreciation upon realization | (3,912) | (500) |
| Reversal of prior period net unrealized depreciation upon realization | 17,888 | 15,051 |
| Citigroup Warrant Participation | 177 | (96) |
| Net unrealized appreciation (depreciation) on portfolio investments | \$ 2,894 | \$ 17,516 |

| (in thousands) | Nine Months Ended September 30, | |
|---|---------------------------------|------------|
| | 2010 | 2009 |
| | Amount | Amount |
| Gross unrealized appreciation on portfolio investments | \$ 26,369 | \$ 29,008 |
| Gross unrealized depreciation on portfolio investments | (52,867) | (58,728) |
| Reversal of prior period net unrealized appreciation upon realization | (3,902) | (1,542) |
| Reversal of prior period net unrealized depreciation upon realization | 18,048 | 22,300 |
| Citigroup Warrant Participation | 134 | (146) |
| Net unrealized appreciation (depreciation) on portfolio investments | \$ (12,218) | \$ (9,108) |

Income and Excise Taxes

We account for income taxes in accordance with the provisions of ASC 740, Income Taxes, formerly known as FAS 109, which requires that deferred income taxes be determined based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances are used to reduce deferred tax assets to the amount likely to be realized.

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

For the three and nine months ended September 30, 2010, the net decrease in net assets resulting from operations totaled approximately \$7.8 million and \$6.7 million, respectively. For the three and nine months ended September 30, 2009, the net increase in net assets resulting from operations totaled approximately \$13.7 million and \$5.1 million, respectively. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share for the three and nine-month periods ended September 30, 2010 was \$(0.23) and \$(0.20), respectively, as compared to basic and fully diluted change in net assets per common share of \$0.39 and \$0.38 for the three month period and \$0.14 for the nine-month period ended September 30, 2009, respectively.

Financial Condition, Liquidity, and Capital Resources

At September 30, 2010, we had approximately \$83.0 million in cash and cash equivalents and available borrowing capacity of approximately \$50.0 million under the Wells Facility, \$20.0 million under the Union Bank Facility and \$65.0 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

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As of September 30, 2010, net assets totaled \$338.5 million, with a net asset value per share of \$9.36. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. Additionally, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2010 Annual Shareholder Meeting held on June 9, 2010, our shareholders authorized the Company, with the approval of its Board of Directors, to sell up to 20% of the Company's outstanding common stock at a price below the Company's then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of its common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. However, there can be no assurance that these capital resources will be available in the near term given the credit constraints of the banking and capital markets.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of September 30, 2010 was 0%, excluding SBA leverage, based on our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when excluding the SEC exemptive order is approximately 47.3% at September 30, 2010.

At September 30, 2010 and December 31, 2009, we had the following borrowing capacity and outstanding amounts:

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|------------------------------|--------------------|--------------------|-------------------|--------------------|
| | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Union Bank Facility | \$ 20,000 | \$ | \$ | \$ |
| Wells Facility | 50,000 | | 50,000 | |
| SBA Debenture ⁽¹⁾ | 225,000 | 160,000 | 150,000 | 130,600 |
| Total | \$ 295,000 | \$ 160,000 | \$ 200,000 | \$ 130,600 |

⁽¹⁾ The Company has the ability to borrow \$40.0 million in SBA debentures under HT III, subject to SBA approval. In order to have access to an additional \$25.0 million, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million in HT III.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III 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 investments and additional contributions to regulatory capital. The Company is the sole limited partner of HT II and HT III and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. The portfolios of HT II and HT III accounted for approximately 46.8% of our total portfolio at September 30, 2010.

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With our net investment of \$75.0 million in HT II as of September 30, 2010, HT II has the current capacity to issue a total of \$150.0 million of SBA guaranteed debentures, of which \$150.0 million was outstanding. As of September 30, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. As of September 30, 2010, we hold investments in HT II in 53 companies with a fair value of approximately \$167.8 million. HT II's portfolio accounted for approximately 41.2% of our total portfolio at September 30, 2010.

As of September 30, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. As of September 30, 2010, HT III had the potential to borrow up to \$75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$25.0 million in HT III as of September 30, 2010, HT III has the capacity to issue a total of \$50.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$10.0 million was outstanding at September 30, 2010. As of September 30, 2010, HT III has paid the SBA commitment fees of approximately \$750,000. As of September 30, 2010, we hold investments in HT III in three companies with a fair value of approximately \$22.8 million. HT III's portfolio accounted for approximately 5.6% of our total portfolio at September 30, 2010.

Current Market Conditions

The U.S. capital and credit markets have been experiencing disruption and volatility since the summer of 2008 as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the broadly syndicated credit market and the failure of many major financial institutions. These events have contributed to a severe economic contraction that is materially and adversely impacting the broader financial and credit markets and reducing the availability of credit and equity capital for the markets as a whole and financial services firms in particular, including us.

At the same time, the venture capital market for the technology-related companies in which we invest has been active but at reduced investment activity levels. Therefore, to the extent we have capital available; we believe this is an opportune time to invest in the structured lending market for technology-related companies. While today's economy creates potentially new attractive lending opportunities, our outlook remains cautious for the remainder of 2010 as the economic environment recovers from the recession of the past 21 months. Due to the economic slowdown and reduced venture capital investment activity in 2009, we determined that it was prudent to substantially curtail new investment activity in 2009 in order to have working capital available to support our existing portfolio companies. These changes were made to manage our credit performance, maintain adequate liquidity and manage our operating expenses in this extremely challenging and unprecedented credit environment.

Despite the current capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009 and into 2010, and would expect it to continue to the extent the venture capital community continues to accelerate its own pace of new investments. We are encouraged by signs of an improving economy, including improved valuations and higher levels of liquidity for our portfolio companies, increased investment activity from venture capitalists and the opening of the IPO marketplace. As a result, we have once again commenced making investments in new and existing portfolio companies. To the extent that we are able, we intend to continue to seek new investment opportunities; however, we remain cautious in our investment and credit management strategies as the pace of economic recovery continues to improve.

