HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 497
March 11, 2013
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Filed Pursuant to Rule 497
Registration No. 333-184312

PROSPECTUS SUPPLEMENT

(To prospectus dated December 18, 2012)

7,000,000 Shares

Common Stock

We are offering 7,000,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol HTGC. The last sale price, as reported on NYSE on March 7, 2013, was $12.52 per share. The net asset value per share of our common stock at December 31, 2012 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $9.75. Individuals who purchase stock in this offering will not be eligible to receive the dividend payable on March 19, 2013.

We are an internally-managed, non-diversified closed-end management investment company that has elected to be regulated 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.

The underwriter has agreed to purchase our shares of common stock from us at a price of $11.90 per share which will result in approximately $82.8 million of net proceeds, after deducting estimated offering expenses, to us. We expect that our expenses for this offering will be approximately $500,000. The underwriter may offer our shares of common stock on the NYSE, in the over-the-counter market or through negotiated transactions at market prices or at negotiated prices. See Underwriting. The underwriter has an option to purchase up to an additional 1,050,000 shares of our common stock at a price of $11.90 per share within 30 days from the date of this prospectus supplement to cover overallotments.

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.htgc.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 S-10 in this prospectus supplement and the Risk Factors section beginning on page 11 of the accompanying prospectus 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.

Delivery of the shares of common stock will be made on or about March 13, 2013.

Citigroup **Wells Fargo Securities**

Aegis Capital Corp **BB&T Capital Markets** **Maxim Group LLC** **National Securities Corporation**

The date of this prospectus supplement is March 7, 2013.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front cover of this prospectus supplement or such prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. 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. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, Available Information before investing in our common stock.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly, 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, Inc.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)[1]	5.00%
Offering expenses	0.60%[2]
Dividend reinvestment plan fees	[3]
Total stockholder transaction expenses (as a percentage of the public offering price)	5.60%
Annual Expenses (as a percentage of net assets attributable to common stock):[8]	
Operating expenses	5.4%[4][5]
Interest and fees paid in connection with borrowed funds	4.9%[6]
Total annual expenses	10.3%[7]

(1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering. For the purpose of calculating sales load, we assume the underwriters will sell to the public at a stock price of $12.52 per share, our closing stock price on March 7, 2013.

(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 this prospectus supplement and the accompanying prospectus.

(4) Operating expenses represent our operating expenses incurred for the year ended December 31, 2012, including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2011 was 5.8%. See Management s Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors in this prospectus supplement and the accompanying prospectus.

(5) 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.

(6) Interest and fees paid in connection with borrowed funds represents interest and fee payments on borrowed funds incurred for the year ended December 31, 2012, including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the 2019 Notes, the Asset-Backed Notes and the SBA debentures, each of which is defined herein. This percentage for the year ended December 31, 2011 was 3.8%.

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

(8) Net assets attributable to common stock equals the weighted average net assets for 2012, which is approximately $480.6 million.

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Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a $1,000 hypothetical investment in our common stock, assuming (1) a 5.0% sales load (underwriting discounts and commissions) and offering expenses totaling 0.60%, (2) total net annual expenses of 10.4% 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	$ 152	$ 328	$ 486	$ 815

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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FORWARD-LOOKING STATEMENTS

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. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus 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, a small business investment company and a regulated investment company, or 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 Supplemental Risk Factors in this prospectus supplement and Risk Factors in the accompanying prospectus. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made and are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933.

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Industry and Market Data

The accompanying prospectus contains third-party estimates and data regarding valuations of venture capital-backed companies. This data was reported by Dow Jones VentureSource, an independent venture capital industry research company which we refer to as VentureSource. VentureSource is commonly relied upon as an information source in the venture capital industry. Although we have not independently verified any such data, we believe that the industry information contained in such releases and data tables and included in this prospectus 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 securities, including our common stock, could be materially adversely affected.

PROSPECTUS SUPPLEMENT SUMMARY

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

Our Company

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean-technology industries at all stages of development. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of December 31, 2012, our total assets were approximately $1,123.6 million, of which our investments comprised $906.3 million at fair value and $914.3 million at cost. Since inception through December 31, 2012, we have made debt and equity commitments of approximately $3.4 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). HT II and HT III hold approximately $154.4 million and $250.8 million in assets, respectively, and accounted for approximately 10.5% and 17.0% of our total assets prior to consolidation at December 31, 2012. We have issued $225.0 million in SBA-guaranteed debentures in our SBIC subsidiaries, which is the maximum amount allowed for a group of SBICs under common control. See Regulation-Small Business Administration Regulations in the accompanying prospectus for additional information regarding our SBIC subsidiaries.

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. As of December 31, 2012, our proprietary structured query language (SQL)-based database system included over 30,900 technology-related companies and approximately 8,100 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, MA, Boulder, CO and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed companies in technology-related markets requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of companies in technology-related markets, including, technology, biotechnology, life science, and clean-technology companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to

refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by 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, renewable or alternative energy, media and life science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the clean technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies including the right to convert some portion of our debt into equity 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.

As of December 31, 2012, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 31 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Our Market Opportunity

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

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

Technology-Related Companies are Underserved by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance

companies, 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 these 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 these 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.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies.

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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 at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, to expansion-stage companies, including select publicly listed companies and select lower middle market companies and established-stage companies.

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.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance.

Recent Developments

Grants of Restricted Stock to Named Executive Officers

On March 4, 2013, the Compensation Committee awarded 477,103 shares of restricted stock to our named executive officers at a price of $12.72. These awards were granted under our 2004 Equity Incentive Plan in recognition of the performance of each named executive officer during the 2012 fiscal year. For additional information regarding our 2004 Equity Incentive Plan, see Corporate Governance Executive Compensation 2004 Equity Incentive Plan in the accompanying prospectus.

Dividend Declaration

On February 26, 2013 the Board of Directors increased the quarterly dividend by $0.01, or approximately 4.02%, and declared a cash dividend of $0.25 per share that will be payable on March 19, 2013 to shareholders of record as of March 11, 2013. Individuals who purchase stock in this offering will not be eligible to receive the dividend on March 19, 2013. This dividend would represent the Company s thirtieth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $7.89 per share.

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Closed and Pending Commitments

As of February 25, 2013, we have:

a. Closed commitments of approximately $115.6 million to new and existing portfolio companies, and funded approximately $90.0 million since the close of the fourth quarter of 2012.

b. Pending commitments (signed non-binding term sheets) of approximately $126.5 million.

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

Closed and Pending Commitments (in millions)	
Q1-13 Closed Commitments (as of February 25, 2013) (a,b)	$ 115.6
Pending Commitments (as of February 25, 2013) (b)	$ 126.5
Year-to-date 2013 Closed and Pending Commitments	$ 242.1

Notes:

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

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

General Information

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

RISK FACTORS

Investing in our common stock involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below in this prospectus supplement and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make 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 or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows 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. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in our common stock, as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

Risks Related to our Business Structure

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

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

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

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

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

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with

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

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

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

Because we have substantial indebtedness, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it

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would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. If we are not able to service our substantial indebtedness, our business could be harmed materially.

Our secured credit facilities with Wells Fargo Capital Finance LLC (the Wells Facility) and Union Bank, N.A. (the Union Bank Facility, and together with the Wells Facility, our Credit Facilities) our Convertible Senior Notes, our 2019 Notes and our Asset-Backed Notes (as each term is defined below) contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As of December 31, 2012, we did not have any outstanding borrowings under our Credit Facilities. In addition, as of December 31, 2012, we had approximately $225.0 million of indebtedness outstanding incurred by our SBIC subsidiaries, $75.0 million of Convertible Senior Notes payable, approximately $170.4 million of 2019 Notes and approximately $129.3 million in aggregate principal amount of fixed rate asset-backed notes (the Asset-Backed Notes) in connection with our $230.7 million debt Securitization (the Debt Securitization). There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have an asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of December 31, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 296.8%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio.

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[(1)]	(29.42%)	(18.53%)	(7.65%)	3.24%	14.13%

(1) Assumes $1,123.6 million in total assets, $599.7 million in debt outstanding, $516.0 million in stockholders equity, and an average cost of funds of 6.6%, which is the approximate average cost of borrowed funds, including our Credit Facilities, our Convertible Senior Notes, 2019 Notes, our SBA debentures and our Asset-Backed Notes for the period ended December 31, 2012. Actual interest payments may be different.

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

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

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

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

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

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

We are subject to certain risks as a result of our interests in connection with the Debt Securitization and our equity interest in the Securitization Issuer.

On December 19, 2012, in connection with the Debt Securitization and the offering of the Asset-Backed Notes by Hercules Capital Funding Trust 2012-1 (the Securitization Issuer), we sold and/or contributed to Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), certain senior loans made to

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certain of our portfolio companies (the Loans), which the Trust Depositor in turn sold and/or contributed to the Securitization Issuer in exchange for 100% of the equity interest in the Securitization Issuer, cash proceeds and other consideration. Following these transfers, the Securitization Issuer, and not the Trust Depositor or us, held all of the ownership interest in the Loans.

As a result of the Debt Securitization, we hold, indirectly through the Trust Depositor, 100% of the equity interest in the Securitization Issuer. As a result, we consolidate the financial statements of the Trust Depositor and the Securitization Issuer, as well as our other subsidiaries, in our consolidated financial statements. Because each of the Trust Depositor and the Securitization Issuer is disregarded as an entity separate from its owner for U.S. federal income tax purposes, the sale or contribution by us to the Trust Depositor, and by the Trust Depositor to the Securitization Issuer, did not constitute a taxable event for U.S. federal income tax purposes. If the U.S. Internal Revenue Service were to take a contrary position, there could be a material adverse effect on our business, financial condition, results of operations or cash flows. Further, a failure of the Securitization Issuer to be treated as a disregarded entity for U.S. federal income tax purposes would constitute an event of default pursuant to the indenture under the Debt Securitization, upon which the trustee under the Debt Securitization (the Trustee) may and will at the direction of a supermajority of the holders of the Asset-Backed Notes (the Noteholders) declare the Asset-Backed Notes to be immediately due and payable and exercise remedies under the indenture, including (i) to institute proceedings for the collection of all amounts then payable on the Asset-Backed Notes or under the indenture, enforce any judgment obtained, and collect from the Securitization Issuer and any other obligor upon the Asset-Backed Notes monies adjudged due; (ii) institute proceedings from time to time for the complete or partial foreclosure of the indenture with respect to the property of the Securitization Issuer; (iii) exercise any remedies as a secured party under the relevant UCC and take other appropriate action under applicable law to protect and enforce the rights and remedies of the Trustee and the Noteholders; or (iv) sell the property of the Securitization Issuer or any portion thereof or rights or interest therein at one or more public or private sales called and conducted in any matter permitted by law. Any such exercise of remedies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

An event of default in connection with the Debt Securitization could give rise to a cross-default under our other material indebtedness.

The documents governing our other material indebtedness contain customary cross-default provisions that could be triggered if an event of default occurs in connection with the Debt Securitization. An event of default with respect to our other indebtedness could lead to the acceleration of such indebtedness and the exercise of other remedies as provided in the documents governing such other indebtedness. This could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

We may not receive cash distributions in respect of our indirect ownership interest in the Securitization Issuer.

Apart from fees payable to us in connection with our role as servicer of the Loans and the reimbursement of related amounts under the Debt Securitization documents, we receive cash in connection with the Debt Securitization only to the extent that the Trust Depositor receives payments in respect of its equity interest in the Securitization Issuer. The holder of the equity interest in the Securitization Issuer is the residual claimant on distributions, if any, made by the Securitization Issuer after the Noteholders and other claimants have been paid in full on each payment date or upon maturity of the notes, subject to the priority of payments under the Debt Securitization documents. To the extent that the value of the Securitization Issuer s portfolio of Loans is reduced as a result of conditions in the credit markets (relevant in the event of a liquidation event), other macroeconomic factors, distressed or defaulted Loans or the failure of individual portfolio companies to otherwise meet their obligations in respect of the Loans, or for any other reason, the ability of the Securitization Issuer to make cash distributions in respect of the Trust Depositor s equity interest would be negatively affected and consequently, the value of the equity interest in the Securitization Issuer would also be reduced. In the event that we fail to receive cash indirectly from the Securitization Issuer, we could be unable to make distributions, if at all, in amounts sufficient to maintain our status as a RIC.

The interests of the Noteholders may not be aligned with our interests.

The Asset-Backed Notes are debt obligations ranking senior in right of payment to the rights of the holder of the equity interest in the Securitization Issuer, as residual claimant in respect of distributions, if any, made by the Securitization Issuer. As such, there are circumstances in which the interests of the Noteholders may not be aligned with the interests of holders of the equity interest in the Securitization Issuer. For example, under the terms of the documents governing the Debt Securitization, the Noteholders have the right to receive payments of principal and interest prior to holders of the equity interest.

For as long as the Asset-Backed Notes remain outstanding, the Noteholders have the right to act in certain circumstances with respect to the Loans in ways that may benefit their interests but not the interests of holder of the equity interest in the Securitization Issuer, including by exercising remedies under the documents governing the Debt Securitization.

If an event of default occurs, the Noteholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the Debt Securitization. For example, upon the occurrence of an event of default with respect to the Asset-Backed Notes, the Trustee may and will at the direction of the holders of a supermajority of the Asset-Backed Notes declare the principal, together with any accrued interest, of the notes to be immediately due and payable. This would have the effect of accelerating the principal on such notes, triggering a repayment obligation on the part of the Securitization Issuer. The Asset-Backed Notes then outstanding will be paid in full before any further payment or distribution on the equity interest is made. There can be no assurance that there will be sufficient funds through collections on the Loans or through the proceeds of the sale of the Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the Asset-Backed Notes, or to make any distribution to holder of the equity interest in the Securitization Issuer.

Remedies pursued by the Noteholders could be adverse to our interests as the indirect holder of the equity interest in the Securitization Issuer. The Noteholders have no obligation to consider any possible adverse effect on such other interests. Thus, there can be no assurance that any remedies pursued by the Noteholders will be consistent with the best interests of the Trust Depositor or that we will receive, indirectly through the Trust Depositor, any payments or distributions upon an acceleration of the Asset-Backed Notes. Any failure of the Securitization Issuer to make distributions in respect of the equity interest that we indirectly hold, whether as a result of an event of default and the acceleration of payments on the Asset-Backed Notes or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

Certain events related to the performance of Loans could lead to the acceleration of principal payments on the Asset-Backed Notes.

The following constitute rapid amortization events (Rapid Amortization Events) under the documents governing the Debt Securitization: (i) the aggregate outstanding principal balance of delinquent Loans and restructured Loans that would have been delinquent Loans had such Loans not become restructured Loans exceeds 10% of the current aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans (the Pool Balance) for a period of three consecutive months; (ii) the aggregate outstanding principal balance of defaulted Loans exceeds 5% of the initial Pool Balance determined as of December 19, 2012 for a period of three consecutive months; (iii) the aggregate outstanding principal balance of the Asset-Backed Notes exceeds the borrowing base for a period of three consecutive months; (iv) the Securitization Issuer s pool of Loans contains Loans to ten or fewer obligors; and (v) the occurrence of an event of default under the documents governing the Debt Securitization. After a Rapid Amortization Event has occurred, subject to the priority of payments under the documents governing the Debt Securitization, principal collections on the Loans will be used to make accelerated payments of principal on the Asset-Backed Notes until the payment of principal balance of the Asset-Backed Loans is reduced to zero. Such an event could delay, reduce or eliminate the ability of the Securitization Issuer to make distributions in respect of the equity interest that we indirectly hold, which could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

We have certain repurchase obligations with respect to the Loans transferred in connection with the Debt Securitization.

As part of the Debt Securitization, we entered into a sale and contribution agreement and a sale and servicing agreement under which we would be required to repurchase any Loan (or participation interest therein) which was sold to the Securitization Issuer in breach of certain customary representations and warranty made by us or by the Trust Depositor with respect to such Loan or the legal structure of the Debt Securitization. To the extent that such there is a breach of such representations and warranties and we fail to satisfy any such repurchase obligation, the Trustee may, on behalf of the Securitization Issuer, bring an action against us to enforce these repurchase obligations.

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

At December 31, 2012, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 80.7% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

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

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

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

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

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

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

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

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

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

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

We believe that most of the senior loans we make will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying

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

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

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

To the extent original issue discount and paid-in-kind interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include original issue discount, or OID, instruments and contractual payment-in-kind, or PIK, interest, which represents contractual interest added to a loan balance and due at the end of such loan s

term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

- OID instruments may have higher yields, which reflect the payment deferral and credit risk associated with these instruments.

- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of the collateral; and

- OID and PIK instruments may represent a higher credit risk than coupon loans.

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

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

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

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

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

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

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

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

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

Under applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the

stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable dividends that are payable in part in our common stock.

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

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

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

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

We are exposed to risks associated with changes in interest rates, including fluctuations in interest rates which could adversely affect our profitability

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

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

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

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

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

During the year ended December 31, 2012, we reduced our realized gain by approximately $270,000 for Citigroup s participation in the gain on sale of equity securities and recorded a decrease on participation liability and increased our unrealized gains by a net amount of approximately $386,000 for Citigroup s participation. The value of their participation right on unrealized gains in the related equity investments was approximately $313,000 as of December 31, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately $1.4 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between January 2013 and January 2017.

Pending legislation may allow us to incur additional leverage.

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

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

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. As of December 31, 2012, HT II s and HT III s portfolio companies accounted for approximately 14.6% and 24.7%, respectively, of our total portfolio. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC s compliance with the relevant SBA regulations.

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

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2012 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations in the accompanying prospectus.

SBA regulations limit the outstanding dollar amount of SBA guaranteed debentures that may be issued by an SBIC or group of SBICs under common control.

The SBA regulations currently limit the dollar amount of SBA-guaranteed debentures that can be issued by any one SBIC to $150.0 million or to a group of SBICs under common control to $225.0 million. Moreover, an SBIC may not borrow an amount in excess of two times (and in certain cases, up to three times) its regulatory capital. As of December 31, 2012, we have issued $225.0 million in SBA-guaranteed debentures in our SBIC Subsidiaries, which is the maximum allowed for a group of SBICs under common control. During times that we reach the maximum dollar amount of SBA-guaranteed debentures permitted, and if we require additional capital, our cost of capital is likely to increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, the current status of our SBIC subsidiaries as SBICs does not automatically assure that our SBIC subsidiaries will continue to receive SBA-guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies and available SBA funding. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by our SBIC subsidiaries.

The debentures guaranteed by the SBA have a maturity of ten years and require semi-annual payments of interest. Our SBIC subsidiaries will need to generate sufficient cash flow to make required interest payments on the debentures. If our SBIC subsidiaries are unable to meet their financial obligations under the debentures, the SBA, as a creditor, will have a superior claim to our SBIC subsidiaries assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under such debentures as the result of a default by us.

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

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

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

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

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 New York Stock Exchange, or NYSE, 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, and the SEC has adopted additional rules and regulations that may impact us. 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.

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

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

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Risks Related to Current Economic and Market Conditions

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

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

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

The current financial market situation, as well as various social and political tensions in the United States and around the world, particularly in the Middle East, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Since 2010, several European Union (EU) countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. The recent United States and global economic downturn or a return to the recessionary period in the United States could adversely impact our investments. We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so.

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

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

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.

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

As of December 31, 2012, we had unfunded debt commitments of approximately $61.9 million. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements or future earning assets. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Credit Facilities and proceeds from the Convertible Senior Notes, 2019 Notes and the Asset-Backed Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Risks Related to Our Investments

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

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we will be subject as a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies.

As of December 31, 2012, approximately 65.8% of the fair value of our portfolio was composed of investments in five industries: 20.8% was composed of investments in the drug discovery and development industry, 15.0% was composed of investments in the internet consumer and business services industry, 14.0% was composed of investments in the clean technology industry, 8.2% was composed of investments in the drug delivery industry and 7.8% was composed of investments in the software industry. As a result, a downturn in technology-related industry sectors and particularly those in which we are heavily concentrated could materially adversely affect our financial condition.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at December 31, 2012 that represent greater than 5% of net assets:

	December 31, 2012	
(in thousands)	Fair Value	Percentage of Net Assets
Box, Inc.	$ 47,941	9.3%
Merrimack Pharmaceuticals, Inc.	$ 43,639	8.5%
BrightSource Energy, Inc.	$ 35,118	6.8%
Comverge, Inc.	$ 33,281	6.5%
Jab Wireless, Inc.	$ 30,270	5.9%
Aveo Pharmaceuticals, Inc.	$ 28,381	5.5%
Education Dynamics, LLC	$ 26,976	5.2%
Tectura Corporation	$ 25,960	5.0%

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

Merrimack Pharmaceuticals, Inc. is a biopharmaceutical company discovering, developing and preparing to commercialize innovative medicines paired with companion diagnostics for the treatment of serious diseases, with an initial focus on cancer.

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

Comverge, Inc. provides clean energy solutions.

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

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

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

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

Our financial results could be materially adversely 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.

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

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

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

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

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

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

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

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

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

Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases.

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A change in prices in these energy products could reduce demand for alternative energy. Our investments in cleantech companies also face potential litigation, including significant warranty and product liability claims, as well as class action and government claims arising from the increased attention to the industry from the failure of Solyndra. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies. There is also particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the clean technology companies in our portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company s debt and equity), the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company s securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can also adversely affect our investment valuations. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio.

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.

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

Many of our portfolio companies may be susceptible to economic slowdowns or recessions in both the U.S. and foreign countries (including the economic downturn that began in 2007), and may be unable to repay our loans during such periods. Therefore, during such periods, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

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

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

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

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

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

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

Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could materially adversely affect our ability to service our outstanding borrowings.

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

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

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

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

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

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

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

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

In addition, because we invest in technology-related companies, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our loan could lose value if, among other things, the company s rights to the intellectual property are challenged or if the company s license

to the intellectual property is revoked or expires. Inventory may not be adequate to secure our loan if our valuation of the inventory at the time that we made the loan was not accurate or if there is a reduction in the demand for the inventory.

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

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

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

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

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

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

The possibility that our portfolio companies will not be able to commercialize their technology, products or business concepts presents significant risks to the value of our investment. Additionally, although some of our portfolio companies may already have a commercially successful product or product line when we invest, technology-related products and services often have a more limited market- or life-span than have products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate, or raise additional capital, in increasingly competitive markets. Their inability to do so could affect our investment return. In addition, the intellectual property held by our portfolio companies often represents a substantial portion of the collateral, if any, securing our investments. We cannot assure you that any of our portfolio companies will successfully acquire or develop any new technologies, or that the intellectual property the companies currently hold will remain viable. Even if our portfolio companies are able to develop

commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

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

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management team to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies.

Also, privately-held companies frequently have less diverse product lines and a smaller market presence than do larger competitors. Privately-held companies are, thus, generally more vulnerable to economic downturns and may experience more substantial variations in operating results than do larger competitors. These factors could affect our investment returns and our results of operations and financial condition.

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

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

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

Portfolio company litigation could result in additional costs, the diversion of management time and resources and have an adverse impact on the fair value of our investment.

In the course of providing significant managerial assistance to certain of our portfolio companies, we may serve as directors on the boards of such companies. In addition, in the course of making portfolio company

investments, we may elect to take an equity position in any given company. To the extent that litigation arises out of our investments, we may be named as a defendant, which could result in additional costs and the diversion of management time and resources. In addition, litigation involving a portfolio company may be costly and affect the operations of the business, which could in turn have an adverse impact on the fair value of our investment.

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

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

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

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Our total investments at value in foreign companies were approximately $5.3 million or 0.6% of total investments at December 31, 2012. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

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

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

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

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

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

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

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

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

Any unrealized depreciation that we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could adversely affect our ability to service our outstanding borrowings.

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

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

We generally invest in debt securities with terms of up to seven years and hold such investments until maturity, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments

in the near-term. However, to maintain our qualification as a business development company and as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. Our investments are usually subject to contractual or legal restrictions on resale, or are otherwise illiquid, because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of the investments at a favorable price and, as a result, we may suffer losses.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

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

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

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

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

We may not realize expected returns on warrants received in connection with our debt investments.

We generally receive warrants in connection with our debt investments. At December 31, 2012, we held warrant positions received in connection with many of our debt investment; however, these warrant positions accounted for only approximately 3.3% of the total value of our portfolio investments. If we do not receive the returns that are anticipated on the warrants, our investment returns on our portfolio companies, and the value of an investment in us, may be lower than expected.

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

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

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

In 2012, we received early loan repayments and pay down of working capital loans of approximately $245.8 million. We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may not realize gains from our equity investments.

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

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

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

At December 31, 2012, approximately 62.4% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 36.0% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1.6% of portfolio company loans had an equipment only lien.

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

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

We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance or actions to compel and collect payments from the borrower outside the ordinary course of business.

Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans or we could be subject to lender liability claims.

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 8.7% of the outstanding balance of our portfolio as of December 31, 2012. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company s common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

Risks Related to Our Common Stock

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

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

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

If our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance

from our stockholders and our independent directors. If our common stock trades below net asset value, the higher cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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

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

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

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

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

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

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

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At our Annual Meeting of Stockholders on May 30, 2012, our stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below our net asset value per share, subject to Board approval of the offering. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater discounts if we determine to conduct such offerings at prices below net asset value. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our securities at a price below net asset value during the year ended December 31, 2012.

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

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

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

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the financial performance of specific industries in which we invest in on a recurring basis;
- announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;

losing RIC status;

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

changes in the value of our portfolio of investments;

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- realized losses in investments in our portfolio companies;
- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departures of key personnel.

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

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 7,000,000 shares of common stock we are offering will be approximately $82.8 million, and approximately $95.3 million if the underwriters over-allotment option is exercised in full, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.

We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within three to six months, depending on market conditions. We anticipate that the remainder will be used for working capital and general corporate purposes, including potential payments or distributions to shareholders. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2012:

(i) on an actual basis, and

(ii) on an as adjusted basis to the sale of 7,000,000 shares of our common stock in this offering (assuming no exercise of the underwriters overallotment option) at a price of $11.90 per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with the Use of Proceeds section and our statement of assets and liabilities included elsewhere in this prospectus supplement.

	As of December 31, 2012	
	Actual	As Adjusted (1)(2)(3)
	(in thousands)	
Investments at fair value	$ 906,300	$ 906,300
Cash and cash equivalents	$ 182,994	$ 265,794
Debt:		
Long-term SBA debentures	$ 225,000	$ 225,000
Convertible Senior Notes	71,436	71,436
2019 Notes	170,364	170,364
Asset-Backed Notes	129,300	129,300
Total debt	$ 596,100	$ 596,100
Stockholders equity:		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 52,925,431 shares issued and outstanding	$ 53	$ 61
Capital in excess of par value	564,508	647,300
Unrealized appreciation (depreciation) on investments	(7,947)	(7,947)
Accumulated realized gains (losses) on investments	(36,916)	(36,916)
Distributions in excess of investment income	(3,730)	(3,730)
Total stockholders equity	$ 515,968	$ 598,768
Total capitalization	$ 1,112,068	$ 1,194,868

(1) Does not include the underwriters over-allotment option.

(2) The above table does not reflect 606,001 restricted shares of our common stock issued to certain employees on March 4, 2013.

(3) On February 26, 2013, our Board of Directors declared a quarterly cash dividend of $0.25 per share that is payable on March 19, 2013 to stockholders of record as of March 11, 2013. 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 focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and clean-technology industries at all stages of development. We source our investments through our principal office located in Silicon Valley, as well as through its additional offices in Boston, MA, Boulder, CO and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital-backed companies in technology-related markets requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related markets including technology, biotechnology, life science, and clean-technology industries and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by some or all of the assets of the portfolio 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-backed companies in technology-related markets with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital-backed companies in technology-related markets is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code, 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.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies.

We regularly engage in discussions with third parties in respect of various potential transactions. We may acquire an investment or a portfolio of investments or an entire company or sell a portion of our portfolio on an

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

Portfolio and Investment Activity

The total fair value of our investment portfolio was $906.3 million at December 31, 2012 as compared to $652.9 million at December 31, 2011.

The fair value of the loan portfolio at December 31, 2012 was approximately $827.5 million, compared to a fair value of approximately $585.8 million at December 31, 2011. The fair value of the equity portfolio at December 31, 2012 and 2011 was approximately $49.2 million and $37.1 million, respectively. The fair value of our warrant portfolio at December 31, 2012 and 2011 was approximately $29.5 million and $30.0 million, respectively.

Portfolio Activity

Our investments in portfolio companies take a variety of forms, including unfunded contractual commitments and funded investments. From time to time, unfunded contractual commitments are dependent upon a portfolio company reaching certain milestones before the debt commitment is available to the portfolio company. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Debt commitments generally fund over the two succeeding quarters from close. Not all debt investments represent our future cash requirements. Similarly, unfunded contractual commitments may expire without being drawn and do not represent our future cash requirements.

Prior to entering into a contractual commitment, we generally issue a non-binding term sheet to a prospective portfolio company. Non-binding terms 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 our future cash requirements.

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Our portfolio activity for the years ended December 31, 2012 and 2011 was comprised of the following:

(in millions)	Year Ended December 31, 2012	2011
Debt Commitments[1]		
New portfolio company	$ 362.3	$ 402.5
Existing portfolio company	274.3	225.8
Total	$ 636.6	$ 628.3
Funded Debt Investments		
New portfolio company	$ 267.9	$ 338.7
Existing portfolio company	191.4	94.7
Total	$ 459.3	$ 433.4
Funded Equity Investments		
New portfolio company	$ 6.0	$
Existing portfolio company	3.7	2.1
Total	$ 9.7	$ 2.1

	As of December 31, 2012	2011
Unfunded Contractual Commitments[2]		
Total	$ 61.9	$ 168.2
Non-Binding Term Sheets		
New portfolio company	$ 70.0	$ 82.5
Existing portfolio company		
Total	$ 70.0	$ 82.5

(1) Includes restructured loans.

(2) Includes unfunded contractual commitments in 21 new and existing portfolio companies. Approximately $35.6 million of these unfunded origination activity commitments as of December 31, 2012 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the year ended December 31, 2012, we received normal principal amortization repayments of approximately $120.7 million, and early repayments and working line of credit pay-downs of approximately $125.1 million. During the year ended December 31, 2012, we restructured certain debt investments for approximately $85.0 million and converted approximately $669,000 of debt to equity.

Total portfolio investment activity (inclusive of unearned income) as of and for each of the years ended December 31, 2012 and 2011 was as follows:

(in millions)	December 31, 2012	December 31, 2011
Beginning Portfolio	$ 652.9	$ 472.0
New Fundings	469.9	433.8
Warrants not related to current period fundings	(0.2)	1.5
Principal payments received on investments	(120.7)	16.1
Early payoffs	(125.1)	(65.2)
Restructure payoffs	(48.5)	(182.1)
Restructure fundings	85.0	(16.1)

Accretion of loan discounts and paid-in-kind principal		21.3		17.0
New loan fees		(12.8)		(10.4)
Conversion of Other Assets		9.6		0.2
Debt Converted to Equity		0.6		
Proceeds from sale of investments		(7.2)		(20.6)
Net realized (loss) gain on investments		(14.1)		2.1
Net change in unrealized appreciation (depreciation)		(4.4)		4.6
Ending Portfolio	$	906.3	$	652.9

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

	December 31, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	$ 652,041	72.0%	$ 482,268	73.9%
Senior secured debt	205,049	22.6%	133,544	20.4%
Preferred stock	33,885	3.7%	30,181	4.6%
Common Stock	15,325	1.7%	6,877	1.1%
	$ 906,300	100.0%	$ 652,870	100.0%

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

	December 31, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 901,041	99.4%	$ 634,736	97.2%
England	5,259	0.6%	8,266	1.3%
Iceland			4,970	0.7%
Ireland			3,842	0.6%
Canada			672	0.1%
Israel			384	0.1%
	$ 906,300	100.0%	$ 652,870	100.0%

As of December 31, 2012, we held warrants or equity positions in two companies which have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. There can be no assurance that these companies will complete their initial public offering in a timely manner or at all.

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $1.0 million to $25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to approximately 14.0% as of December 31, 2012. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt. Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately $2.0 million and $4.5 million of unamortized fees at December 31, 2012 and December 31, 2011, respectively, and approximately $6.8 million and $4.4 million in exit fees receivable at December 31, 2012 and December 31, 2011, respectively.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately $1.5 million and $1.7 million in

PIK income in the twelve month periods ended December 31, 2012 and 2011.

In some cases, we may collateralize our investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property.

At December 31, 2012, approximately 62.4% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 36.0% of the loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1.6% of portfolio company loans had an equipment only lien.

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

The effective yield on our debt investments during the year was 14.37% and was attributed in part to interest charges and fees related to loan restructurings and acceleration of fee income recognition from early loan repayments. The overall weighted average yield to maturity of our loan investments was approximately 12.91% at December 31, 2012, a slight increase compared to 12.64% at December 31, 2011. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

Portfolio Composition

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

As of December 31, 2012, approximately 65.8% of the fair value of our portfolio was composed of investments in five industries: 20.8% was composed of investments in the drug discovery and development industry, 15.0% was composed of investments in the internet consumer and business services industry, 14.0% was composed of investments in the clean technology industry, 8.2% was composed of investments in the drug delivery industry and 7.8% was composed of investments in the software industry.

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

	December 31, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 188,479	20.8%	$ 131,428	20.1%
Internet Consumer & Business Services	136,149	15.0%	117,542	18.0%
Clean Technology	126,600	14.0%	64,587	9.9%
Drug Delivery	74,218	8.2%	62,665	9.6%
Software	70,838	7.8%	27,850	4.3%
Medical Device & Equipment	54,575	6.0%		0.0%
Information Services	53,523	5.9%	45,850	7.0%
Media/Content/Info	51,534	5.7%	38,476	5.9%
Communications & Networking	37,560	4.1%	28,618	4.4%
Healthcare Services, Other	36,481	4.0%		0.0%
Diagnostic	16,307	1.8%	15,158	2.3%
Consumer & Business Products	13,723	1.5%	4,186	0.6%
Electronics & Computer Hardware	12,715	1.4%	1,223	0.2%
Specialty Pharma	12,473	1.4%	39,384	6.0%
Surgical Devices	11,358	1.3%	11,566	1.8%
Biotechnology Tools	6,845	0.8%	18,693	2.9%
Semiconductors	2,922	0.3%	9,733	1.5%
Therapeutic			35,911	5.5%
	$ 906,300	100.0%	$ 652,870	100.0%

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

For the years ended December 31, 2012 and 2011, our ten largest portfolio companies represented approximately 35.2% and 37.9% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2012 and 2011, we had eight and seven investments, respectively, that represented 5% or more of our net assets. At December 31, 2012, we had six equity investments representing approximately 70.9% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2011, we had seven equity investments which represented approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

As of December 31, 2012, over 98.4% of our debt investments were in a senior secured first lien position, and more than 98.5% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. As a result, we believe we are well positioned to benefit should market rates increase. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of December 31, 2012, we held warrants in 116 portfolio companies, with a fair value of approximately $29.5 million. The fair value of the warrant portfolio has decreased by approximately 1.7% as compared to the fair value of $30.0 million at December 31, 2011. These warrant holdings would require us to invest approximately $71.2 million to exercise such warrants. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company s performance and overall market conditions. Of the warrants which have monetized since inception, we have realized warrant gain multiples in the range of approximately 1.04x to 10.20x based on the historical rate of return on our investments. 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.