We periodically review and assess investment portfolio acquisition opportunities of target companies that would be accretive to us. In the future, we may determine to acquire such portfolios which could affect our liquidity position and necessitate our need to raise additional capital to fund our growth.

Table of Contents**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 origination activity unfunded commitments may be significant from time to time. As of September 30, 2010, we had unfunded commitments of approximately \$122.3 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements and typically only fund 70-80% of the committed amount. We intend to use cashflow from normal and early principal repayments, SBA debentures and our Wells Facility and our Union Bank Facility to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately \$70.1 million of non-binding term sheets outstanding, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term from prior release are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2010:

| Contractual Obligations ⁽¹⁾⁽²⁾ | Total | Payments due by period (in thousands) | | | |
|--|-------------------|---------------------------------------|-----------------|--------------|-------------------|
| | | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Borrowings ⁽³⁾ | \$ 160,000 | \$ | \$ | \$ | \$ 160,000 |
| Operating Lease Obligations ⁽⁴⁾ | 3,641 | 1,192 | 2,363 | 85 | |
| Total | \$ 163,641 | \$ 1,192 | \$ 2,363 | \$ 85 | \$ 160,000 |

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

(2) The Company also has a warrant participation obligation with Citigroup. See the discussion set forth under Note 4 to the Consolidated Financial Statements.

(3) Includes borrowings under the Wells Facility, the Union Bank Facility and the SBA debentures. There were no outstanding borrowings under the Wells Facility or the Union Bank Facility at September 30, 2010.

(4) Long-term facility leases.

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

Borrowings

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. which expired under the normal terms. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation

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Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$335,000 as of September 30, 2010 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

Long-term SBA Debentures

On September 27, 2006, HT II and on May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150 million, subject to periodic adjustments by the SBA. With our net investment of \$75.0 million in HT II as of September 30, 2010, HT II has the current capacity to issue up to a total of \$150 million of SBA guaranteed debentures, of which \$150.0 million was outstanding. Currently, HT II has paid commitment fees of approximately \$1.5 million. As of September 30, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. As of September 30, 2010, HT III had the potential to borrow up to \$75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$25.0 million in HT III as of September 30, 2010, HT III has the capacity to issue a total of \$50.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$10.0 million was outstanding at September 30, 2010. Currently, HT III has paid commitment fees of approximately \$750,000. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II III are our wholly owned subsidiaries. As of September 30, 2010, HT III could draw up to \$75.0 million of additional leverage from SBA, as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to

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HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT II was approximately \$144.3 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT III was approximately \$5.2 million with an average interest rate of approximately 3.215%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at September 30, 2010.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of \$250 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitments exceeds \$250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2010.

Union Bank Facility

On February 10, 2010, we entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. At September 30, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

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At September 30, 2010 and December 31, 2009, the Company had the following borrowing capacity and outstanding borrowings:

| (in thousands) | September 30, 2010 | | December 31, 2009 | |
|------------------------------|--------------------|--------------------|-------------------|--------------------|
| | Facility Amount | Amount Outstanding | Facility Amount | Amount Outstanding |
| Union Bank Facility | \$ 20,000 | \$ | \$ | \$ |
| Wells Facility | 50,000 | | 50,000 | |
| SBA Debenture ⁽¹⁾ | 225,000 | 160,000 | 150,000 | 130,600 |
| Total | \$ 295,000 | \$ 160,000 | \$ 200,000 | \$ 130,600 |

⁽¹⁾ The Company has the ability to borrow \$40.0 million in SBA debentures under HT III, subject to SBA approval. In order to have access to an additional \$25.0 million, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million in HT III.

Dividends

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

| Date Declared | Record Date | Payment Date | Amount Per Share |
|-------------------|-------------------|--------------------|------------------|
| October 27, 2005 | November 1, 2005 | November 17, 2005 | \$ 0.025 |
| December 9, 2005 | January 6, 2006 | January 27, 2006 | 0.300 |
| April 3, 2006 | April 10, 2006 | May 5, 2006 | 0.300 |
| July 19, 2006 | July 31, 2006 | August 28, 2006 | 0.300 |
| October 16, 2006 | November 6, 2006 | December 1, 2006 | 0.300 |
| February 7, 2007 | February 19, 2007 | March 19, 2007 | 0.300 |
| May 3, 2007 | May 16, 2007 | June 18, 2007 | 0.300 |
| August 2, 2007 | August 16, 2007 | September 17, 2007 | 0.300 |
| November 1, 2007 | November 16, 2007 | December 17, 2007 | 0.300 |
| February 7, 2008 | February 15, 2008 | March 17, 2008 | 0.300 |
| May 8, 2008 | May 16, 2008 | June 16, 2008 | 0.340 |
| August 7, 2008 | August 15, 2008 | September 19, 2008 | 0.340 |
| November 6, 2008 | November 14, 2008 | December 15, 2008 | 0.340 |
| February 12, 2009 | February 23, 2009 | March 30, 2009 | 0.320* |
| May 7, 2009 | May 15, 2009 | June 15, 2009 | 0.300 |
| August 6, 2009 | August 14, 2009 | September 14, 2009 | 0.300 |
| October 15, 2009 | October 20, 2009 | November 23, 2009 | 0.300 |
| December 16, 2009 | December 24, 2009 | December 30, 2009 | 0.040 |
| February 11, 2010 | February 19, 2010 | March 19, 2010 | 0.200 |
| May 3, 2010 | May 12, 2010 | June 18, 2010 | 0.200 |
| August 2, 2010 | August 12, 2010 | September 17, 2010 | 0.200 |
| November 4, 2010 | November 10, 2010 | December 17, 2010 | 0.200 |
| | | | \$ 5.805 |

* Dividend paid in cash and stock.