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

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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.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the years ended December 31, 2012 and December 31, 2011:

(in thousands)				Year Ended December 31, 2012		
Portfolio Company	**Type**	**Fair Value at December 31, 2012**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
E-Band Communications, Corp.	Non-Controlled Affiliate	$	$ 4	$ 18	$	$
Gelesis, Inc	Non-Controlled Affiliate	1,665	712	(672)		
Optiscan BioMedical, Corp.	Non-Controlled Affiliate	10,207	1,649	2,722		
Total		$ 11,872	$ 2,365	$ 2,068	$	$

(in thousands)				Year Ended December 31, 2011		
Portfolio Company	**Type**	**Fair Value at December 31, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
MaxVision Holding, LLC	Control	$ 1,027	$ 889	$ (5,158)	$	$
E-Band Communications, Corp.	Non-Controlled Affiliate		14	(3,425)		
Total		$ 1,027	$ 903	$ (8,583)	$	$

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

Portfolio Grading

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. See Business Investment Process Loan and Compliance Administration in the accompanying prospectus. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of December 31, 2012 and 2011, respectively:

	December 31, 2012		December 31, 2011	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**

Investment Grading				
1	$ 134,166	16.2%	$ 104,516	17.8%
2	542,885	65.6%	403,114	68.8%
3	127,560	15.4%	70,388	12.0%
4	22,929	2.8%	6,722	1.2%
5			1,027	0.2%
	$ 827,540	100.0%	$ 585,767	100.0%

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As of December 31, 2012, our investments had a weighted average investment grading of 2.06 as compared to 2.01 at December 31, 2011. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At December 31, 2012, nine portfolio companies were graded 1, 52 portfolio companies were graded 2, 16 portfolio companies were graded 3, five portfolio companies were graded 4, and one portfolio company was graded 5 as compared to 43, 12, two and two portfolio companies, respectively, at December 31, 2011.

At December 31, 2012, we had one loan on non-accrual with no fair market value compared to one loan at December 31, 2011 with a fair value of approximately $1.0 million.

Results of Operations

Comparison of periods ended December 31, 2012 and 2011

Investment Income

Interest income totaled approximately $87.6 million and $70.3 million for 2012 and 2011, respectively. Income from commitment, facility and loan related fees totaled approximately $9.9 million 2012, compared with $9.5 million for 2011. The increase in interest income was directly related to an increase in the average investment portfolio outstanding in 2012 than in 2011.

In 2012 and 2011, interest income included approximately $8.4 million and $7.4 million of income from exit fees, respectively. The year over year increase is attributed to an increase in early payoffs for the year ended December 31, 2012 and an increase in the average investment portfolio outstanding in 2012 than in 2011.

At December 31, 2012 and 2011, we had approximately $11.4 million and $10.3 million of deferred income related to commitment, facility and loan related fees, respectively. The increase in deferred income was attributed to increased investment originations in 2012.

The following table shows the PIK-related activity for the years ended December 31, 2012 and 2011, at

cost:

	Years ended December 31,	
(in thousands)	**2012**	**2011**
Beginning PIK loan balance	$ 2,041	$ 3,955
PIK interest capitalized during the period	1,400	2,093
Payments received from PIK loans	(132)	(3,567)
PIK converted to other securities		(440)
Ending PIK loan balance	$ 3,309	$ 2,041

The decrease in payments received from PIK loans and PIK interest capitalized during the year ended December 31, 2012 is due to approximately $1.4 million, $1.0 million, $493,000, $302,000, and $268,000 of PIK collected in conjunction with the sale of our investment in Infologix, Inc. and the early payoffs of IPA Holdings, LLC., Unify Corporation, HighJump Acquisition, LLC., and Velocity Technology Solutions, Inc., respectively, in the year ended December 31, 2011. The decrease in PIK converted to other securities during the year December 31, 2012 is due to approximately $440,000 related to the conversion of MaxVision Holding, LLC. debt to equity during the year ended December 31, 2011.

In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services during the year ended December 31, 2012.

Operating Expenses

Operating expenses, which are comprised of interest and fees on borrowings, general and administrative and employee compensation, totaled approximately $49.4 million and $40.3 million during the periods ended December 31, 2012 and 2011, respectively.

Interest and fees on borrowings totaled approximately $23.8 million and $15.9 million during the periods ended December 31, 2012 and 2011, respectively. This $7.9 million year over year increase is largely attributed to $1.6 million of incremental interest and fee expense due to the Convertible Senior Notes issued on April 15, 2011 and $5.6 million related to the 2019 Notes. Additionally, we incurred approximately $577,000 of non cash interest expense during the period ended December 31, 2012 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. We had a weighted average cost of debt comprised of interest and fees of approximately 6.58% at December 31, 2012, as compared to 6.23% as of December 31, 2011.

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses increased to $8.1 million from $8.0 million for the periods ended December 31, 2012 and 2011, respectively.

Employee compensation and benefits totaled approximately $13.3 million during both the periods ended December 31, 2012 and 2011. Stock-based compensation totaled approximately $4.2 million and $3.1 million during the periods ended December 31, 2012 and 2011, respectively. This increase was due primarily to the expense on restricted stock grants of approximately 672,000 shares issued in the first quarter of 2012.

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

Net investment income before income tax expense for the year ended December 31, 2012 totaled $48.1 million as compared with a net investment income before income tax expense in 2011 of approximately $39.6 million. The changes are made up of the items described above under Investment Income and Operating Expenses.

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and 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.

A summary of realized gains and losses for the years ended December 31, 2012 and 2011 is as follows:

	December 31,	
(in thousands)	**2012**	**2011**
Realized gains	$ 17,481	$ 11,092
Realized losses	(14,313)	(8,351)
Net realized gains (losses)	$ 3,168	$ 2,741

During the year ended December 31, 2012, we recognized gross realized gains of approximately $17.5 million and gross realized losses of approximately $14.3 million, respectively, on the portfolio. During the year ended December 31, 2012, we recorded realized gains of approximately $5.1 million, $3.1 million, $2.6 million, $2.4 million and $2.4 million from the sale of our investments in NEXX Systems, BARRX Medical, Inc., DeCode Genetics, Aegerion Pharmaceuticals, and Annie s, respectively. These gains were partially offset by the

liquidation of our investments in MaxVision Holding, L.L.C, Razorgator Interactive Group, Zeta Interactive Corporation and Magi.com (pka Hi5 Networks, Inc.), of approximately $8.7 million, $2.2 million, $672,000 and $463,000, respectively.

During the year ended December 31, 2011 we recognized total gross realized gains of approximately $11.1 million primarily due to the sale of warrants and equity investments in three portfolio companies. We recognized gross realized losses in 2011 of approximately $8.4 million on the disposition of investments in 13 portfolio companies.

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors. The following table itemizes the change in net unrealized appreciation/depreciation of investments for the years ended December 31, 2012 and 2011:

	December 31,	
(in thousands)	**2012**	**2011**
Gross unrealized appreciation on portfolio investments	$ 65,871	$ 58,980
Gross unrealized depreciation on portfolio investments	(73,158)	(49,327)
Reversal of prior period net unrealized appreciation upon a realization event	(12,575)	(13,224)
Reversal of prior period net unrealized depreciation upon a realization event	14,944	8,395
Citigroup Warrant Participation	402	(217)
Net unrealized appreciation (depreciation) on portfolio investments	$ (4,516)	$ 4,607

During the year ended December 31, 2012, we recorded approximately $4.5 million of net unrealized depreciation from our debt, equity and warrant investments. Approximately $1.3 million is attributed to net unrealized appreciation on equity, of which approximately $6.0 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain and $5.7 million is due to the reversal of prior period net unrealized depreciation upon being realized as a loss.

We recorded approximately $3.4 million and $2.3 million of net unrealized depreciation on our warrant and debt investments, respectively, of which approximately $6.6 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain and $9.2 million is due to the reversal of prior period net unrealized depreciation upon being realized as a loss.

During the year ended December 31, 2012, net unrealized investment appreciation recognized by the Company was reduced by approximately $402,000 due to the warrant participation agreement with Citigroup.

During the year ended December 31, 2011 net change in unrealized appreciation totaled approximately $4.6 million from debt, warrant and equity investments. Approximately $9.0 million was due to net unrealized appreciation on debt investments attributable to reversal of unrealized depreciation to realized loss of approximately $5.0 million on one technology debt investment and due to the reversal of unrealized depreciation of approximately $3.1 million on one life science debt investment as a result of improvements at the portfolio company. Approximately $5.8 million of net unrealized depreciation on equity investments during the year ended December 31, 2011, was primarily attributable to the sale of InfoLogix, Inc. resulting in the reversal of $7.7 million of unrealized appreciation on equity investments to realized gains offset by approximately $1.9 million of net appreciation due to net increases in private and public portfolio company valuations.

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The following table itemizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the year ended December 31, 2012.

	Year Ended December 31, 2012				
(in millions)	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	$ (11.4)	$ (2.1)	$ (1.2)	$	$ (14.7)
Reversals of Prior Period Collateral based impairments	10.0	0.5	0.7		11.2
Reversals due to Loan Payoffs & Warrant/Equity sales	7.0	(0.3)	(5.0)	(0.5)	1.6
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets		(6.5)	1.9		(4.6)
Level 3 Assets	(7.9)	9.7	0.2		1.6
Total Fair Value Market/Yield Adjustments	(7.9)	3.2	2.1		(3.0)
Net Unrealized Appreciation/(Depreciation)	$ (2.3)	$ 1.3	$ (3.4)	$ (0.5)	$ (4.9)

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

During the year ended December 31, 2012, we recorded approximately $7.9 million net unrealized depreciation on our debt investments related to fluctuations in current market interest rates.

Income and Excise Taxes

We account for income taxes in accordance with the provisions of ASC 740, Income Taxes, which requires that deferred income taxes be determined based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances are used to reduce deferred tax assets to the amount likely to be realized. We intend to distribute approximately $1.5 million of spillover earnings from the year ended December 31, 2012 to our shareholders in 2013.

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

For the year ended December 31, 2012 net increase in net assets resulting from operations totaled approximately $46.8 million compared to net income of approximately $46.9 million for the period ended December 31, 2011. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $0.93 and $0.93, respectively, for the year ended December 31, 2012, compared to a basic and fully diluted net income per share of $1.08 and $1.07, respectively, for the year ended December 31, 2011.

Comparison of periods ended December 31, 2011 and 2010

Investment Income

Interest income totaled approximately $70.3 million and $54.7 million for 2011 and 2010, respectively. Income from commitment, facility and loan related fees such as amendment fees and pre-payment penalties totaled approximately $9.5 million and $4.8 million for 2011 and 2010, respectively. The increase in interest income was directly related to an increase in the average investment portfolio outstanding in 2011 than in 2010.

In 2011 and 2010, interest income included approximately $7.4 million and $6.2 million of income from accrued exit gees, respectively. The year over year increase was attributed to an increase in the average investment portfolio outstanding in 2011 than in 2010.

At December 31, 2011 and 2010, we had approximately $10.3 million and $6.6 million of deferred income related to commitment, facility and loan related fees, respectively. The increase in deferred income was attributed to increased investment originations in 2011.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $40.3 million and $30.1 million during the periods ended December 31, 2011 and 2010, respectively.

Interest and fees totaled approximately $15.9 million and $9.8 million during the periods ended December 31, 2011 and 2010, respectively. This $6.1 million year over year increase is largely attributed to $1.4 million of incremental interest and fee expense due to the increase in SBA debentures from $170.0 million as of December 31, 2010 to $225.0 million as of December 31, 2011 and $4.5 million of interest and fee expenses during the period ended December 31, 2011 related to the $75.0 million of Convertible Senior Notes issued on April 15, 2011. Additionally, we incurred approximately $767,000 of non cash interest expense during the period ended December 31, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. We had a weighted average cost of debt comprised of interest and fees of approximately 6.23% at December 31, 2011, as compared to 6.27% as of December 31, 2010. The increase was primarily attributed to the weighted average cost of debt on the senior convertible notes of 8.1% offset by a lower weighted average cost of debt on outstanding SBA debentures at 5.0% in 2011 as compared to 6.1% in 2010.

General and administrative expenses include legal, consulting, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses increased to approximately $8.0 million from $7.1 million for the periods ended December 31, 2011 and 2010, respectively, largely due to an increase in accounting and printer fees from approximately $1.0 million to $1.6 million during the same periods, respectively.

Employee compensation and benefits totaled approximately $13.3 million and $10.5 million during the periods ended December 31, 2011 and 2010, respectively. The $2.8 million increase is due to $1.6 million of increases in compensation expense attributable to increases in headcount, executive severance payments and payroll taxes associated with restricted stock vesting and $1.2 million in increases in variable compensation expense. Stock-based compensation totaled approximately $3.1 million and $2.7 million during the periods ended December 31, 2011 and 2010, respectively. This increase is due to the incremental expense attributed to restricted stock grants issued in the first quarter of 2011.

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

Net investment income before income tax expense for the year ended December 31, 2011 totaled $39.6 million as compared with a net investment income before income tax expense in 2010 of approximately $29.4 million. The changes are made up of the items described above under Investment Income and Operating Expenses.

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and 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.

In 2011, we generated realized gains totaling approximately $11.1 million primarily due to the sale of warrants and equity investments in 3 portfolio companies. We recognized realized losses in 2011 of approximately $8.4 million on the disposition of investments in 13 portfolio companies. We recognized realized gains of approximately $4.7 million during the year ended December 31, 2010 primarily due to the sale of warrants and common stock of twelve portfolio companies. We recognized realized losses in 2010 of approximately $31.1 million on the disposition of investments in ten portfolio companies. A summary of realized gains and losses for the years end December 31, 2011 and 2010 is as follows:

	December 31,	
(in thousands)	**2011**	**2010**
Realized gains	$ 11,092	$ 4,677
Realized losses	(8,351)	(31,059)
Net realized gains (losses)	$ 2,741	$ (26,382)

During the year ended December 31, 2011 net change in unrealized appreciation totaled approximately $4.6 million from loan, warrant and equity investments. Approximately $9.0 million was due to net unrealized appreciation on debt investments attributable to reversal of unrealized depreciation to realized loss of approximately $5.0 million on one technology debt investment and due to the reversal of unrealized depreciation of approximately $3.1 million on one life science debt investment as a result of improvements at the portfolio company. Approximately $5.8 million of net unrealized depreciation on equity investments during the year ended December 31, 2011, was primarily attributable to the sale of InfoLogix, Inc. resulting in the reversal of $7.7 million of unrealized appreciation on equity investments to realized gains offset by approximately $1.9 million of net appreciation due to net increases in private and public portfolio company valuations. For the year ended December 31, 2010 approximately $ 3.6 million and approximately $500,000 of the net unrealized depreciation was attributable to debt and warrant investments, respectively, and approximately $5.2 million of appreciation that was attributable to equity investments. During the year ended December 31, 2011, net unrealized investment appreciation recognized by the Company was reduced by approximately $217,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Borrowings.

The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2011 and 2010:

	December 31,	
(in thousands)	**2011**	**2010**
Gross unrealized appreciation on portfolio investments	$ 58,980	$ 40,696
Gross unrealized depreciation on portfolio investments	(49,327)	(64,465)
Reversal of prior period net unrealized appreciation upon a realization event	(13,224)	(3,902)
Reversal of prior period net unrealized depreciation upon a realization event	8,395	29,674
Citigroup Warrant Participation	(217)	(13)
Net unrealized appreciation/(depreciation) on portfolio investments	$ 4,607	$ 1,990

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

For the year ended December 31, 2011 net increase in net assets resulting from operations totaled approximately $46.9 million compared to net income of approximately $5.0 million for the period ended December 31, 2010. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $1.08 and $1.07, respectively, for the year ended December 31, 2011, compared to a basic and fully diluted net income per share of $0.12 and $0.12, respectively, for the year ended December 31, 2010.

Financial Condition, Liquidity and Capital Resources

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

At December 31, 2012, we had $75.0 million of Convertible Senior Notes payable, $170.4 million of 2019 Notes, $129.3 million of Asset-Backed Notes and $225.0 million of SBA debentures payable. We had no borrowings outstanding under either the Wells Facility or the Union Bank Facility. At December 31, 2011, we had approximately $10.2 million of outstanding borrowings under the Wells Facility, $75.0 million of Convertible Senior Notes payable and $225.0 million SBA debentures payable. We had no borrowings outstanding under the Union Bank Facility.

At December 31, 2012, we had $288.0 million in available liquidity, including $183.0 million in cash and $105.0 million in our Credit Facilities. At December 31, 2012, we had available borrowing capacity of approximately $75.0 million under the Wells Facility and $30.0 million under the Union Bank Facility, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

In January 2012, we completed a follow-on public offering of 5.0 million shares of common stock for proceeds of approximately $48.05 million, before deducting offering expenses, to us.

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

During the year ended December 31, 2012, our operating activities used $193.9 million of cash and cash equivalents, compared to $139.5 million used during the year ended December 31, 2011. The $54.4 million increase in cash used in operating activities resulted primarily from additional purchases of investments of approximately $62.0 million partially offset by a decrease in proceeds from sale of investments of approximately $8.2 million. During the year ended December 31, 2012, our financing activities provided $312.5 million of cash, compared to $97.2 million during the year ended December 31, 2011. This $215.3 million increase in cash provided by financing activities was due primarily due to the issuance of $170.4 million of 2019 Notes Payable and $129.3 million of Asset-Backed Notes, partially offset by a decrease in borrowings of from our Credit Facilities and increase in repayments of to our Credit Facilities of approximately $28.5 million and $46.9 million, respectively, as well as an increase in dividends paid of approximately $8.8 million due to the public offerings of 8.1 million shares of common stock.

As of December 31, 2012, net assets totaled $516.0 million, with a net asset value per share of $9.75. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

Additionally, we expect to raise additional capital to support our future growth through future equity and debt offerings, and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2012 Annual Shareholder Meeting held on May 30, 2012, our

stockholders authorized us, with the approval of our Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. There can be no assurance that these capital resources will be available.

On July 25, 2012, our Board of Directors approved an extension of the stock repurchase plan under the same terms and conditions that allowed us to repurchase up to $35.0 million of our common stock. The stock repurchase plan expired on February 26, 2013 and no shares were repurchased in 2012.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of December 31, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 296.8%, excluding our SBA debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBA debentures was 185.4% at December 31, 2012. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage.

Outstanding Borrowings

At December 31, 2012 and December 31, 2011, we had the following borrowing capacity and outstanding amounts:

	December 31, 2012		December 31, 2011	
(in thousands)	**Total Available**	**Carrying Value[1]**	**Total Available**	**Carrying Value[1]**
Union Bank Facility	$ 30,000	$	$ 55,000	$
Wells Facility	75,000		75,000	10,187
Convertible Senior Notes[2]	75,000	71,436	75,000	70,353
2019 Notes	170,364	170,364		
Asset-Backed Notes	129,300	129,300		
SBA Debentures[3]	225,000	225,000	225,000	225,000
Total	$ 704,664	$ 596,100	$ 430,000	$ 305,540

(1) Except for the Convertible Senior Notes (as defined below), all carrying values are the same as the principal amount outstanding.
(2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $3.6 million at December 31, 2012.
(3) In January 2012, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2012, the SBA approved a $25.0 million dollar commitment for HT III. In February 2012, we repaid $24.25 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.25 million dollar commitment for HT III. In August 2012, the Company repaid $24.75 million of SBA debentures under HT II, $12.0 million priced at 6.43%, including annual fees, and $12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a $24.75 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

Our net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facilities, Convertible Senior Notes, 2019 Notes Payable, Asset-Backed Notes and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings order to comply with certain covenants, including the ratio of total assets to total indebtedness. We believe that our current cash and cash equivalents, cash generated from operations, and funds available from our Credit Facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

Debt financing costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing and are recognized as prepaid expenses and amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, were as follows:

(in thousands)	As of December 31 2012	2011
Wells facility	$ 867	$ 906
SBA Debenture	5,877	5,828
Convertible Senior Notes	1,900	2,477
Asset-Backed Notes	4,074	
2019 Notes	6,287	
	$ 19,005	$ 9,211

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of December 31, 2012, we had unfunded commitments of approximately $61.9 million. Approximately $35.6 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately $70.0 million of non-binding term sheets outstanding to seven new and existing companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of December 31, 2012:

	Payments due by period (in thousands)				
Contractual Obligations[1][2]	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings[3][4]	$ 596,100	$	$ 129,300	$ 71,436	$ 395,364
Operating Lease Obligations[5]	8,819	1,245	2,881	3,044	1,649
Total	$ 604,919	$ 1,245	$ 132,181	$ 74,480	$ 397,013

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.
(3) Includes $225.0 million in borrowings under the SBA debentures, $170.4 million of the 2019 Notes, $129.3 million in aggregate principal amount of the Asset-Backed Notes and $71.4 million of the Convertible Senior Notes.
(4)

Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $3.6 million at December 31, 2012.

(5) Long-term facility leases.

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Certain premises are leased under agreements which expire at various dates through December 2020. Total rent expense amounted to approximately $1.2 million, $1.1 million and $1.0 million during the years ended December 31, 2012, 2011 and 2010, respectively.

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. HT II has a total of $76.0 million of SBA guaranteed debentures outstanding as of December 31, 2012 and has paid the SBA commitment fees of approximately $1.5 million. As of December 31, 2012, we held investments in HT II in 51 companies with a fair value of approximately $132.6 million, accounting for approximately 14.6% of our total portfolio at December 31, 2012.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With our net investment of $74.5 million in HT III as of December 31, 2012, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, subject to SBA approval, of which $149.0 million was outstanding as of December 31, 2012. As of December 31, 2012, HT III has paid commitment fees of approximately $1.5 million. As of December 31, 2012, we held investments in HT III in 35 companies with a fair value of approximately $223.6 million accounting for approximately 24.7% of our total portfolio at December 31, 2012.

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

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2012 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.25% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2012 for HT II was approximately $95.2 million with an average interest rate of approximately 5.68%. The average amount of debentures outstanding for the year ended December 31, 2012 for HT III was approximately $112.0 million with an average interest rate of approximately 3.25%.

In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a $25.0 million dollar commitment for HT III. In February 2012, we repaid $24.25 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a $24.25 million dollar commitment for HT III. In August 2012, we repaid $24.75 million of SBA debentures under HT II, $12.0 million priced at 6.43%, including annual fees and $12.75 million priced at 6.38%, including annual fees.

As of December 31, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at December 31, 2012 there was $225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

We reported the following SBA debentures outstanding as of December 31, 2012 and December 31, 2011:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate(1)	December 31, 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	$	$ 12,000
March 26, 2008	March 1, 2018	6.38%	34,800	58,050
September 24, 2008	September 1, 2018	6.63%		13,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
September 19, 2012	September 1, 2022	3.05%	24,250	
November 14, 2012	November 1, 2022	3.05%(2)	24,750	
Total SBA Debentures			**$ 225,000**	**$ 225,000**

(1) Interest rate includes annual charge

(2) Interim interest on the November 14, 2012 borrowing is expected to pool in March 2013 at which date the principal interest rate will be set.

Wells Facility

In August 2008, we entered into a $50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility). On June 20, 2011, we renewed the Wells Facility. Under this three-

year senior secured facility, Wells Fargo Capital Finance has made commitments of $75.0 million. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three-month period ended December 31, 2012, this non-use fee was approximately $96,000. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term. At December 31, 2012, there were no borrowings outstanding on this facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. As of December 31, 2012, the minimum tangible net worth covenant has increased to $392.3 million as a result of the October 2012 follow-on public offering of 3.1 million shares of common stock for proceeds of approximately $33.6 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2012.

Union Bank Facility

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

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

On December 17, 2012, we further amended the Union Bank Facility to remove RBC from the Union Bank Facility. Following the removal of RBC, the Union Bank Facility consists solely of Union Bank s commitment of $30.0 million. In connection with the amendment, the maximum availability under the Union Bank Facility, subject to a borrowing base, was reduced from $55.0 million to $30.0 million. The Union Bank Facility contains

an accordion feature, in which we could increase the credit line by up to $95.0 million in the aggregate, funded by commitments from additional lenders and with the agreement of Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join 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%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended December 31, 2012, this nonuse fee was approximately $65,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At December 31, 2012, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of December 31, 2012, the minimum tangible net worth covenant has increased to $386.8 million as a result of the January and October 2012 follow-on public offerings of 5.0 and 3.1 million shares of common stock, respectively, for total net proceeds of approximately $80.9 million. The Union Bank Facility will mature on November 1, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2012.

Citibank Credit Facility

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

During the year ended December 31, 2012, we reduced our realized gain by approximately $270,000 for Citigroup s participation in the gain on sale of equity securities and recorded a decrease on participation liability and increased our unrealized gains by a net amount of approximately $386,000 for Citigroup s participation. The value of their participation right on unrealized gains in the related equity investments was approximately $313,000 as of December 31, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately $1.4 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between January 2013 and January 2017.

Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016. As of December 31, 2012, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately $71.4 million.

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

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

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

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

As of December 31, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	**As of December 31, 2012**
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(3,564)
Carrying value of debt	$ 71,436

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For the years ended December 31, 2012 and 2011, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	For the Years Ended December 31, 2012	2011
Stated interest expense	$ 4,500	$ 3,187
Accretion of original issue discount	1,083	767
Amortization of debt issuance cost	577	409
Total interest expense	$ 6,160	$ 4,363
Cash paid for interest expense	$ 4,500	$ 2,250

As of December 31, 2012, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note to our consolidated financial statements for more detail on the Convertible Senior Notes.

2019 Notes

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

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

April 2019 Notes

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

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

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring our compliance with (regardless of whether it is subject to) the asset coverage requirements

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

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

September 2019 Notes

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

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

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

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

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For the years ended December 31, 2012 and 2011, the components of interest expense and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

(in thousands)	For the Years Ended December 31, 2012	2011
Stated interest expense	$ 5,139	$
Amortization of debt issuance cost	423	
Total interest expense and fees	$ 5,562	$
Cash paid for interest expense and fees	$ 4,790	$

As of December 31, 2012, we are in compliance with the terms of the indenture governing the April 2019 Notes and the September 2019 Notes. See Note 4 to our consolidated financial statements for more detail on the 2019 Notes.

Asset-Backed Notes

On December 19, 2012, we completed a $230.7 million term debt securitization in connection with which an affiliate of ours made an offering of $129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the Asset-Backed Notes), which Asset-Backed Notes were rated A2(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among us, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), Hercules Capital Funding Trust 2012-1, as Issuer (the Issuer), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by us. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

As part of this transaction, we entered into a sale and contribution agreement with the Trust Depositor under which we have agreed to sell or have contributed to the Trust Depositor certain senior loans made to certain of our portfolio companies (the Loans). We have made customary representations, warranties and covenants in the sale and contribution agreement with respect to the Loans as of the date of their transfer to the Trust Depositor.

In connection with the issuance and sale of the Asset-Backed Notes, we have made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to us. The Issuer also entered into an indenture governing the Asset-Backed Notes, which indenture includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans will be serviced by us pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. We will perform certain servicing and administrative functions with respect to the Loans. We will be entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee will equal the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the

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immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

We will also serve as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

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	$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17, 2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
October 26, 2012	November 14, 2012	November 21, 2012	0.24
February 26, 2013	March 11, 2013	March 19, 2013	0.25
			$ 7.89

* Dividend paid in cash and stock.

On February 26, 2013 the Board of Directors increased the quarterly dividend $0.01, or approximately 4.02%, and declared a cash dividend of $0.25 per share that is to be paid on March 19, 2013 to shareholders of record as of March 11, 2013. This dividend is our thirtieth consecutive quarterly dividend declaration since our initial public offering, and will bring the total cumulative dividend declared to date to $7.89 per share.

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

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the year ended December 31, 2012 and 2011, 100% were distributions of ordinary income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2013 distributions to stockholders will actually be.

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

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

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

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

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

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

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Critical Accounting Policies

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

Valuation of Portfolio Investments

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

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (ASC) topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At December 31, 2012, approximately 80.7% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean technology industries. Given the nature of lending to these types of businesses, our investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

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

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

(3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate.

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

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

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

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

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

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

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements.

Investment Type - Level Three Debt Investments	**Fair Value at December 31, 2012** *(in thousands)*	**Valuation Techniques/ Methodologies**	**Unobservable Input[(a)]**	**Range**
Pharmaceuticals - Debt	$266,978	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	12.83% - 16.11% (2.0%) - 1.0%
		Option Pricing Model[(b)]	Average Industry Volatility[(c)] Risk Free Interest Rate Estimated Time to Exit (in months)	57.67% 0.190% 15.2
Medical Devices - Debt	46,022	Market Comparable Companies	Hypothetical Market Yield Premium	16.19% 0.0% - 1.0%
Technology - Debt	159,341	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	12.36% - 20.49% (1.5%) - 1.0%
		Liquidation	Investment Collateral	$0 - $7.4 million
Clean Tech - Debt	91,305	Market Comparable Companies	Hypothetical Market Yield Premium	12.69% 0% - 1.0%
Lower Middle Market - Debt	263,894	Market Comparable Companies	Hypothetical Market Yield Premium	10.75% - 16.25% 0.0% - 1.0%
		Broker Quote[(d)]		78.0% - 100% of par

		Price Quotes Market Comparable Index Yield Spreads Par Value	4.33% - 5.93% $30.0 million
Total Level Three Debt Investments	$827,540		

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

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

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

Technology, above, is comprised of debt investments in the Software, Semiconductors, Electronics and Computer Hardware, Internet Consumer and Business Services, Information Services, Media/Content/Info and Communications and Networking industries in the Schedule of Investments.

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

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

(b) An option pricing model valuation technique was used to derive the fair value of the conversion feature of convertible notes.
(c) Represents the range of industry volatility used by market participants when pricing the investment.
(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

Investment Type - Level Three

Warrant and Equity Investments	**Fair Value at December 31, 2012** *(in thousands)*	**Valuation Techniques/ Methodologies**	**Unobservable Input[(a)]**	**Range**
Warrant and Equity positions	$57,685	Market Comparable Companies	EBITDA Multiple[(b)] Revenue Multiple[(b)]	1.43x - 20.68x 0.42x - 16.98x
			Discount for Lack of Marketability[(c)]	10.4% - 25.2%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility[(d)]	46.49% - 141.2%
			Risk-Free Interest Rate	0.17% - 0.46%
			Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$57,685			

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

Debt Investments

We follow the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. Our debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean-technology

industries at all stages of development. Given the nature of lending to these types of businesses, our investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

In making a good faith determination of the value of our investments, we generally start with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest which has been accrued to principal as earned. We then apply the valuation methods as set forth below.

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

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

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

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

Equity-Related Securities and Warrants

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

We estimate the fair value of warrants using a Black Scholes pricing model. At each reporting date, privately held warrant and equity related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase

transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate our valuation of the warrant and equity related securities. We periodically review the valuation of our portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Income Recognition.

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of December 31, 2012, we had one portfolio company on non-accrual status with an approximate cost of $347,000 and no fair market value. There was one portfolio company on non-accrual status with an aggregate cost of approximately $7.7 million and a fair value of approximately $1.0 million as of December 31, 2011. During the third quarter of 2012 we recognized a realized loss of approximately $5.1 million on our warrant, equity and debt investments in this company.

Paid-In-Kind and End of Term Income.

Contractual paid-in-kind (PIK) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the year ended December 31, 2012, 2011 and 2010, approximately $1.5 million, $1.7 million and $2.3 million in PIK income was recorded respectively.

Fee Income.

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

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

Equity Offering Expenses

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

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Debt Issuance Costs

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

Stock-Based Compensation.

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

Federal Income Taxes.

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98.2% of our capital gain net income for each one year period ending on October 31. At December 31, 2012, 2011, 2010 and 2009, no excise tax was recorded. We intend to distribute approximately $1.5 million of spillover earnings from the year ended December 31, 2012 to our shareholders in 2013. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Recent Accounting Pronouncements

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

Subsequent Events

Dividend Declaration

On February 26, 2013 the Board of Directors increased the quarterly dividend by $0.01, or approximately 4.02%, and declared a cash dividend of $0.25 per share that will be payable on March 19, 2013 to shareholders of record as of March 11, 2013. This dividend would represent the Company s thirtieth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $7.89 per share.

Closed and Pending Commitments

As of February 25, 2013, we have:

a. Closed commitments of approximately $115.6 million to new and existing portfolio companies, and funded approximately $90.0 million since the close of the fourth quarter of 2012.

b. Pending commitments (signed non-binding term sheets) of approximately $126.5 million. The table below summarizes our year-to-date closed and pending commitments as follows:

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

Closed and Pending Commitments (in millions)	
Q1-13 Closed Commitments (as of February 25, 2013) (a,b)	$ 115.6
Pending Commitments (as of February 25, 2013) (b)	$ 126.5
Year-to-date 2013 Closed and Pending Commitments	$ 242.1

Notes:

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

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

Legal Proceedings

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, we do not expect any current matters will materially affect our financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on our financial condition or results of operations in any future reporting period.

Quantitative and Qualitative Disclosure 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 December 31, 2012, approximately 98.5% of our portfolio loans were at variable rates or variable rates with a floor and 1.5% of our loans were at fixed rates. Over time additional investments may be at variable rates. We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding nine-months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in nine-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 2.25% to 5.73%. In addition, the SBA charges a fee that is set

annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2012 for HT II was approximately $95.2 million with an average interest rate of approximately 5.68%. The average amount of debentures outstanding for the year ended December 31, 2012 for HT III was approximately $112.0 million with an average interest rate of approximately 3.25%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. For the three-month period ended December 31, 2012, this non-use fee was approximately $96,000. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At December 31, 2012, there was no debt outstanding under the Wells Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility required the payment of an unused fee of 0.50% annually. For the three-month period ended December 31, 2012, this non-use fee was approximately $65,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. There were no outstanding borrowings under this facility at December 31, 2012. On November 2, 2011, we renewed and amended the Union Bank Facility. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. The Union Bank Facility will mature on November 1, 2014, revolving through the first 24 months with a term out provision for the remaining 12 months.