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On November 4, 2010, the Board of Directors announced a cash dividend of \$0.20 per share to be paid on December 17, 2010 to shareholders on record as of November 10, 2010. This is the Company's twenty-first consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.81 per share.

During 2010 and as recently updated, our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 - 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend or fifth dividend; such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon 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 had determined the tax attributes of our distributions year-to-date as of September 30, 2010, approximately 95% would be from ordinary income and spill over earnings from 2009 and approximately 5% would be a return of capital. However there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2010 distributions to stockholders will actually be.

Critical Accounting Policies

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

Valuation of Portfolio Investments.

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

At September 30, 2010 approximately 80.8% of our total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors in accordance with established valuation procedures and the recommendation of the Valuation Committee of the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our Board of Directors pursuant to a valuation policy and a consistent valuation process. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

Consistent with ASC 820, 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

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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.

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

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, estimated remaining life, and interest rate spreads of similar securities as of the measurement date. If there is a significant deterioration of the credit quality of a debt investment, we may consider other factors that a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

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

Our Board of Directors may from time to time engage an independent valuation firm to provide us with valuation assistance with respect to certain of our portfolio investments. We intend to continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of the services rendered by an independent valuation firm is at the discretion of the Board of Directors. Our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith. No valuation assistance was provided during the third quarter of 2010.

Income Recognition.

Interest income is recorded on the accrual basis and is recognized as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount, (OID), initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any

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uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of September 30, 2010, we had four portfolio companies on non-accrual status with a fair value of approximately \$368,000. There were four loans on non-accrual status with a fair value of approximately \$2.4 million as of September 30, 2009.

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-month periods ended September 30, 2010 and 2009, approximately \$1.7 million and \$2.2 million, respectively in PIK and end of term income was recorded. There was approximately \$5.2 million and \$6.4 million in PIK and end of term income recorded for the nine-month periods ended September 30, 2010 and 2009, respectively.

Fee Income.

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

Stock-Based Compensation.

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

Federal Income Taxes.

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98% of our capital gain net income for each one year period ending on October 31. At December 31, 2009, no excise tax was recorded. At December 31, 2008, we recorded a liability for excise tax of approximately \$203,000 on income and capital gains of approximately \$5.0 million which was distributed in 2009. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

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As of September 30, 2010, we were not a party to any material legal proceedings. However, from time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. 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.

Subsequent Events

The Board of Directors declared a cash dividend of \$0.20 per share that will be payable on December 17, 2010 to shareholders of record as of November 10, 2010. This dividend would represent the Company's twenty-first consecutive dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.81 per share.

As of November 2, 2010, we have:

1. Closed commitments of \$44.0 million to new portfolio companies and funded approximately \$26.4 million since the close of the third quarter.
2. Pending commitments (signed term sheets) of over \$103.0 million.
3. The table below summarizes our year-to-date closed and pending commitments as follows:

2010 Closed Commitments and Pending Commitments (in millions)

| | |
|---|-----------------|
| 1st Half 2010 Closed Commitments ^(a) | \$ 253.3 |
| Q3-10 Closed Commitments ^(a) | \$ 67.8 |
| Year to Date, through Q3-10 Closed Commitments^(a) | \$ 321.1 |
| Q4-10 Closed Commitments (as of 11-02-2010) | \$ 44.0 |
| Total 2010 Closed Commitments^(b) | \$ 365.1 |
| Pending Commitments (as of 11-02-2010) ^(c) | \$ 103.3 |
| Total | \$ 468.4 |

^(a) Year to Date Closed Commitments excludes \$74.2 million of existing credit restructures and renewals.

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

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

In October 2010, Aegerion Pharmaceuticals, Inc. (NASDAQ:AEGR) completed its IPO of 5,000,000 shares of its common stock at \$9.50 per share, before underwriting discounts and commissions. As of November 2, 2010 we have an unrealized gain of approximately \$1.0 million based on a close price of \$10.25, which is not reflected in the third quarter and will change based on future market conditions.

In October 2010, PSS Systems was acquired by IBM (NYSE: IBM) for an undisclosed amount.

In October, 2010, Aveo Pharmaceuticals announced the execution of a securities purchase agreement for a private placement, or PIPE, financing. Upon the closing of the PIPE financing, AVEO will receive gross proceeds of approximately \$61 million resulting from the sale of 4.5 million shares of common stock.

On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of

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InfoLogix's non-compliance with the minimum \$2.5 million stockholders' equity requirement, set forth in NASDAQ Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. The closing price on September 30, 2010 was \$4.22. Furthermore, we advanced an additional \$2.9 million in October. InfoLogix continues to explore strategic options as previously disclosed by the company.

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Table of Contents***Quantitative and Qualitative Disclosures About Market Risk***

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

As of September 30, 2010, approximately 84.8% of our portfolio loans were at floating rates or floating with a floor and 15.2% of our loans were at fixed rates. Over time additional investments may be at floating 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 rate every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in nine-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee on HT II debentures that pooled on September 22, 2010 were 0.406% and 0.29%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. Interest is 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. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which reduces to 0.3% 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. There were no borrowings outstanding under this facility at September 30, 2010. The facility expires in August 2011.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility requires the payment of a unused fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. There were no outstanding borrowings under this facility at September 30, 2010.

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

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CERTAIN ADDITIONAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

As described more fully in the accompanying prospectus, we have elected to be taxed as a RIC under Subchapter M of the Code and the applicable Treasury Regulations, which set forth the requirements for qualification as a RIC. The following discussion, which supplements and updates the discussion under the heading **Certain United States Federal Income Tax Considerations** in the accompanying prospectus, is a summary of certain additional material U.S. federal income tax considerations. **You are urged to consult your own tax advisor regarding the specific tax consequences of the purchase, ownership and sale of our common stock.**

Sunset of Reduced Tax Rate Provisions

Several of the tax considerations described under the heading **Certain United States Federal Income Tax Considerations** in the accompanying prospectus are subject to sunset provisions. These sunset provisions generally provide that for taxable years beginning after December 31, 2010, certain provisions in the Code that are currently applicable will revert back to earlier versions of such provisions. As a result, the federal income tax rates applicable to ordinary income, long-term capital gain and qualified dividend income for taxpayers taxed at individual rates will increase beginning January 1, 2011, absent congressional action. Consequently, prospective investors should consult their own tax advisors regarding the effect of the sunset provisions on an investment in our common stock.

Special Exemption from Withholding

For taxable years beginning prior to January 1, 2010, except as provided below, we generally were not required to withhold any amounts with respect to certain distributions of (i) U.S.-source interest income, and (ii) net short-term capital gains in excess of net long-term capital losses, in each case to the extent we properly designated such distributions and certain other requirements were satisfied. For a further discussion of these requirements, see **Certain United States Federal Income Tax Considerations Taxation of Non-U.S. Stockholders**. This special exemption from withholding tax on certain distributions expired on January 1, 2010. A bill that would extend this exemption to tax years beginning before January 1, 2011, was recently introduced in the Senate. However, no assurance can be given as to whether this exemption will be extended for taxable years beginning on or after January 1, 2010, or whether any of our distributions will be designated as eligible for this special exemption from withholding tax.

Recently Enacted Tax Legislation

Recently enacted legislation that becomes effective after December 31, 2012, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have United States persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their stock, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their stock and proceeds from the sale of their stock. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

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For taxable years beginning after December 31, 2012, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses).

Prospective investors are encouraged to consult with their tax advisors regarding the possible implications of the recent legislation described herein on an investment in our common stock.

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Table of Contents**UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated November 1, 2010, we have agreed to sell to the underwriters named below, for whom RBC Capital Markets, LLC, JMP Securities LLC and Stifel, Nicolaus & Company, Inc. are acting as representatives, the following respective numbers of shares of common stock at the offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

| Underwriter | Number of Shares |
|---|------------------|
| RBC Capital Markets, LLC | |
| JMP Securities LLC | |
| Stifel, Nicolaus & Company, Incorporated | |
| BB&T Capital Markets, a division of Scott & Stringfellow, LLC | |
| Janney Montgomery Scott LLC | |
| Macquarie Capital (USA) Inc. | |
| Total | 5,750,000 |

The underwriting agreement provides that the underwriters are obligated to purchase all of the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below subject to certain conditions precedent. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters have advised us that they propose to offer the shares of common stock initially at the public offering price set forth on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of \$ _____ per share.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 862,500 additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over allotments of common stock.

The following table summarizes the compensation and estimated expenses that we will pay.

| | Without Over-allotment | Per Share With Over-allotment | Without Over-allotment | Total With Over-allotment |
|---|---------------------------|-------------------------------------|---------------------------|---------------------------------|
| Public offering price | | | | |
| Underwriting Discounts and Commissions paid by us | | | | |
| Proceeds, before expenses to us | | | | |

We expect that our expenses for this offering will be approximately \$500,000 excluding underwriting discounts and commissions in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or contribute to payments that the underwriter may be required to make in that respect.

We have agreed that we will not directly or indirectly sell, offer to sell, enter into any agreement to sell, or otherwise dispose of, any equity or equity related securities of the Company or securities convertible into such securities, without the prior written consent of RBC Capital Markets, LLC for a period of 45 days after the date of this prospectus, except issuances of common stock pursuant to any employee or director compensation, dividend reinvestment, savings, or benefit plan, or distributions to the Company's directors upon that individual's election to receive shares of the company's common stock in lieu of a cash retainer. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up

period, we announce that we will release earnings results during the 16-day period beginning on the last day of

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the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable.

Our directors and senior executive officers have agreed that during the 45 days after the date of this prospectus supplement, subject to certain exceptions, they will not, without the prior written consent of RBC Capital Markets, LLC, offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a Disposition), any shares of our common stock, any options or warrants to purchase any shares of our common stock or any securities convertible into or redeemable or exchangeable for shares of our common stock now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition. The foregoing restriction has been expressly agreed to preclude the holder of such securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of securities during the lock-up period, even if such securities would be disposed of by someone other than the holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any securities. Notwithstanding the foregoing, if (i) during the last 17 days of the lock-up period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the lock-up period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the lock-up period, the foregoing restrictions shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. These lock-up agreements will cover approximately 4,888,907 shares of our outstanding common stock and shares underlying warrants in the aggregate. These agreements will not cover shares acquired in connection with the participation in the Company's dividend reinvestment plan, shares acquired upon the exercise of stock options pursuant to the Company's stock option plan, pledges of securities in connection with their purchase upon the exercise of employee stock options following termination of employment with the Company, the sale of shares in connection with net issuances of shares to satisfy tax withholding obligations related to the vesting of shares of restricted stock or the exercise of stock options to purchase shares of the Company's common stock that were granted pursuant to the Company's equity compensation plans, or the exercise or conversion of any security into shares of our common stock so long as the shares received remain subject to the lock-up. The agreements also exclude dispositions (i) as a bona fide gift or gifts, (ii) as a distribution to partners or shareholders of such person (or in the case of a trust, to the beneficiaries thereof), (iii) to any corporation controlled by the transferor, (iv) to any trust for the direct or indirect benefit of the transferor or their immediate family, provided that such transfer does not involve a disposition for value other than for the benefit of the transferor's immediate family, and (v) charitable dispositions of securities that do not involve a disposition for value, provided that in each case (i)-(v) the recipient agrees in writing to be bound by the restrictions of the lock-up. RBC Capital Markets, LLC may, in their sole discretion, allow any of these parties to dispose of common stock or other securities prior to the expiration of the 45 day period. There are, however, no agreements between RBC Capital Markets, LLC and the parties that would allow them to do so as of the date of this prospectus supplement.

The underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

Until the distribution of the common stock is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriter and certain selling group members to bid for and purchase the common stock. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common stock.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty and market making bids in accordance with Regulation M under the Securities Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment transactions involve sales by the underwriters of the shares of common stock in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short

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position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over allotment option. The underwriters may close out any covered short position by either exercising its over allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over allotment option. If the underwriters sell more shares than could be covered by the over allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit representatives to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Global Select Market or otherwise and, if commenced may be discontinued at any time.

The underwriters will deliver an accompanying prospectus and prospectus supplement to all purchasers of shares of common stock in the short sales. The purchases of shares of common stock in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of shares of common stock covered by this prospectus supplement.

The underwriter is not obligated to engage in any of the transactions described above. If it does engage in any of these transactions, it may discontinue them at any time.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each of the underwriters has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares of common stock of the Company to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares of common stock of the Company which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares of common stock of the Company to the public in that Relevant Member State at any time,

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as described in the Prospectus Directive) subject to obtaining the prior consent of the representatives of the underwriters; or

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in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares of common stock of the Company to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares of common stock of the Company to be offered so as to enable an investor to decide to purchase or subscribe the shares of common stock of the Company, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters has represented and agreed that:

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the shares of common stock of the Company to persons who have professional experience in matters relating to investments falling with Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA otherwise does not apply to the Company; and

it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the common stock of the Company, from or otherwise involving the United Kingdom.

Our common stock is quoted on the Nasdaq Global Select Market under the trading symbol HTGC.

In the ordinary course of its businesses, the underwriters and/or their affiliates have in the past performed, and many continue to perform, investment banking, broker dealer, lending, financial advisory or other services for us for which they have received, or may receive, customary compensation.

The principal address of RBC Capital Markets, LLC is 3 World Financial Center, 200 Vesey Street, 8th Floor, New York, NY 10281, JMP Securities LLC is 600 Montgomery Street, San Francisco, CA 94111, Stifel, Nicolaus & Company, Incorporated is 501 North Broadway, Louis, MO 63102, BB&T Capital Markets, a division of Scott & Stringfellow, LLC is 901 East Byrd Street, Suite 410, Richmond, VA 23219, Janney Montgomery Scott LLC is 60 State Street, 35th Floor, Boston, MA 02109, and Macquarie Capital (USA) Inc. is 125 West 55th St., 17th Floor, New York, NY 10019.

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LEGAL MATTERS

Certain legal matters with respect to the validity of the shares of common stock we are offering will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters related to the offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audited consolidated financial statements and schedule included in this prospectus have been so included in reliance upon the report of Ernst & Young LLP, our former independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report. Ernst & Young LLP's principal business address is 560 Mission Street, San Francisco, CA 94105.

CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On September 9, 2010, we dismissed Ernst & Young LLP as our independent registered public accounting firm. During the fiscal years ended December 31, 2008 and 2009 and through September 9, 2010, there were no disagreements between us and Ernst & Young LLP with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young LLP, would have caused it to make reference to the subject matter of such disagreements in its reports on the financial statements for such years. Nor were there any reportable events as such term is described in Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Exchange Act of 1934, as amended.

On September 9, 2010, we engaged PricewaterhouseCoopers LLP as our new independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2010. During the two most recent fiscal years and through September 9, 2010, the date of the engagement of PriceWaterhouseCoopers, neither the Company nor any person on its behalf has consulted with PriceWaterhouseCoopers with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements or (ii) any matter that was either the subject of a disagreement or a reportable event as such terms are described in Items 304(a)(1)(iv) or 304(a)(1)(v), respectively, of Regulation S-K promulgated under the Exchange Act. PricewaterhouseCoopers LLP's principal business address is 300 Madison Avenue, New York, NY 10017.

AVAILABLE INFORMATION

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

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Table of Contents**CONSOLIDATED FINANCIAL STATEMENTS****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

(Unaudited dollars in thousands, except per share data)

| | September 30, 2010 (unaudited) | December 31, 2009 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Investments: | | |
| Non-affiliate investments (cost of \$397,925 and \$353,648, respectively) | \$ 370,720 | \$ 335,979 |
| Affiliate investments (cost of \$2,880 and \$2,880, respectively) | 2,846 | 2,274 |
| Control investments (cost of \$26,992 and \$23,823, respectively) | 33,935 | 32,184 |
| Total investments, at value (cost of \$427,796 and \$380,351 respectively) | 407,501 | 370,437 |
| Deferred loan origination revenue | (5,033) | (2,425) |
| Cash and cash equivalents | 83,011 | 124,828 |
| Interest receivable | 11,512 | 10,309 |
| Other assets | 7,291 | 5,818 |
| Total assets | 504,282 | 508,967 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 5,733 | 11,852 |
| Long-term SBA Debentures | 160,000 | 130,600 |
| Total liabilities | 165,733 | 142,452 |
| Net assets | \$ 338,549 | \$ 366,515 |
| Net assets consist of: | | |
| Common stock, par value | \$ 36 | \$ 35 |
| Capital in excess of par value | 409,389 | 409,036 |
| Unrealized appreciation (depreciation) on investments | (22,247) | (10,028) |
| Accumulated realized gains (losses) on investments | (43,273) | (28,129) |
| Distributions in excess of investment income | (5,356) | (4,399) |
| Total net assets | \$ 338,549 | \$ 366,515 |
| Shares of common stock outstanding (\$0.001 par value, 60,000 authorized) | 36,158 | 35,634 |
| Net asset value per share | \$ 9.36 | \$ 10.29 |

See Notes to Consolidated Financial Statements (unaudited)

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

September 30, 2010

(unaudited)

(dollars in thousands)