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

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

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a

redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012.

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

In connection with our $230.7 million Debt Securitization, the Securitization Issuer made an offering of $129.3 million in aggregate principal amount of the Asset-Backed Notes. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

As of the closing date of the Debt Securitization, all of the floating rate Loans sold and/or contributed to the Securitization Issuer are subject to interest rate floors. As of the closing date of the Debt Securitization, all of the floating rate Loans are accruing interest at the applicable interest rate floors specified thereunder, which rate floors are in excess of the fixed rate of interest accruing on the Asset-Backed Notes, which naturally hedges the Securitization Issuer s assets and liabilities. However, there is no requirement for any Loan to have an interest rate floor and there can be no assurance that any such interest rate floor will fully mitigate any decrease in excess spread (i.e. the difference between the interest collected on the Loans and the sum of the interest payable on the Asset-Backed Notes and certain transaction fees and expenses payable by the Issuer) that otherwise would be available to make payments on the Asset-Backed Notes, as credit support, or as otherwise provided in the priority of payments under the documents governing the Debt Securitization. In the unlikely event that a breach of the representations and warranties under the documents governing the Debt Securitization with respect to the Loans in the pool as of the closing date of the Debt Securitization were to occur, a substantial volume of substitutions of Loans in the pool could result. There can be no assurance that the applicable margins and any applicable interest rate floors on such substitute Loans would be in excess of the interest on the Asset-Backed Notes. As a result of such substitutions, and subject in the case of floating rate Loans to changes in the level of LIBOR or any other applicable floating rate index, a mismatch could therefore arise between the rates of interest accruing in connection with the Loans in the pool and the fixed rate of interest accruing on the Asset-Backed Notes. Consequently, amounts payable by the Securitization Issuer could exceed collections on the Loans in the pool, which could delay, reduce or eliminate the ability of the Securitization Issuer to make distributions in respect of the equity interest that we indirectly hold.

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

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Internal Control Over Financial Reporting

Management s Annual Report on Internal Control Over Financial Reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial and accounting officer, approved and monitored by the Company s Board of Directors, and implemented by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

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

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

Management of the Company conducted an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2012 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this assessment, management has concluded that the Company s internal control over financial reporting was effective as of December 31, 2012.

Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company s internal control over financial reporting as of December 31, 2012 has been audited by Pricewaterhousecoopers LLP, an independent registered public accounting firm who also audited the Company s consolidated financial statements, as stated in their report, which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting in 2012

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

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ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion supplements the discussion in the accompanying prospectus under the heading Certain United States Federal Income Tax Considerations , which you are encouraged to review.

Congress recently enacted, and the President recently signed, the American Taxpayer Relief Act of 2012 (the ATRA). Among other things, ARTA provided for the permanent extension of the 2011 ordinary and long-term capital gains tax rates for individuals with taxable income below certain thresholds ($400,000 in the case of unmarried individuals and $450,000 in the case of married couples filing jointly). However, because ARTA did not extend the 2011 tax rates for all taxpayers, for taxable years beginning after December 31, 2012, non-corporate taxpayers will be subject to a maximum rate of tax on ordinary income of 39.6% and a maximum rate of tax on long-term capital gains of 20%.

ARTA also provided for a permanent extension of the taxation of qualified dividends received by non-corporate taxpayers at the same maximum rates applicable to long-term capital gains. Accordingly, distributions of our investment company taxable income that are reported by us as being derived from qualified dividend income will be taxed in the hands of non-corporate stockholders at the rates applicable to long-term capital gain, provided that holding period and other requirements are met by both the stockholders and us. As discussed in the prospectus, dividends distributed by us will generally not be attributable to qualified dividend income.

In addition, in the case of non-U.S. stockholders, ARTA provided for a one-year extension (as well as the retroactive application to the beginning of 2012) of the special exemption from withholding for interest-related dividends or short-term capital gain dividends. Accordingly for taxable years beginning prior to January 1, 2014, U.S. source withholding taxes are not imposed on dividends paid by us to the extent the dividends are reported as interest-related dividends or short-term capital gain dividends. No assurance can be given, however, as to whether this exemption will be extended for tax years beginning on or after January 1, 2014 or whether any of our distributions will be reported as eligible for this exemption (if extended) from withholding tax.

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

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated March 7, 2013, we have agreed to sell to Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as representatives on behalf of the underwriters, and the underwriters have agreed to purchase, 7,000,000 shares of common stock at a price of $11.90 per share.

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 propose to offer the shares of common stock offered hereby from time to time for sale in one or more transactions on the NYSE, in the over-the-counter-market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriters and subject to the underwriters right to reject any order in whole or in part. The underwriters may effect such transactions by selling the shares of common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriter and/or purchasers of shares of common stock for whom they may act as agents or to whom they may sell as principal. The difference between the price at which the underwriters purchase shares and the price at which the underwriters resell such shares, which may include a commission equivalent of up to $0.05 per share, may be deemed underwriting compensation.

We have granted to the underwriter a 30-day option to purchase on a pro rata basis up to 1,050,000 additional shares at a price of $11.90 per share. The option may be exercised only to cover any over allotments of common stock.

We expect that our expenses for this offering will be approximately $500,000 (including up to $10,000 in reimbursement of the underwriters counsel fees in connection with the review of the terms of the offering by the Financial Industry Regulatory Authority, Inc.), 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 underwriters 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 Citigroup Global Markets Inc. and Wells Fargo Securities, LLC for a period of 45 days after the date of this prospectus supplement, 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 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 Citigroup Global Markets Inc. and Wells Fargo Securities, 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 3,679,064 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. Citigroup Global Markets Inc. and Wells Fargo Securities, LLC may, in its 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 Citigroup Global Markets Inc. and Wells Fargo Securities, LLC and the parties that would allow them to do so as of the date of this prospectus supplement.

Until the distribution of the common stock is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriters 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 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, if any. The underwriters may close out any covered short position by either exercising its over allotment option, if any, 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 underwriter 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 sells 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 NYSE 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 underwriters are 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.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus supplement may not be made to the public in that relevant member state other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of securities to the public 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 to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression 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 amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriter with a view to the final placement of the shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the shares, other than the underwriter, is authorized to make any further offer of the shares on behalf of the sellers or the underwriter.

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

Notice to Prospective Investors in Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia (Corporations Act)) in relation to the common stock has been or will be lodged with the Australian Securities & Investments Commission (ASIC). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:

(i) a sophisticated investor under section 708(8)(a) or (b) of the Corporations Act;

(ii) a sophisticated investor under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant s certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

(iii) a person associated with the company under section 708(12) of the Corporations Act; or

(iv) a professional investor within the meaning of section 708(11)(a) or (b) of the Corporations Act, and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and

(b) you warrant and agree that you will not offer any of the common stock for resale in Australia within 12 months of that common stock being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Our common stock is quoted on the NYSE under the trading symbol HTGC.

In the ordinary course of its businesses, the underwriters and/or its 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. For information about our borrowings, see Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources Borrowings in this prospectus supplement.

The principal address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, New York 10013. The principal address of Wells Fargo Securities, LLC is 301 South College Street, Charlotte, North Carolina 28288.

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the securities offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

EXPERTS

The financial statements as of December 31, 2012, 2011 and 2010 and for each of the three years in the period ended December 31, 2012 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of the Company for the year ended December 31, 2009 appearing in this prospectus have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

On September 9, 2010, we engaged PricewaterhouseCoopers LLP as our new independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2010. Through September 9, 2010, the date of the engagement of PricewaterhouseCoopers LLP, neither we nor any person on our behalf has consulted with PricewaterhouseCoopers LLP 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 securities offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and our securities being offered by this prospectus supplement and the accompanying prospectus.

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We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus supplement and accompanying prospectus form a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 202-551-8090. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s Internet website at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549-0102.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and Shareholders of

Hercules Technology Growth Capital, Inc.

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Hercules Technology Growth Capital, Inc. and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

San Francisco, CA

February 28, 2013

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except per share data)

	December 31,	
	2012	**2011**
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $896,031 and $642,038, respectively)	$ 894,428	$ 651,843
Affiliate investments (cost of $18,307 and $3,236, respectively)	11,872	
Control investments (cost of $0 and $11,266, respectively)		1,027
Total investments, at value (cost of $914,338 and $656,540, respectively)	906,300	652,870
Cash and cash equivalents	182,994	64,474
Interest receivable	9,635	5,820
Other assets	24,714	24,230
Total assets	$ 1,123,643	$ 747,394
Liabilities		
Accounts payable and accrued liabilities	$ 11,575	$ 10,813
Wells Fargo Loan		10,187
Long-term Liabilities (Convertible Senior Notes)	71,436	70,353
Asset-Backed Notes	129,300	
2019 Notes	170,364	
Long-term SBA Debentures	225,000	225,000
Total liabilities	$ 607,675	$ 316,353
Commitments and Contingencies (Note 9)		
Net assets consist of:		
Common stock, par value	53	44
Capital in excess of par value	564,508	484,244
Unrealized depreciation on investments	(7,947)	(3,431)
Accumulated realized losses on investments	(36,916)	(43,042)
Distributions in excess of investment income	(3,730)	(6,774)
Total net assets	$ 515,968	$ 431,041
Total liabilities and net assets	$ 1,123,643	$ 747,394
Shares of common stock outstanding ($0.001 par value, 100,000,000 authorized)	52,925	43,853
Net asset value per share	$ 9.75	$ 9.83

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The following table presents the assets and liabilities of our consolidated variable interest entity (VIE). The assets of the VIE can only be used to settle obligations of the consolidated VIE, and the creditors (or beneficial interest holders) do not have recourse to our general credit. These assets and liabilities are included in the Consolidated Statements of Assets and Liabilities above.

	December 31,	
(Dollars in thousands)	**2012**	**2011**
ASSETS		
Total investments, at value (cost of $226,844 and $0, respectively)	$ 226,997	$
Total assets	$ 226,997	$
LIABILITIES		
Asset-Backed Notes	$ 129,300	$
Total liabilities	$ 129,300	$

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures December 2014 Interest rate Prime + 7.30% or Floor rate of 10.55%		$ 20,532	$ 20,745	$ 21,007
Aveo Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures September 2015 Interest rate Prime + 7.15% or Floor rate of 11.90%		$ 26,500	26,500	27,030
Cempra, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures December 2015 Interest rate Prime + 6.30% or Floor rate of 9.55%		$ 10,000	9,862	9,902
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Senior Debt Matures November 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%		$ 4,111	4,718	4,759
Concert Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Senior Debt Matures October 2015 Interest rate Prime + 3.25% or Floor rate of 8.50%		$ 20,000	19,633	18,983
Coronado BioSciences, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures March 2016 Interest rate Prime + 6.00% or Floor rate of 9.25%		$ 15,000	14,761	14,761
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 4.40% or Floor rate of 10.15%		$ 9,166	8,996	8,929
Insmed, Inc.	Drug Discovery & Development	Senior Debt[11] Matures January 2016 Interest rate Prime + 4.75% or Floor rate of 9.25%		$ 20,000	19,305	19,674
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures May 2016 Interest rate Prime + 5.30% or Floor rate of 10.55%		$ 40,000	39,670	39,670
NeurogesX, Inc.[3]	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%		$ 13,662	13,645	13,884
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt[9] Matures upon liqudation Interest rate Fixed 10.00%		$ 45	45	45
		Senior Debt[9] Matures upon liqudation Interest rate Fixed 10.00%		$ 36	31	31
Total Paratek Pharmaceuticals, Inc.					76	76
Total Debt Drug Discovery & Development (34.63%)*					177,911	178,675

Bridgewave Communications	Communications & Networking	Senior Debt Matures March 2016 Interest rate Prime + 8.75% or Floor rate of 12.00%	$ 7,500	7,003	4,896

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Principal Amount	Cost(2)	Value(3)
OpenPeak, Inc.	Communications & Networking	Senior Debt(11) Matures July 2015 Interest rate Prime + 8.75% or Floor rate of 12.00%		$ 15,000	$ 15,008	$ 15,158
PeerApp, Inc.(4)	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.50% or Floor rate of 11.50%		$ 501	588	588
UPH Holdings, Inc.	Communications & Networking	Senior Debt Matures April 2015 Interest rate Libor + 11.00% or Floor rate of 13.50%		$ 7,000	6,880	6,772
		Senior Debt Matures September 2015 Interest rate Libor + 11.00% or Floor rate of 13.50%		$ 347	343	333
		Senior Debt Matures December 2016 Interest rate Libor + 11.00% or Floor rate of 13.50%		$ 3,594	3,594	3,400
Total UPH Holdings, Inc.					10,817	10,505
Total Debt Communications & Networking (6.04%)*					33,416	31,147
Clustrix, Inc.	Electronics & Computer Hardware	Senior Debt Matures December 2015 Interest rate Prime + 6.50% or Floor rate of 9.75%		$ 235	227	227
Identive Group, Inc.	Electronics & Computer Hardware	Senior Debt Matures November 2015 Interest rate Prime + 7.75% or Floor rate 11.00%		$ 7,500	7,447	7,447
Total Debt Electronics & Computer Hardware (1.49%)					7,674	7,674
Box, Inc.(4)	Software	Senior Debt Matures March 2016 Interest rate Prime + 3.75% or Floor rate of 7.50%		$ 10,000	9,910	9,353
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%		$ 1,018	1,075	1,060
		Senior Debt(11) Matures July 2016 Interest rate Prime + 5.13% or Floor rate of 8.88%		$ 20,000	20,138	19,274

Total Box, Inc.				31,123	29,687
Clickfox, Inc.	Software	Senior Debt Matures November 2015 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 8,000	7,318	7,558
EndPlay,Inc.	Software	Senior Debt Matures August 2015 Interest rate Prime + 7.35% or Floor rate 10.6%	$ 2,000	1,930	1,930

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Hillcrest Laboratories, Inc	Software	Senior Debt Matures July 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%		$ 4,000	$ 3,923	$ 3,860
JackBe Corporation	Software	Senior Debt Matures January 2016 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 3,000	2,900	2,900
Kxen, Inc.[4]	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%		$ 2,337	2,371	2,192
Tada Innovations, Inc.	Software	Senior Debt[9] Matures November 2012 Interest rate Fixed 8.00%		$ 100	100	
Total Debt Software (9.33%)*					49,665	48,127
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%		$ 7,659	7,927	7,927
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt[9] Matures March 2014 Interest rate Fixed 8.00%		$ 1,888	1,888	2,394
Total Debt Specialty Pharmaceuticals (2.00%)*					9,815	10,321
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 10.60% or Floor rate of 13.85%		$ 1,847	1,803	1,783
Total Debt Semiconductors (0.34%)*					1,803	1,783
AcelRX Pharmaceuticals, Inc.[3]	Drug Delivery	Senior Debt[11] Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%		$ 16,345	16,222	15,983
ADMA Biologics, Inc.	Drug Delivery	Senior Debt Matures Febuary 2016 Interest rate Prime + 2.75% or Floor rate of 8.50%		$ 4,000	3,857	3,857
Alexza Pharmaceuticals, Inc.[3]	Drug Delivery	Senior Debt[11] Matures October 2013 Interest rate Prime + 6.50% or Floor rate of 10.75%		$ 5,052	5,410	5,410
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014		$ 3,326	3,320	3,387

		Interest rate Prime + 7.45% or Floor rate of 10.70%			
Intelliject, Inc.	Drug Delivery	Senior Debt[11] Matures June 2016 Interest rate Prime + 5.75% or Floor rate of 11.00%	$ 15,000	14,615	15,065
Nupathe, Inc.[3]	Drug Delivery	Senior Debt Matures May 2016 Interest rate Prime 3.25% or Floor rate of 9.85%	$ 8,500	8,166	8,166

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%		$ 18,446	$ 18,330	$ 18,263
Total Debt Drug Delivery (13.59%)*					69,920	70,131
Ahhha, Inc.[8]	Internet Consumer & Business Services	Senior Debt Matures January 2015 Interest rate Fixed 12.00%		$ 350	347	
Blurb, Inc.	Internet Consumer & Business Services	Senior Debt Matures December 2015 Interest rate Prime + 5.25% or Floor rate 8.50%		$ 8,000	7,708	7,429
Education Dynamics, LLC	Internet Consumer & Business Services	Senior Debt Matures March 2016 Interest rate Fixed 12.50%, PIK Interest 1.50%		$ 27,500	26,976	26,976
Just.Me, Inc.	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 2.50% or Floor rate 5.75%		$ 750	732	680
		Senior Debt Matures June 2015 Interest rate Prime + 5.00% or Floor rate 8.25%		$ 750	727	704
					1,459	1,384
Loku, Inc.	Internet Consumer & Business Services	Senior Debt[9] Matures June 2013 Interest rate Fixed 6.00%		$ 100	100	100
NetPlenish, Inc.	Internet Consumer & Business Services	Senior Debt Matures April 2015 Interest rate Fixed 10.00%		$ 500	490	452
Reply! Inc.	Internet Consumer & Business Services	Senior Debt[11] Matures September 2015 Interest rate Prime + 6.875% or Floor rate of 10.125%		$ 11,749	11,624	11,337
		Senior Debt[11] Matures September 2015 Interest rate Prime + 7.25% or Floor rate of 11.00%		$ 2,000	1,946	1,971
Total Reply! Inc.					13,570	13,308
Second Rotation, Inc.	Internet Consumer & Business	Senior Debt Matures August 2015 Interest rate Prime + 6.50% or		$ 5,843	5,860	5,880