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|----------------|-----------------------------------|------------------|---------------------|----------------------|
| Accelaron Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | | \$ 69 | \$ 920 |
| | | Preferred Stock Warrants | | 35 | 181 |
| | | Preferred Stock Warrants | | 39 | 95 |
| | | Preferred Stock | | 1,341 | 2,316 |
| Total Accelaron Pharmaceuticals, Inc. | | | | 1,484 | 3,512 |
| Aveo Pharmaceuticals, Inc. | Drug Discovery | Senior Debt | | | |
| | | Matures September 2013 | | | |
| | | Interest rate Prime + 7.15% or | | | |
| | | Floor rate of 11.9% | \$ 25,000 | 24,517 | 24,517 |
| | | Preferred Stock Warrants | | 190 | 426 |
| | | Preferred Stock Warrants | | 104 | 103 |
| | | Preferred Stock Warrants | | 24 | 37 |
| Total Aveo Pharmaceuticals, Inc. | | | | 25,411 | 25,879 |
| Dicerna Pharmaceuticals, Inc. | Drug Discovery | Senior Debt | | | |
| | | Matures July 2012 | | | |
| | | Interest rate Prime + 9.20% or | | | |
| | | Floor rate of 12.95% | \$ 5,355 | 5,259 | 5,259 |
| | | Preferred Stock Warrants | | 206 | 164 |
| | | Preferred Stock Warrants | | 31 | 29 |
| Total Dicerna Pharmaceuticals, Inc. | | | | 6,027 | 5,977 |
| Elixir Pharmaceuticals, Inc. ⁽⁸⁾ | Drug Discovery | Senior Debt | \$ 6,531 | 6,531 | |
| | | Matures October 2011 | | | |
| | | Interest rate Prime + 9.25% or | | | |

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| | | | | |
|---------------------------------------|----------------|--------------------------|-------|-------|
| | | Floor rate of 12.5% | | |
| | | Preferred Stock Warrants | 217 | |
| Total Elixir Pharmaceuticals, Inc. | | | 6,748 | |
| EpiCept Corporation | Drug Discovery | Common Stock Warrants | 4 | 42 |
| | | Common Stock Warrants | 40 | 4 |
| Total EpiCept Corporation | | | 44 | 46 |
| Horizon Therapeutics, Inc. | Drug Discovery | Preferred Stock Warrants | 231 | |
| Total Horizon Therapeutics, Inc. | | | 231 | |
| Inotek Pharmaceuticals Corp. | Drug Discovery | Preferred Stock | 1,500 | |
| Total Inotek Pharmaceuticals Corp. | | | 1,500 | |
| Merrimack Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | 155 | 113 |
| | | Preferred Stock | 2,000 | 1,470 |
| Total Merrimack Pharmaceuticals, Inc. | | | 2,155 | 1,583 |
| Paratek Pharmaceuticals, Inc. | Drug Discovery | Preferred Stock Warrants | 137 | 122 |
| | | Preferred Stock | 1,000 | 999 |
| Total Paratek Pharmaceuticals, Inc. | | | 1,137 | 1,121 |

See Notes to Consolidated Financial Statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|-----------------------------|---|-------------------------|---------------------------|----------------------------|
| PolyMedix, Inc. | Drug Discovery | Senior Debt | | | |
| | | Matures September 2013 | | | |
| | | Interest rate Prime + 7.1% or | | | |
| | | Floor rate of 12.35% | \$ 10,000 | \$ 9,618 | \$ 9,618 |
| | | Preferred Stock Warrants | | 480 | 268 |
| Total PolyMedix, Inc. | | | | 10,098 | 9,886 |
| Portola Pharmaceuticals, Inc. | Drug Discovery | Senior Debt | | | |
| | | Matures April 2011 | | | |
| | | Interest rate Prime + 2.16% | \$ 2,916 | 2,916 | 2,916 |
| | | Preferred Stock Warrants | | 152 | 441 |
| Total Portola Pharmaceuticals, Inc. | | | | 3,068 | 3,357 |
| Total Drug Discovery (15.17%)* | | | | 57,903 | 51,361 |
| Affinity Videonet, Inc ⁽⁴⁾ | Communications & Networking | Senior Debt | | | |
| | | Matures June 2012 | | | |
| | | Interest rate Prime + 8.75% or | | | |
| | | Floor rate of 12.00% | \$ 1,685 | 1,736 | 1,736 |
| | | Senior Debt | | | |
| | | Matures June 2012 | | | |
| | | Interest rate Prime + 14.75% or | | | |
| | | Floor rate of 18.00% | \$ 2,000 | 2,084 | 2,084 |
| | | Revolving Line of Credit | | | |
| | | Matures June 2012 | | | |
| | | Interest rate Prime + 9.75% or | | | |
| | | Floor rate of 13.00% | \$ 500 | 500 | 500 |
| | | Preferred Stock Warrants | | 102 | 166 |

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| | | | | |
|---|-----------------------------|------------------------------|----------|-------|
| Total Affinity Videonet, Inc. | | | 4,422 | 4,486 |
| E-band Communications, Corp. ⁽⁶⁾ | Communications & Networking | Preferred Stock | 2,880 | 2,846 |
| Total E-Band Communications, Corp. | | | 2,880 | 2,846 |
| IKANO Communications, Inc. | Communications & Networking | Senior Debt | | |
| | | Matures August 2011 | | |
| | | Interest rate 12.00% | \$ 2,779 | 2,779 |
| | | Preferred Stock Warrants | | 45 |
| | | Preferred Stock Warrants | | 72 |
| Total IKANO Communications, Inc. | | | 2,896 | 2,779 |
| Intelepeer, Inc. | Communications & Networking | Senior Debt | | |
| | | Matures May 2013 | | |
| | | Interest rate Prime + 8.125% | \$ 5,185 | 5,114 |
| | | Preferred Stock Warrants | | 102 |
| | | | | 94 |
| Total Intelepeer, Inc. | | | 5,216 | 5,208 |
| Neonova Holding Company | Communications & Networking | Preferred Stock Warrants | | 94 |
| | | Preferred Stock | | 250 |
| Total Neonova Holding Company | | | 344 | 264 |