Services	Floor rate of 10.25% , PIK Interest 2.50%				
	Senior Debt Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25% , PIK Interest 1.50%	$	1,947	1,888	1,909

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
		Revolving Line of Credit Matures January 2013 Interest rate Fixed 10.50%, PIK Interest 0.25%		$ 327	$ 313	$ 313
Total Second Rotation, Inc.					8,061	8,102
ShareThis, Inc.	Internet Consumer & Business Services	Senior Debt Matures June 2016 Interest rate Prime + 7.50% or Floor rate of 10.75%		$ 15,000	14,268	14,268
Tectura Corporation	Internet Consumer & Business Services	Revolving Line of Credit Matures July 2013 Interest rate LIBOR + 8.00% or Floor rate of 11.00%		$ 16,340	17,850	17,797
		Senior Debt Matures December 2014 Interest rate LIBOR + 10.00% or Floor rate of 13.00%		$ 6,978	6,908	6,827
		Senior Debt Matures April 2013 Interest rate LIBOR + 10.00% or Floor rate of 13.00%		$ 1,390	1,325	1,325
Total Tectura Corporation					26,083	25,949
Trulia, Inc.[3]	Internet Consumer & Business Services	Senior Debt[11] Matures September 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%		$ 5,000	4,921	4,729
		Senior Debt[11] Matures September 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%		$ 5,000	4,920	4,547
Total Trulia, Inc.					9,841	9,276
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%		$ 7,500	7,681	7,721
		Senior Debt Matures September 2015 Interest rate LIBOR + 7.00% or Floor rate of 8.50%		$ 10,253	10,190	9,854
Total Vaultlogix, Inc.					17,871	17,575

Votizen, Inc.	Internet Consumer & Business Services	Senior Debt(9) Matures February 2013 Interest rate Fixed 5.00%	$ 100	100	6
Wavemarket, Inc.	Internet Consumer & Business Services	Senior Debt(11) Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 9.50%	$ 10,000	9,840	9,444
Total Debt Internet Consumer & Business Services (26.02%)*				136,714	134,269
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 2,641	2,604	2,522

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Eccentex Corporation	Information Services	Senior Debt[11] Matures May 2015 Interest rate Prime + 7.00% or Floor rate of 10.25%		$ 1,000	$ 977	$ 965
InXpo, Inc.	Information Services	Senior Debt Matures March 2014 Interest rate Prime + 7.50% or Floor rate of 10.75%		$ 2,550	2,466	2,434
Jab Wireless, Inc.	Information Services	Senior Debt Matures November 2017 Interest rate Prime + 6.75% or Floor rate of 8.00%		$ 30,000	29,852	29,850
RichRelevance, Inc.	Information Services	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%		$ 4,245	4,210	4,068
Womensforum.com, Inc.	Information Services	Senior Debt[11] Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 9.25%		$ 8,000	7,838	7,838
		Senior Debt[11] Matures October 2016 Interest rate LIBOR + 7.50% or Floor rate of 10.25%		$ 4,500	4,422	4,422
Total Womensforum.com, Inc.					12,260	12,260
Total Debt Information Services (10.10%)*					52,369	52,099
Gynesonics, Inc.	Medical Device & Equipment	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 3,912	3,975	4,014
		Senior Debt Matures February 2013 Interest rate Fixed 8.00%		$ 253	247	247
		Senior Debt Matures September 2013 Interest rate Fixed 8.00%		$ 36	30	30
Total Gynesonics, Inc.					4,252	4,291
Lanx, Inc.	Medical Device & Equipment	Senior Debt Matures October 2016 Interest rate Prime + 6.50% or Floor rate of 10.25%		$ 15,000	14,428	14,428
		Revolving Line of Credit Matures October 2015 Interest rate Prime + 5.25% or Floor rate of 9.00%		$ 5,500	5,300	5,300

Total Lanx, Inc.					19,728	19,728
Novasys Medical, Inc.	Medical Device & Equipment	Senior Debt[9] Matures January 2013 Interest rate Fixed 8.00%	$	65	65	65

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
		Senior Debt[9] Matures August 2013 Interest rate Fixed 8.00%		$ 22	$ 20	$ 20
Total Novasys Medical, Inc.					85	85
Optiscan Biomedical, Corp.[6]	Medical Device & Equipment	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%		$ 8,260	8,915	9,080
		Senior Debt[9] Matures April 2013 Interest rate Fixed 8.00%		$ 288	288	288
		Senior Debt[9] Matures September 2013 Interest rate Fixed 8.00%		$ 123	123	123
Total Optiscan Biomedical, Corp.					9,326	9,491
Oraya Therapeutics, Inc.	Medical Device & Equipment	Senior Debt[9] Matures December 2013 Interest rate Fixed 7.00%		$ 500	500	500
		Senior Debt[11] Matures September 2015 Interest rate Prime + 5.50% or Floor rate of 10.25%		$ 10,000	9,798	10,079
Total Oraya Therapeutics, Inc.					10,298	10,579
USHIFU, LLC	Medical Device & Equipment	Senior Debt[11] Matures April 2016 Interest rate Prime + 7.75% or Floor rate of 11.00%		$ 6,000	5,856	5,856
Total Debt Medical Device & Equipment (9.69%)*					49,545	50,030
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Diagnostic	Senior Debt Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%		$ 5,741	5,691	5,752
Tethys Bioscience Inc.	Diagnostic	Senior Debt[11] Matures December 2015 Interest rate Prime + 8.40% or Floor rate of 11.65%		$ 10,000	9,940	10,026
Total Debt Diagnostic (3.06%)*					15,631	15,778
Labcyte, Inc.				$ 761	834	834

	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.60% or Floor rate of 11.85%			
		Senior Debt(11) Matures June 2016 Interest rate Prime + 6.70% or Floor rate of 9.95%	$ 5,000	4,890	4,995
Total Labcyte, Inc.				5,724	5,829
Total Debt Biotechnology Tools (1.13%)*				5,724	5,829

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
MedCall, LLC	Healthcare Services, Other	Senior Debt Matures January 2016 Interest rate 7.79% or Floor rate of 9.50%		$ 4,908	$ 4,844	$ 4,695
		Senior Debt Matures January 2016 Interest rate LIBOR +8.00% or Floor rate of 10.00%		$ 4,037	3,972	3,871
Total MedCall, LLC					8,816	8,566
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Debt Matures January 2015 Interest rate LIBOR + 9.00% or Floor rate of 11.50%		$ 3,661	3,713	3,713
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 7.50% or Floor rate of 10.00%		$ 1,500	1,490	1,490
		Senior Debt Matures January 2015 Interest rate LIBOR + 11.00% or Floor rate of 14.00%, PIK interest 3.75%		$ 5,900	6,562	6,562
Total Pacific Child & Family Associates, LLC					11,765	11,765
ScriptSave (Medical Security Card Company, LLC)	Healthcare Services, Other	Senior Debt Matures Febuary 2016 Interest rate LIBOR + 8.75% or Floor rate of 11.25%		$ 16,375	16,168	16,150
Total Debt Health Services, Other (7.07%)*					36,749	36,481
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%		$ 2,463	2,431	2,427
Transmedics, Inc.	Surgical Devices	Senior Debt[11] Matures November 2015 Interest rate Fixed 12.95%		$ 7,250	7,464	7,464
Total Debt Surgical Devices (1.92%)*					9,895	9,891
Westwood One Communications	Media/ Content/Info	Senior Debt Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%		$ 20,475	18,994	17,575

Women s Marketing, Inc.	Media/ Content/Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	$ 9,681	10,002	10,002
		Senior Debt[11] Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	$ 16,362	16,105	15,787
Total Women s Marketing, Inc.				26,107	25,789

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Zoom Media Corporation	Media/ Content/Info	Senior Debt Matures December 2015 Interest rate Prime + 7.25% or Floor rate of 10.50%, PIK 3.75%		$ 5,000	$ 4,657	$ 4,657
	Media/ Content/Info	Revolving Line of Credit Matures December 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%		$ 3,000	2,700	2,700
Total Zoom Media Corporation					7,357	7,357
Total Debt Media/Content/Info (9.83%)*					52,458	50,721
Alphabet Energy, Inc.	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 5.75% or Floor rate of 9.00%		$ 1,614	1,531	1,531
American Supercondutor Corporation[3]	Clean Tech	Senior Debt[11] Matures December 2014 Interest rate Prime + 7.25% or Floor rate of 11.00%		$ 9,231	9,161	9,438
BrightSource Energy, Inc.	Clean Tech	Revolving Line of Credit Matures January 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 35,000	34,870	34,870
Comverge, Inc.	Clean Tech	Senior Debt Matures November 2017 Interest rate LIBOR + 8.00% or Floor rate of 9.50%		$ 20,000	19,577	19,577
	Clean Tech	Senior Debt Matures November 2017 Interest rate LIBOR + 9.50% or Floor rate of 11.00%		$ 14,000	13,704	13,704
Total Comverge, Inc.					33,281	33,281
Enphase Energy, Inc.[3]	Clean Tech	Senior Debt[11] Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.00%		$ 3,758	3,739	3,716
	Clean Tech	Senior Debt Matures August 2016 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 7,400	7,321	7,321
Total Enphase Energy, Inc.					11,060	11,037
Glori Energy, Inc.	Clean Tech	Senior Debt[11] Matures June 2015		$ 8,000	7,832	7,988

		Interest rate Prime + 6.75% or Floor rate of 10.00%				
Integrated Photovoltaics, Inc.	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 7.38% or Floor rate of 10.63%	$	2,572	2,494	2,508
Polyera Corporation	Clean Tech	Senior Debt Matures June 2016 Interest rate Prime + 6.75% or Floor rate of 10.00%	$	3,000	2,952	2,952

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Redwood Systems, Inc.	Clean Tech	Senior Debt Matures February 2016 Interest rate Prime + 6.50% or Floor rate of 9.75%		$ 5,000	$ 4,965	$ 4,965
SCIenergy, Inc.[4]	Clean Tech	Senior Debt Matures September 2015 Interest rate Prime + 8.75% or Floor rate 12.00%		$ 5,296	5,103	5,262
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 2,884	2,877	2,877
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 331	330	330
Total Solexel, Inc.					3,207	3,207
Stion Corporation[4]	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%		$ 7,519	7,483	7,545
Total Debt Clean Tech (24.14%)*					123,938	124,584
Total Debt (160.38%)					833,228	827,540

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		46,446	$ 39	$ 53
		Preferred Stock Warrants	Series A	426,000	69	345
		Preferred Stock Warrants	Series B	110,270	35	64
Total Warrants Acceleron Pharmaceuticals, Inc.				582,716	143	462
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Common Stock Warrants		321,429	984	66
Cempra, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		39,038	187	46
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Preferred Stock Warrants	Series D	325,261	490	500
Concert Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Preferred Stock Warrants	Series C	400,000	367	126
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		73,009	142	81
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		50,000	28	16
		Preferred Stock Warrants	Series A	525,000	236	173
		Preferred Stock Warrants	Series B	660,000	311	217
Total Warrants Dicerna Pharmaceuticals, Inc.				1,235,000	575	406
EpiCept Corporation[3]	Drug Discovery & Development	Common Stock Warrants		325,204	4	
Horizon Pharma, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		22,408	231	
Insmed, Incorporated[3]	Drug Discovery & Development	Common Stock Warrants		329,931	570	1,316
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		302,143	155	641
NeurogesX, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		3,421,500	503	400
PolyMedix, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		627,586	480	9
Portola Pharmaceuticals, Inc.	Drug Discovery &	Preferred Stock Warrants	Series B	687,023	152	298

	Development					
Total Warrants Drug Discovery & Development (0.84%)*					4,983	4,351
Bridgewave Communications	Communications & Networking	Preferred Stock Warrants	Series 5	2,942,618	753	
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	117,958	101	190
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	Series A	450,000	94	23
OpenPeak, Inc.	Communications & Networking	Preferred Stock Warrants	Series E	25,646	149	9
PeerApp, Inc.(4)	Communications & Networking	Preferred Stock Warrants	Series B	298,779	61	47
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	Series A	135,000	95	352
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	Series B	1,136,277	52	112
UPH Holdings, Inc.	Communications & Networking	Common Stock Warrants		145,877	131	52

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants	Series B	110,000	$ 123	$ 62
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	158,536	53	135
		Preferred Stock Warrants	Series D	72,727	65	57
Total Stoke, Inc.				231,263	118	192
Total Warrants Communications & Networking (0.20%)*					1,677	1,039
Atrenta, Inc.	Software	Preferred Stock Warrants	Series D	392,670	121	322
Box, Inc. [4]	Software	Preferred Stock Warrants	Series C	271,070	117	2,235
		Preferred Stock Warrants	Series B	199,219	73	3,242
		Preferred Stock Warrants	Series D-1	62,255	194	566
Total Box, Inc.				532,544	384	6,043
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	Series A	168,750	188	
Central Desktop, Inc.	Software	Preferred Stock Warrants	Series B	522,823	108	166
Clickfox, Inc.	Software	Preferred Stock Warrants	Series B	1,038,563	329	332
		Preferred Stock Warrants	Series C	592,019	730	213
Total Clickfox, Inc.				1,630,582	1,059	545
Daegis Inc. (pka Unify Corporation)[3]	Software	Common Stock Warrants		718,860	1,434	75
Endplay, Inc.	Software	Preferred Stock Warrants	Series B	180,000	67	39
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	Series D	399,687	99	202
HighRoads, Inc.	Software	Preferred Stock Warrants	Series B	190,176	44	9
Hillcrest Laboratories, Inc.	Software	Preferred Stock Warrants	Series E	1,865,650	55	70
JackBe Corporation	Software	Preferred Stock Warrants	Series C	180,000	73	54
Kxen, Inc.[4]	Software	Preferred Stock Warrants	Series D	184,614	47	13
Rockyou, Inc.	Software	Preferred Stock Warrants	Series B	41,266	117	
SugarSync Inc.	Software	Preferred Stock Warrants	Series CC	332,726	78	123
		Preferred Stock Warrants	Series DD	107,526	34	30
Total SugarSync Inc.				440,252	112	153
Tada Innovations, Inc.	Software	Preferred Stock Warrants	Series A	20,833	25	
White Sky, Inc.	Software	Preferred Stock Warrants	Series B-2	124,295	54	3
WildTangent, Inc.	Software	Preferred Stock Warrants	Series 3A	100,000	238	82
Total Warrants Software (1.51%)*					4,225	7,776
Clustrix, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series B	49,732	12	13

Luminus Devices, Inc.	Electronics & Computer Hardware	Common Stock Warrants		26,386	600	
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series A-1	181,818	63	106
Total Warrant Electronics & Computer Hardware (0.02%)*					675	119

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants	Series D	502,273	$ 309	$ 889
Pacira Pharmaceuticals, Inc.[3]	Specialty Pharmaceuticals	Common Stock Warrants		178,987	1,086	1,263
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants	Series E	340,534	528	
Total Warrants Specialty Pharmaceuticals (0.42%)*					1,923	2,152
IPA Holdings, LLC	Consumer & Business Products	Common Stock Warrants		650,000	275	485
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A	99,286	24	84
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C	1,821,429	174	130
ShareThis, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series B	535,905	547	543
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock Warrants		211,765	252	2,023
Wavemarket, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series E	1,083,333	106	61
Total Warrant Consumer & Business Products (0.64%)*					1,378	3,326
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants	Series D	360,000	160	84
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants	Series D	239,872	157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	Series C	558,748	45	14
		Preferred Stock Warrants	Series D	1,954,762	583	289
Total iWatt, Inc.				2,513,510	628	303
Kovio Inc.	Semiconductors	Preferred Stock Warrants	Series B	319,352	92	
Quartics, Inc.	Semiconductors	Preferred Stock Warrants	Series C	69,139	53	
Total Warrants Semiconductors (0.08%)*					1,090	387
AcelRX Pharmaceuticals, Inc.[3]	Drug Delivery	Common Stock Warrants		274,508	356	406
ADMA Biologics, Inc.	Drug Delivery	Common Stock Warrants		25,000	129	128
Alexza Pharmaceuticals, Inc.[3]	Drug Delivery	Common Stock Warrants		37,639	645	8
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	Series C-1	150,000	291	446
Intelliject, Inc.	Drug Delivery	Preferred Stock Warrants	Series B	82,500	594	574
NuPathe, Inc.[3]	Drug Delivery	Common Stock Warrants		106,631	139	165
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants	Series D	269,663	557	618
Transcept Pharmaceuticals, Inc.[3]	Drug Delivery	Common Stock Warrants		61,452	87	44
Total Warrant Drug Delivery (0.46%)*					2,798	2,389

Blurb, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	439,336	323	347
		Preferred Stock Warrants	Series C	234,280	636	218
Total Blurb, Inc.				673,616	959	565
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants		53,084	38	

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Just.Me	Internet Consumer & Business Services	Preferred Stock Warrants	Series A	102,299	$ 20	$ 20
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	200,000	43	
Reply! Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	137,225	320	802
Second Rotation	Internet Consumer & Business Services	Preferred Stock Warrants	Series D	105,819	105	113
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants	Series B-1	253,378	51	12
Trulia, Inc.[3]	Internet Consumer & Business Services	Common Stock Warrants		56,053	188	368
Total Warrants Internet Consumer & Business Services (0.37%)*					1,724	1,880
Buzznet, Inc.	Information Services	Preferred Stock Warrants	Series B	19,962	9	
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants	Series F	48,232	58	5
Eccentex Corporation	Information Services	Preferred Stock Warrants	Series A	408,719	31	3
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants	Series B	190,234	230	579
InXpo, Inc.	Information Services	Preferred Stock Warrants	Series C	648,400	98	43
	Information Services	Preferred Stock Warrants	Series C-1	267,049	25	24
Total InXpo, Inc.	Information Services			915,449	123	67
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants	Series A	266,567	265	420
RichRelevance, Inc.	Information Services	Preferred Stock Warrants	Series D	112,749	98	28
Solutionary, Inc.	Information Services	Preferred Stock Warrants	Series A-2	111,311	96	5