See Notes to Consolidated Financial Statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|---------------------------------|-----------------------------|---|-------------------------|---------------------------|----------------------------|
| Opsource, Inc. ⁽⁴⁾ | Communications & Networking | Senior Debt | | | |
| | | Matures June 2013 | | | |
| | | Interest rate Prime + 7.75% or | | | |
| | | Floor rate of 11.00% | \$ 5,000 | \$ 4,811 | \$ 4,811 |
| | | Revolving Line of Credit | | | |
| | | Matures June 2011 | | | |
| | | Interest rate Prime + 5.25% or | | | |
| | | Floor rate of 8.50% | \$ 1,500 | 1,500 | 1,500 |
| | | Preferred Stock Warrants | | 222 | 208 |
| Total Opsource, Inc. | | | | 6,533 | 6,519 |
| PeerApp, Inc. | Communications & Networking | Senior Debt | | | |
| | | Matures April 2013 | | | |
| | | Interest rate Prime + 7.5% or | | | |
| | | Floor rate of 11.50% | \$ 3,000 | 2,951 | 2,951 |
| | | Preferred Stock Warrants | | 61 | 56 |
| Total PeerApp, Inc. | | | | 3,012 | 3,007 |
| Peerless Network, Inc. | Communications & Networking | Preferred Stock Warrants | | 95 | 134 |
| | | Preferred Stock | | 1,000 | 1,930 |
| Total Peerless Network, Inc. | | | | 1,095 | 2,064 |
| Ping Identity Corporation | Communications & Networking | Preferred Stock Warrants | | 52 | 4 |
| Total Ping Identity Corporation | | | | 52 | 4 |
| Purcell Systems, Inc. | Communications & Networking | Preferred Stock Warrants | | 123 | 327 |
| Total Purcell Systems, Inc. | | | | 123 | 327 |

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| | | | | | |
|--|-----------------------------|-------------------------------|-----------|--------|--------|
| Seven Networks, Inc. | Communications & Networking | Preferred Stock Warrants | | 174 | 34 |
| Total Seven Networks, Inc. | | | | 174 | 34 |
| Stoke, Inc ⁽⁴⁾ | Communications & Networking | Senior Debt | | | |
| | | Matures May 2013 | | | |
| | | Interest rate Prime + 7.0% or | \$ 4,000 | 3,947 | 3,947 |
| | | Preferred Stock Warrants | | 53 | 71 |
| | | Preferred Stock Warrants | | 65 | 61 |
| Total Stoke, Inc. | | | | 4,065 | 4,079 |
| Tectura Corporation | Communications & Networking | Senior Debt | | | |
| | | Matures March 2011 | | | |
| | | Interest rate 11% | \$ 833 | 833 | 833 |
| | | Revolving Line of Credit | | | |
| | | Matures July 2011 | | | |
| | | Interest rate 11% | \$ 16,517 | 17,456 | 17,456 |
| | | Preferred Stock Warrants | | 51 | 3 |
| Total Tectura Corporation | | | | 18,340 | 18,292 |
| Total Communications & Networking (14.74%)* | | | | 49,152 | 49,909 |

See Notes to Consolidated Financial Statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|---|-----------------|---|-------------------------|---------------------------|----------------------------|
| Atrenta, Inc. | Software | Preferred Stock Warrants | | \$ 102 | \$ 36 |
| | | Preferred Stock Warrants | | 34 | 12 |
| | | Preferred Stock Warrants | | 95 | 15 |
| | | Preferred Stock | | 250 | 136 |
| Total Atrenta, Inc. | | | 481 | 199 | |
| Blurb, Inc. | Software | Senior Debt | | | |
| | | Matures June 2011 | | | |
| | | Interest rate Prime + 3.50% or | | | |
| | | Floor rate of 8.5% | \$ 1,721 | 1,696 | 1,696 |
| | | Preferred Stock Warrants | | 25 | 348 |
| | | Preferred Stock Warrants | | 299 | 224 |
| Total Blurb, Inc. | | | 2,020 | 2,268 | |
| Braxton Technologies, LLC. | Software | Preferred Stock Warrants | | 188 | |
| Total Braxton Technologies, LLC. | | | | 188 | |
| Bullhorn, Inc. | Software | Preferred Stock Warrants | | 43 | 234 |
| Total Bullhorn, Inc. | | | | 43 | 234 |
| Clickfox, Inc. | Software | Senior Debt | | | |
| | | Matures July 2013 | | | |
| | | Interest rate Prime + 6.00% or | | | |
| | | Floor rate of 11.25% | \$ 6,000 | 5,851 | 5,851 |
| | | Revolving Line of Credit | | | |
| | | Matures July 2011 | | | |
| | | Interest rate Prime + 5.00% or | | | |
| Floor rate of 12.00% | \$ 2,000 | 2,000 | 2,000 | | |
| | | Preferred Stock Warrants | | 177 | 128 |
| | | Preferred Stock Warrants | | 152 | 163 |
| Total Clickfox, Inc. | | | 8,180 | 8,142 | |

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| | | | | |
|------------------------------------|----------|--------------------------------|-----------|--------|
| Forescout Technologies, Inc. | Software | Preferred Stock Warrants | 99 | 10 |
| Total Forescout Technologies, Inc. | | | 99 | 10 |
| GameLogic, Inc. | Software | Preferred Stock Warrants | 92 | |
| Total GameLogic, Inc. | | | 92 | |
| HighJump Acquisition, LLC. | Software | Senior Debt | | |
| | | Matures May 2013 | | |
| | | Interest rate Libor + 8.75% or | | |
| | | Floor rate of 12.00% | \$ 15,000 | 15,000 |
| | | | 15,000 | 15,000 |
| Total HighJump Acquisition, LLC. | | | 15,000 | 15,000 |
| HighRoads, Inc. | Software | Preferred Stock Warrants | 44 | 61 |
| Total HighRoads, Inc. | | | 44 | 61 |