Total Warrants Information Services (0.22%)*					910	1,107
EKOS Corporation	Medical Device & Equipment	Preferred Stock Warrants	Series C	4,448,135	327	
Gelesis, Inc.(6)	Medical Device & Equipment		LLC interest	263,688	78	95
Lanx, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series C	1,203,369	441	445
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series D	580,447	131	
		Common Stock Warrants		109,449	2	
Total Novasys Medial, Inc.				689,896	133	
Optiscan Biomedical, Corp.(6)	Medical Device & Equipment	Preferred Stock Warrants	Series D	6,206,187	1,069	151
Total Optiscan Biomedical, Corp.				6,206,187	1,069	151
Oraya Therapeutics, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series C	716,948	676	314
		Common Stock Warrants		95,498	66	62
Total Oraya Therapeutics, Inc.				812,446	742	376
USHIFU, LLC	Medical Device & Equipment	Preferred Stock Warrants	Series G	141,388	188	188
Total Warrants Medical Device & Equipment (0.24%)*					2,978	1,255
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)(3)	Diagnostic	Common Stock Warrants		333,333	244	360
Tethys Bioscience, Inc.	Diagnostic	Preferred Stock Warrants	Series E	617,683	148	169
Total Warrants Diagnostic (0.10%)*					392	529

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Labcyte, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series C	1,127,624	$ 323	$ 247
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series B	204,545	45	161
		Preferred Stock Warrants	Series C	30,114	33	8
Total NuGEN Technologies, Inc.				234,659	78	169
Total Warrants Biotechnology Tools (0.08%)*					401	416
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants	Series B	62,500	87	2
Transmedics, Inc.	Surgical Devices	Preferred Stock Warrants	Series B	40,436	225	
		Preferred Stock Warrants	Series D	175,000	100	100
Total Transmedics, Inc.					325	100
Gynesonics, Inc.	Surgical Devices	Preferred Stock Warrants	Series A	123,457	18	7
		Preferred Stock Warrants	Series C	1,474,261	387	298
Total Gynesonics, Inc.				1,597,718	405	305
Total Warrants Surgical Devices (0.08%)*					817	407
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock Warrants	Series C	110,018	60	55
Glam Media, Inc.	Media/Content/ Info	Preferred Stock Warrants	Series D	407,457	482	
Zoom Media Group, Inc.	Media/Content/ Info	Preferred Stock Warrants	n/a	1,204	348	346
Total Warrants Media/Content/Info (0.08%)*					890	401
Alphabet Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series A	79,083	68	148
American Supercondutor Corporation[3]	Clean Tech	Common Stock Warrants		139,275	244	122
BrightSource Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D	58,333	675	248
Calera, Inc.	Clean Tech	Preferred Stock Warrants	Series C	44,529	513	
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants	Series B	437,500	308	435
Enphase Energy, Inc.[3]	Clean Tech	Common Stock Warrants		37,500	102	17
Fulcrum Bioenergy, Inc.	Clean Tech	Preferred Stock Warrants	Series C-1	187,265	211	104
Glori Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series C	145,932	165	62
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D-1	393,212	548	1
Integrated Photovoltaics, Inc.	Clean Tech	Preferred Stock Warrants	Series A-1	390,000	82	119
Polyera Corporation	Clean Tech	Preferred Stock Warrants	Series C	161,575	69	68
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants	Series C	3,200,000	211	317

Redwood Systems, Inc.	Clean Tech	Preferred Stock Warrants	Series C	331,250	3	2
SCIenergy, Inc.(4)	Clean Tech	Preferred Stock Warrants	Series D	1,061,168	361	145
Solexel, Inc.	Clean Tech	Preferred Stock Warrants	Series B	245,682	1,161	7
Stion Corporation(4)	Clean Tech	Preferred Stock Warrants	Series E	110,226	317	167
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants	Series A	320,000	161	54
Total Warrants Clean Tech (0.39%)*					5,199	2,016
Total Warrants (5.73%)					32,060	29,550
Aveo Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock		167,864	842	1,351
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series B	502,684	502	488

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock	Series C	15,334	$ 1,500	$
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Common Stock		546,448	2,000	3,328
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series H	244,158	1,000	282
		Common Stock		47,471	5	3
Total Paratek Pharmaceuticals, Inc.				291,629	1,005	286
Total Equity Drug Discovery & Development (1.06%)*					5,849	5,453
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock	Series B	600,601	1,000	915
		Preferred Stock	Series C	93,456	242	205
		Preferred Stock	Series E	43,488	98	174
		Preferred Stock	Series F	19,268	61	77
Total Acceleron Pharmaceuticals, Inc.				756,813	1,401	1,371
Merrion Pharma, Plc.[3][5][10]	Drug Delivery	Common Stock		20,000	9	
Nupathe, Inc.	Drug Delivery	Common Stock		50,000	146	142
Transcept Pharmaceuticals, Inc.[3]	Drug Delivery	Common Stock		41,570	500	185
Total Equity Drug Delivery (0.33%)*					2,056	1,698
E-band Communications, Corp.[6]	Communications & Networking	Preferred Stock	Series B	564,972	2,000	
		Preferred Stock	Series C	649,998	372	
		Preferred Stock	Series D	847,544	508	
		Preferred Stock	Series E	1,987,605	374	
Total E-band Communications, Corp.				4,050,119	3,254	
Glowpoint, Inc.[3]	Communications & Networking	Common Stock		114,192	101	227
Neonova Holding Company	Communications & Networking	Preferred Stock	Series A	500,000	250	200
Peerless Network, Inc.	Communications & Networking	Preferred Stock	Series A	1,000,000	1,000	3,692
Stoke, Inc.	Communications & Networking	Preferred Stock	Series E	152,905	500	631
UPH Holdings, Inc.		Common Stock		742,887		624

	Communications & Networking					
Total Equity Communications & Networking (1.04%)*					5,105	5,374
Atrenta, Inc.	Software	Preferred Stock	Series C	1,196,845	508	1,042
		Preferred Stock	Series D	635,513	986	1,604
				1,832,358	1,494	2,646
Box, Inc.[4]	Software	Preferred Stock	Series C	390,625	500	5,117
		Preferred Stock	Series D	158,127	500	2,071
		Preferred Stock	Series D-1	124,511	1,000	1,632
		Preferred Stock	Series D-2	220,751	2,001	2,892
		Preferred Stock	Series E	38,183	500	500
Total Box, Inc.				932,197	4,501	12,212
Caplinked, Inc.	Software	Preferred Stock	Series A-3	53,614	52	77
Total Equity Software (2.89%)*					6,047	14,935

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

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December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Spatial Photonics, Inc.	Electronics & Computer Hardware	Preferred Stock	Series D	4,717,813	$ 268	$
Virident Systems	Electronics & Computer Hardware	Preferred Stock	Series D	6,546,217	5,000	4,922
Total Equity Electronics & Computer Hardware (0.95%)*					5,268	4,922
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	Series E	166,419	750	
Total Equity Specialty Pharmaceuticals (0.00%)*					750	
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock	Series A	295,861	819	597
Facebook, Inc.[3]	Consumer & Business Products	Common Stock	Series B	307,500	9,558	8,089
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	LLC interest	500,000	500	711
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	Series B	187,970	500	657
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock	Series D	19,260	250	343
Total Equity Consumer & Business Products (2.02%)*					11,627	10,397
iWatt, Inc.	Semiconductors	Preferred Stock	Series E	2,412,864	490	752
Total Equity Semiconductors (0.15%)*					490	752
Buzznet, Inc.	Information Services	Preferred Stock	Series C	263,158	250	
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock		500,000	603	
Solutionary, Inc.	Information Services	Preferred Stock	Series A-1	189,495	18	235
		Preferred Stock	Series A-2	65,834	325	82
Total Solutionary, Inc.				255,329	343	317
Total Equity Information Services (0.06%)*					1,196	317
Gelesis, Inc.[6]	Medical Device & Equipment			674,208		435
			LLC interest	674,208	425	610
			LLC interest	675,676	500	525
Total Gelesis, Inc.				2,024,092	925	1,570

Lanx, Inc.	Medical Device & Equipment	Preferred Stock	Series C	1,203,369	1,000	1,155
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock	Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.(6)	Medical Device & Equipment	Preferred Stock	Series B	6,185,567	3,000	314
		Preferred Stock	Series C-2	1,927,309	655	251
Total Optiscan Biomedical, Corp.				8,112,876	3,655	565
Total Equity Medical Device & Equipment (0.64%)*					6,580	3,290

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	Series C	189,394	$ 500	$ 600
Total Equity Biotechnology Tools (0.12%)*					500	600
Transmedics, Inc.	Surgical Devices	Preferred Stock	Series B	88,961	1,100	
		Preferred Stock	Series C	119,999	300	
		Preferred Stock	Series D	260,000	650	650
Total Transmedics, Inc.				468,960	2,050	650
Gynesonics, Inc.	Surgical Devices	Preferred Stock	Series B	219,298	250	159
		Preferred Stock	Series C	656,512	282	251
Total Gynesonics, Inc.				875,810	532	410
Total Equity Surgical Devices (0.20%)*					2,582	1,060
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock	Series D	145,590	1,000	412
Total Equity Media/Content/Info (0.08%)*					1,000	412
Total Equity (9.54%)					49,050	49,210
					49,050	49,210
Total Investments (175.65%)					$ 914,338	$ 906,300

* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $19.9 million, $27.6 million and $7.8 million respectively. The tax cost of investments is $916.9 million

(3) Except for warrants in twenty publicly traded companies and common stock in eight publicly traded companies, all investments are restricted at December 31, 2012 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

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

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

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

(7)

Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners as least 25% but not more than 50% of the voting securities of the company

(8) Debt is on non-accrual status at December 31, 2012, and is therefore considered non-income producing.

(9) Convertible Senior Debt

(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(11) Denotes that all or a portion of the loan secures the notes offered in the Debt Securitization (as defined in Note 4).

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Anthera Pharmaceuticals Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 7.3% or Floor rate of 10.55%		$ 25,000	$ 24,433	$ 25,183
Total Anthera Pharmaceuticals Inc.					24,433	25,183
Aveo Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures June 2014 Interest rate Prime + 7.15% or Floor rate of 11.9%		$ 25,000	25,360	26,110
Total Aveo Pharmaceuticals, Inc.					25,360	26,110
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 4.40% or Floor rate of 10.15%		$ 12,000	11,665	11,665
Total Dicerna Pharmaceuticals, Inc.					11,665	11,665
NextWave Pharmaceuticals	Drug Discovery & Development	Senior Debt Matures June 2015 Interest rate Prime + 4.3% or Floor rate of 9.55%		$ 6,000	5,925	5,926
Total NextWave Pharmaceuticals					5,925	5,926
Concert Pharmaceuticals	Drug Discovery & Development	Senior Debt Matures July 2015 Interest rate Prime + 3.25% or Floor rate of 8.25%		$ 7,500	7,350	7,350
Total Concert Pharmaceuticals					7,350	7,350
PolyMedix, Inc.	Drug Discovery & Development	Senior Debt Matures September 2013 Interest rate Prime + 7.1% or Floor rate of 12.35%		$ 6,763	6,594	6,729
Total PolyMedix, Inc.					6,594	6,729
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 5.65% or Floor rate of 10.40%		$ 10,000	10,070	10,070
Total Aegerion Pharmaceuticals, Inc.					10,070	10,070
Chroma Therapeutics, Ltd.[5]	Drug Discovery & Development	Senior Debt Matures September 2013		$ 7,633	7,958	7,879

		Interest rate Prime + 7.75% or Floor rate of 12.00%			
Total Chroma Therapeutics, Ltd.				7,958	7,879
NeurogesX, Inc.	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 15,000	14,558	14,558
Total NeurogesX, Inc.				14,558	14,558

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Total Debt Drug Discovery & Development (26.79%)*					$ 113,913	$ 115,470
E-band Communications, Corp.[6]	Communications & Networking	Convertible Senior Debt Due on demand Interest rate Fixed 6.00%		$ 356	356	
Total E-Band Communications, Corp.					356	
Intelepeer, Inc.	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.12% or Floor rate of 11.37%		$ 6,524	6,346	6,476
		Senior Debt Matures May 2012 Interest rate Prime + 4.25%		$ 1,100	1,100	1,070
Total Intelepeer, Inc.					7,446	7,546
Ahhha, Inc.	Communications & Networking	Senior Debt Matures January 2015 Interest rate Fixed 10.00%		$ 350	345	345
Total Ahhha, Inc.					345	345
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt Matures October 2014 Interest rate Prime + 7.50% or Floor rate of 12.00%		$ 4,369	4,196	4,196
Total Pac-West Telecomm, Inc.					4,196	4,196
PeerApp, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%		$ 1,776	1,814	1,835
Total PeerApp, Inc.[5]					1,814	1,835
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Libor + 9.0% or Floor rate of 11.50%		$ 8,308	8,107	8,100
Total PointOne, Inc.					8,107	8,100
Stoke, Inc[4]	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%		$ 2,627	2,586	2,612

Total Stoke, Inc.					2,586	2,612
Total Debt Communications & Networking (5.71%)*					24,850	24,634
Central Desktop, Inc.	Software	Senior Debt Matures April 2014 Interest rate Prime + 6.75% or Floor rate of 10.50%	$	3,000	2,894	2,954
Total Central Desktop, Inc.					2,894	2,954
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	$	3,999	3,920	4,000
Total Clickfox, Inc.					3,920	4,000

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Kxen, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%		$ 3,000	$ 2,958	$ 2,858
Total Kxen, Inc.					2,958	2,858
RichRelevance, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%		$ 5,000	4,879	4,879
Total RichRelevance, Inc.					4,879	4,879
Blurb, Inc	Software	Senior Debt Matures December 2015 Interest rate Prime +5.25% or Floor rate 8.5 %		$ 5,000	4,873	4,873
Total Blurb, Inc					4,873	4,873
SugarSync Inc.	Software	Senior Debt Matures April 2015 Interest rate Prime + 4.50% or Floor rate of 8.25%		$ 2,000	1,950	1,950
Total SugarSync Inc.					1,950	1,950
White Sky, Inc.	Software	Senior Debt Matures June 2014 Interest rate Prime + 7.00% or Floor rate of 10.25%		$ 1,418	1,357	1,400
Total White Sky, Inc.					1,357	1,400
Tada Innovations, Inc.	Software	Senior Debt Matures June 2012 Interest rate Prime + 3.25% or Floor rate of 6.50%		$ 100	90	90
Total Tada Innovations, Inc.					90	90
Total Debt Software (5.34%)*					22,921	23,004
Maxvision Holding, LLC.[7]	Electronics & Computer Hardware	Senior Debt Matures December 2013 Interest rate Prime + 8.25% or Floor rate of 12.00%, PIK interest 5.00%		$ 4,185	4,143	

	Senior Debt Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%, PIK interest 2.00%	$ 2,539	2,515

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

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(dollars in thousands)

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

Kovio Inc.	Semiconductors	Senior Debt Matures March 2015 Interest rate Prime + 6.00% or Floor rate of 9.75%	$	3,000	2,910	2,910
Total Kovio Inc.					4,128	4,128
Total Debt Semiconductors (1.50%)*					6,457	6,457
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$	10,000	9,773	9,579

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
		Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%		$ 10,000	$ 9,772	$ 9,578
Total AcelRX Pharmaceuticals, Inc.					19,545	19,157
Alexza Pharmaceuticals, Inc.[4]	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%		$ 10,497	10,537	10,695
Total Alexza Pharmaceuticals, Inc.					10,537	10,695
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%		$ 5,000	4,730	4,880
Total BIND Biosciences, Inc.					4,730	4,880
Merrion Pharmaceuticals, Inc.[5]	Drug Delivery	Senior Debt Matures January 2015 Interest rate Prime + 9.20% or Floor rate of 12.45%		$ 5,000	4,765	3,819
Total Merrion Pharmaceuticals, Inc.					4,765	3,819
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%		$ 22,000	21,379	21,379
Total Revance Therapeutics, Inc.					21,379	21,379
Total Debt Drug Delivery (13.90%)*					60,956	59,930
Gelesis, Inc.[8]	Therapeutic	Senior Debt Matures April 2013 Interest rate Prime + 8.75% or Floor rate of 12.00%		$ 3,428	3,514	3,254
Total Gelesis, Inc.					3,514	3,254
Gynesonics, Inc.	Therapeutic	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 5,336	5,309	5,383

Total Gynesonics, Inc.				5,309	5,383
Oraya Therapeutics, Inc.	Therapeutic	Senior Debt Matures March 2015 Interest rate Prime + 4.75% or Floor rate of 9.50%	$ 7,500	7,377	7,377
Total Oraya Therapeutics, Inc.				7,377	7,377