See Notes to Consolidated Financial Statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|----------------------------------|-----------------|---|-------------------------|---------------------------|----------------------------|
| Infologix, Inc ⁽⁴⁾⁽⁷⁾ | Software | Senior Debt | | | |
| | | Matures November 2013 | | | |
| | | Interest rate 12.00% | \$ 5,500 | \$ 5,500 | \$ 5,500 |
| | | Convertible Senior Debt | | | |
| | | Matures November 2014 | | | |
| | | Interest rate 12.00% | | 707 | 723 |
| | | Revolving Line of Credit | | | |
| | | Matures May 2011 | | | |
| | | Interest rate 12.00% | \$ 7,617 | 7,617 | 7,617 |
| | | Senior Debt | | | |
| | | Matures December 2010 | | | |
| | | Interest rate 18.00% | \$ 2,202 | 2,202 | 2,202 |
| | | Senior Debt | | | |
| | | Matures April 2013 | | | |
| Interest rate 8.00% | \$ 1,350 | 1,350 | 1,350 | | |
| Senior Debt | | | | | |
| Matures September 2011 | | | | | |
| Interest rate 10.00% | \$ 500 | 500 | 500 | | |
| Preferred Stock Warrants | | | 725 | 2,740 | |
| Common Stock | | | 5,000 | 5,680 | |
| Common Stock | | | 3,391 | 7,623 | |
| Total Infologix, Inc. | | | | 26,992 | 33,935 |
| PSS Systems, Inc. | Software | Preferred Stock Warrants | | 51 | 13 |
| Total PSS Systems, Inc. | | | | 51 | 13 |
| Rockyou, Inc. | Software | Preferred Stock Warrants | | 117 | 183 |

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| | | | | |
|---------------------------------|----------|--------------------------------|-----------|--------|
| Total Rockyou, Inc. | | | 117 | 183 |
| Sportvision, Inc. | Software | Preferred Stock Warrants | 39 | |
| Total Sportvision, Inc. | | | 39 | |
| Unify Corporation | Software | Senior Debt | | |
| | | Matures June 2015 | | |
| | | Interest rate Libor + 8.25% or | | |
| | | Floor rate of 10.25% | \$ 24,000 | 22,746 |
| | | Revolving Line of Credit | | 22,746 |
| | | Matures June 2015 | | |
| | | Interest rate Libor + 7.25% or | | |
| | | Floor rate of 9.25% | \$ 3,250 | 3,250 |
| | | Preferred Stock Warrants | | 1,435 |
| | | | | 1,567 |
| Total Unify Corporation | | | 27,431 | 27,563 |
| WildTangent, Inc. | Software | Preferred Stock Warrants | 238 | 12 |
| Total WildTangent, Inc. | | | 238 | 12 |
| Total Software (25.88%)* | | | 81,015 | 87,620 |

See Notes to Consolidated Financial Statements.

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Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|---------------------------------|---|-------------------------|---------------------------|----------------------------|
| Luminus Devices, Inc. | Electronics & Computer Hardware | Senior Debt | | | |
| | | Matures December 2011 | | | |
| | | Interest rate 11.875% | \$ 1,290 | \$ 1,290 | \$ 1,290 |
| | | Preferred Stock Warrants | | 183 | |
| | | Preferred Stock Warrants | | 84 | |
| | | Preferred Stock Warrants | | 334 | |
| Total Luminus Devices, Inc. | | | | 1,891 | 1,290 |
| Maxvision Holding, LLC. | Electronics & Computer Hardware | Senior Debt | | | |
| | | Matures October 2012 | | | |
| | | Interest rate Prime + 7.25% or | | | |
| | | Floor rate of 10.75% | \$ 5,000 | 5,318 | 318 |
| | | Senior Debt | | | |
| | | Matures April 2012 | | | |
| | | Interest rate Prime + 5.0% or | | | |
| | | Floor rate of 8.5% | \$ 3,659 | 3,659 | 3,659 |
| | | Revolving Line of Credit | | | |
| | | Matures April 2012 | | | |
| | | Interest rate Prime + 5.0% or | | | |
| | | Floor rate of 8.5% | \$ 3,100 | 3,180 | 3,180 |
| | | Common Stock | | 82 | |
| Total Maxvision Holding, LLC | | | | 12,239 | 7,157 |
| Shocking Technologies, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 63 | 89 |
| Total Shocking Technologies, Inc. | | | | 63 | 89 |
| Spatial Photonics, Inc. ⁽⁸⁾ | Electronics & Computer Hardware | Senior Debt | \$ 722 | 722 | |
| | | Matures April 2011 | | | |

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| | | | | | |
|---|------------------------------------|--------------------------------|----------|--------|-------|
| | | Interest rate 10.07% | | | |
| | | Preferred Stock Warrants | | 130 | |
| | | Preferred Stock | | 500 | |
| Total Spatial Photonics, Inc. | | | | 1,352 | |
| VeriWave, Inc. | Electronics & Computer Hardware | Preferred Stock Warrants | | 54 | |
| | | Preferred Stock Warrants | | 46 | |
| Total VeriWave, Inc. | | | | 100 | |
| Total Electronics & Computer Hardware (2.52%)* | | | | 15,645 | 8,536 |
| Aegerion Pharmaceuticals, Inc ⁽⁴⁾ | Specialty Pharmaceuticals | Senior Debt | | | |
| | | Matures September 2011 | | | |
| | | Interest rate Prime + 2.50% or | | | |
| | | Floor rate of 11.00% | \$ 3,269 | 3,269 | 3,269 |
| | | Convertible Senior Debt | | | |