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Series	Principal Amount	Cost(2)	Value(3)
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015 Interest rate LIBOR + 8.0% or Floor rate of 10.50%		$ 4,965	$ 4,932	$ 4,932
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.5% or Floor rate of 9.00%		$ 1,500	1,485	1,412
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.0%, PIK interest 3.75%		$ 5,900	6,259	6,436
Total Pacific Child & Family Associates, LLC					12,676	12,780
Total Debt Therapeutic (6.68%)*					28,876	28,794
InXpo, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2014 Interest rate Prime + 7.5% or Floor rate of 10.75%		$ 3,192	3,083	3,147
Total InXpo, Inc.					3,083	3,147
Westwood One Communications	Internet Consumer & Business Services	Senior Debt Matures October 2016 Interest rate of 8.00%		$ 21,000	19,059	19,479
Total Westwood One Communications					19,059	19,479
Reply! Inc.(4)	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 6.87% or Floor rate of 10.12%		$ 13,000	12,877	13,131
Total Reply! Inc.					12,877	13,131
MedCall	Internet Consumer & Business Services	Senior Debt Matures January 2016 Interest rate LIBOR + 7.50% or Floor rate of 9.50%		$ 5,168	5,051	5,051
Total MedCall					5,051	5,051
ScriptSave (Medical Security Card Company, LLC)	Internet Consumer & Business	Senior Debt Matures February 2016 Interest rate Prime + 8.75%		$ 19,646	19,307	19,896

Services		
Total ScriptSave	19,307	19,896

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Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Trulia, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%		$ 5,000	$ 4,871	$ 4,871
		Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%		$ 5,000	4,871	4,871
Total Trulia, Inc.					9,742	9,742
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate Libor + 8.50% or Floor rate of 10.00%, PIK interest 2.50%		$ 7,500	7,441	7,441
		Senior Debt Matures September 2015 Interest rate Libor + 7.00% or Floor rate of 8.50%		$ 11,500	11,335	11,335
		Revolving Line of Credit Matures September 2015 Interest rate Libor + 6.00% or Floor rate of 7.50%		$ 300	284	284
Total Vaultlogix, Inc.					19,060	19,060
Tectura Corporation	Internet Consumer & Business Services	Senior Debt Matures December 2012 Interest rate 11%		$ 5,625	6,834	6,834
		Revolving Line of Credit Senior Debt Matures August 2012 Interest rate 11%		$ 2,500	2,556	2,556
		Revolving Line of Credit Matures July 2012 Interest rate 11% , PIK interest 1.00%		$ 17,487	17,738	17,738
Total Tectura Corporation					27,128	27,128
Total Debt Internet Consumer & Business Services (27.06%)					115,307	116,634

Box.net, Inc.	Information Services				
		Senior Debt Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%	$ 9,647	9,432	9,432
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	$ 1,590	1,613	1,645
Total Box.net, Inc.				11,045	11,077

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Portfolio Company	Industry	Type of Investment(1)	Series	Principal Amount	Cost(2)	Value(3)
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%		$ 3,000	$ 2,926	$ 2,903
Total Cha Cha Search, Inc.					2,926	2,903
Jab Wireless, Inc.	Information Services	Senior Debt Matures August 2016 Interest rate Prime + 6.25% or Floor rate of 6.75%		$ 20,272	19,993	19,993
Total Jab Wireless, Inc.					19,993	19,993
Total Debt Information Services (7.88%)					33,964	33,973
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%		$ 10,750	10,884	11,147
Total Optiscan Biomedical, Corp.					10,884	11,147
Total Debt Diagnostic (2.59%)*					10,884	11,147
deCODE genetics ehf.	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%		$ 5,000	4,664	4,664
Total deCODE genetics ehf.					4,664	4,664
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.6% or Floor rate of 11.85%		$ 2,416	2,425	2,479
Total Labcyte, Inc.					2,425	2,479
Cempra Holdings LLC	Biotechnology Tools	Senior Debt Matures December 2015 Interest rate Prime + 7.05% or Floor rate of 10.30%		$ 10,000	9,721	9,721
Total Cempra Holdings LLC					9,721	9,721
Total Debt Biotechnology Tools (3.91%)*					16,810	16,864

Entrigue Surgical, Inc.	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	$ 3,000	2,879	2,879
Total Entrigue Surgical, Inc.				2,879	2,879
Transmedics, Inc. (4)	Surgical Devices	Senior Debt Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	$ 8,375	8,602	8,602
Total Transmedics, Inc.				8,602	8,602
Total Debt Surgical Devices (2.66%)*				11,481	11,481

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Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Neoprobe (pka Navidea)	Media/ Content/ Info	Senior Debt		$ 7,000	$ 6,733	$ 6,733
Total Neoprobe (pka Navidea)		Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%			6,733	6,733
Women s Marketing, Inc.	Media/ Content/ Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%		$ 10,000	9,956	10,156
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%		$ 9,710	9,503	9,896
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%		$ 9,956	9,744	9,744
Total Women s Marketing, Inc.					29,203	29,796
Total Debt Media/Content/Info (8.47%)*					35,936	36,529
BrightSource Energy, Inc.[4]	Clean Tech	Senior Debt Matures December 2011 Interest rate Prime + 7.75% or Floor rate of 11.0%		$ 11,250	11,122	11,122
		Senior Debt Matures December 2012 Interest rate Prime + 9.55% or Floor rate of 12.8%		$ 13,750	13,593	13,593
Total BrightSource Energy, Inc.					24,715	24,715
EcoMotors, Inc.	Clean Tech	Senior Debt Matures February 2014 Interest rate Prime + 6.1% or Floor rate of 9.35%		$ 4,879	4,713	4,859
Total EcoMotors, Inc.					4,713	4,859
Enphase Energy, Inc.	Clean Tech	Senior Debt Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.0%		$ 4,898	4,784	4,748

Total Enphase Energy, Inc.				4,784	4,748
NanoSolar, Inc.	Clean Tech	Senior Debt Matures September 2014 Interest rate Prime + 7.75% or Floor rate of 11.0%	$ 9,212	8,795	8,795
Total NanoSolar, Inc.				8,795	8,795
Integrated Photovoltaics	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 7.375% or Floor rate of 10.625%	$ 3,000	2,875	2,875
Total Integrated Photovoltaics				2,875	2,875

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate of 11.0%		$ 1,348	$ 1,356	$ 1,320
Total Propel Biofuels, Inc.					1,356	1,320
SCIenergy, Inc.	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%		$ 202	202	202
		Senior Debt Matures August 2015 Interest rate Prime + 4.90% or Floor rate of 8.15%		$ 5,000	4,883	4,883
Total SCIenergy, Inc.					5,085	5,085
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 937	594	594
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 8,120	8,389	8,389
Total Solexel, Inc.					8,983	8,983
Total Debt Clean Tech (14.24%)*					61,306	61,380
Total Debt (135.90%)					589,192	585,767

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Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Common Stock Warrants		46,446	$ 39	$ 42
	& Development	Preferred Stock Warrants	Series A	426,000	69	273
		Preferred Stock Warrants	Series B	110,270	35	51
Total Warrants Acceleron Pharmaceuticals, Inc.				582,716	143	366
Anthera Pharmaceuticals Inc.	Drug Discovery	Common Stock Warrants		176,786	541	551
	& Development	Common Stock Warrants		144,643	443	451
Total Warrants Anthera Pharmaceuticals Inc.				321,429	984	1,002
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	Series A	525,000	236	69
	& Development	Common Stock Warrants		50,000	28	0
		Preferred Stock Warrants	Series B	660,000	311	137
Total Warrants Dicerna Pharmaceuticals, Inc.				1,235,000	575	206
EpiCept Corporation[5]	Drug Discovery & Development	Common Stock Warrants		325,204	4	15
Total Warrants EpiCept Corporation				325,204	4	15
Concert Pharmaceuticals	Drug Discovery & Development	Preferred Stock Warrants	Series C	200,000	234	233
Total Concert Pharmaceuticals				200,000	234	233
NextWave Pharmaceuticals	Drug Discovery & Development	Preferred Stock Warrants	Series A-1	540,216	126	125
Total NextWave Pharmaceuticals				540,216	126	125
Horizon Therapeutics, Inc.	Drug Discovery & Development	Common Stock Warrants		22,408	231	
Total Horizon Therapeutics, Inc.				22,408	231	
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	Series D	302,143	155	1,116
Total Merrimack Pharmaceuticals, Inc.				302,143	155	1,116
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	Series F	210,473	137	68
Total Paratek Pharmaceuticals, Inc.				210,473	137	68
PolyMedix, Inc.	Drug Discovery & Development	Common Stock Warrants		627,586	480	97
Total PolyMedix, Inc.				627,586	480	97

Portola Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	Series B	687,023	152	207
Total Portola Pharmaceuticals, Inc.				687,023	152	207
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		107,779	69	1,115
Total Aegerion Pharmaceuticals, Inc.				107,779	69	1,115

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Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Chroma Therapeutics, Ltd.[5]	Drug Discovery & Development	Preferred Stock Warrants	Series D	325,261	$ 490	$ 387
Total Chroma Therapeutics, Ltd.				325,261	490	387
NeurogesX, Inc.	Drug Discovery & Development	Common Stock Warrants		791,667	503	122
Total NeurogesX, Inc.				791,667	503	122
Total Warrants Drug Discovery & Development (1.17%)*				6,278,905	4,283	5,059
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants	Series A	201,031	102	165
Total Affinity Videonet, Inc.				201,031	102	165
IKANO Communications, Inc.	Communications & Networking	Preferred Stock Warrants	Series D	296,344	45	
		Preferred Stock Warrants	Series D	451,354	72	
Total IKANO Communications, Inc.				747,698	117	
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	117,958	101	92
Total Intelepeer, Inc.				117,958	101	92
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	Series A	450,000	94	28
Total Neonova Holding Company				450,000	94	28
Pac-West Telecomm, Inc.	Communications & Networking	Common Stock Warrants		54,688	121	
Total Pac-West Telecomm, Inc.				54,688	121	
PeerApp, Inc.	Communications & Networking	Preferred Stock Warrants	Series B	298,779	61	23

Total PeerApp, Inc.[5]				298,779	61	23
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	Series A	135,000	95	206
Total Peerless Network, Inc.				135,000	95	206
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	Series B	1,136,277	52	109
Total Ping Identity Corporation				1,136,277	52	109
PointOne, Inc.	Communications & Networking	Common Stock Warrants		145,877	131	5
Total PointOne, Inc.				145,877	131	5
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants	Series B	110,000	123	121

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Total Purcell Systems, Inc.				110,000	$ 123	$ 121
Stoke, Inc[4]	Communications & Networking	Preferred Stock Warrants	Series C	158,536	53	149
		Preferred Stock Warrants	Series D	72,727	65	81
Total Stoke, Inc.				231,263	118	230
Total Warrants Communications & Networking (0.23%)*				3,628,571	1,115	979
Atrenta, Inc.	Software	Preferred Stock Warrants	Series C	1,196,847	136	815
		Preferred Stock Warrants	Series D	356,973	95	284
Total Atrenta, Inc.				1,553,820	231	1,099
Blurb, Inc.	Software	Preferred Stock Warrants	Series B	439,336	323	855
		Preferred Stock Warrants	Series C	234,280	636	636
Total Blurb, Inc.				673,616	959	1,491
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	Series A	168,750	189	
Total Braxton Technologies, LLC.				168,750	189	
Bullhorn, Inc.	Software	Preferred Stock Warrants	Series C	122,807	43	229
Total Bullhorn, Inc.				122,807	43	229
Central Desktop, Inc.	Software	Preferred Stock Warrants	Series B	522,823	108	398
Total Central Desktop, Inc.				522,823	108	398
Clickfox, Inc.	Software	Preferred Stock Warrants	Series B	1,038,563	329	522
Total Clickfox, Inc.				1,038,563	329	522
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		399,687	99	142

			Series D			
Total Forescout Technologies, Inc.				399,687	99	142
HighRoads, Inc.	Software	Preferred Stock Warrants	Series B	190,176	45	7
Total HighRoads, Inc.				190,176	45	7
Kxen, Inc.	Software	Preferred Stock Warrants	Series D	184,614	47	22
Total Kxen, Inc.				184,614	47	22
RichRelevance, Inc.	Software	Preferred Stock Warrants	Series D	112,749	98	12
Total RichRelevance, Inc.				112,749	98	12
Rockyou, Inc.	Software	Preferred Stock Warrants	Series B	41,266	116	1
Total Rockyou, Inc.				41,266	116	1
Sportvision, Inc.	Software	Preferred Stock Warrants	Series B	259,139	39	

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Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Total Sportvision, Inc.				259,139	$ 39	$
SugarSync Inc.	Software	Preferred Stock Warrants	Series CC	332,726	78	162
Total SugarSync Inc.				332,726	78	162
Daegis Inc. (pka Unify Corporation)	Software	Common Stock Warrants		718,860	1,434	237
Total Daegis Inc.				718,860	1,434	237
White Sky, Inc.	Software	Preferred Stock Warrants	Series B-2	124,295	54	3
Total White Sky, Inc.				124,295	54	3
Tada	Software	Preferred Stock Warrants	Series A	20,833	25	25
Total Tada				20,833	25	25
WildTangent, Inc.	Software	Preferred Stock Warrants	Series 3A	100,000	238	22
Total WildTangent, Inc.				100,000	238	22
Total Warrants Software (1.01%)*				6,564,724	4,132	4,372
Luminus Devices, Inc.	Electronics & Computer Hardware	Common Stock Warrants		6,681	334	
		Common Stock Warrants		3,341	84	
		Common Stock Warrants		16,364	183	
Total Luminus Devices, Inc.				26,386	601	
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series A-1	181,818	63	196
Total Shocking Technologies, Inc.				181,818	63	196
Total Warrant Electronics & Computer Hardware (0.05%)*				208,204	664	196
Althea Technologies, Inc.		Preferred Stock Warrants		502,273	309	516

	Specialty Pharmaceuticals		Series D			
Total Althea Technologies, Inc.				502,273	309	516
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Common Stock Warrants		178,987	1,086	425
Total Pacira Pharmaceuticals, Inc.				178,987	1,086	425
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants	Series E	340,534	528	
Total Quatrx Pharmaceuticals Company				340,534	528	
Total Warrants Specialty Pharmaceuticals (0.22%)*				1,021,794	1,923	941

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Annie s, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A	65,000	$ 321	$ 250
Total Annie s, Inc.				65,000	321	250
IPA Holdings, LLC	Consumer & Business Products	Common Stock Warrants		650,000	275	58
Total IPA Holding, LLC				650,000	275	58
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A	99,286	24	118
Total Market Force Information, Inc.				99,286	24	118
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C	423,529	252	2,495
Total Wageworks, Inc.				423,529	252	2,495
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C	1,821,429	174	
Total Seven Networks, Inc.				1,821,429	174	
Total Warrant Consumer & Business Products (0.68%)*				3,059,244	1,046	2,921
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants	Series D	360,000	160	145
Total Achronix Semiconductor Corporation				360,000	160	145
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants	Series D	239,872	157	
Total Enpirion, Inc.				239,872	157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	Series C	558,748	46	3
		Preferred Stock Warrants	Series D	1,954,762	582	10

Total iWatt, Inc.				2,513,510	628	13
Kovio Inc.	Semiconductors	Preferred Stock Warrants	Series B	319,352	92	4
Total Kovio Inc.				319,352	92	4
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants	Series D	2,941,176	297	1,328
Total NEXX Systems, Inc.				2,941,176	297	1,328
Quartics, Inc.	Semiconductors	Preferred Stock Warrants	Series C	69,139	53	
Total Quartics, Inc.				69,139	53	
Total Warrants Semiconductors (0.35%)*				6,443,049	1,387	1,490

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Portfolio Company	**Industry**	**Type of Investment[1]**	**Series**	**Shares**	**Cost[2]**	**Value[3]**
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		137,254	$ 178	$ 41
		Common Stock Warrants		137,254	178	41
Total AcelRX Pharmaceuticals, Inc.				274,508	356	82
Alexza Pharmaceuticals, Inc.[4]	Drug Delivery	Common Stock Warrants		376,394	645	72
Total Alexza Pharmaceuticals, Inc.				376,394	645	72
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	Series C-1	150,000	291	427
Total BIND Biosciences, Inc.				150,000	291	427
Merrion Pharmaceuticals, Inc.[5]	Drug Delivery	Common Stock Warrants		1,453,519	214	194
Total Merrion Pharmaceuticals, Inc.				1,453,519	214	194
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		24,581	36	62
		Common Stock Warrants		36,871	51	93
Total Transcept Pharmaceuticals, Inc.				61,452	87	155
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants	Series D	269,663	557	565
Total Revance Therapeutics, Inc.				269,663	557	565
Total Warrant Drug Delivery (0.35%)*				2,585,536	2,150	1,495
Gelesis	Therapeutic	Preferred Stock Warrants	Series A-1	263,688	78	106
Total Gelesis				263,688	78	106
BARRX Medical, Inc.	Therapeutic	Preferred Stock Warrants	Series C	66,667	76	189
Total BARRX Medical, Inc.				66,667	76	189
EKOS Corporation	Therapeutic	Preferred Stock Warrants	Series C	4,448,135	327	

Total EKOS Corporation				4,448,135	327	
Gynesonics, Inc.	Therapeutic	Preferred Stock Warrants	Series A	123,457	17	17
			Series C	1,087,497	211	216
Total Gynesonics, Inc.				1,210,954	228	233
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants	Series B	38,829	99	
Total Light Science Oncology, Inc.				38,829	99	
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants	Series D	526,840	125	13
Total Novasys Medical, Inc.				526,840	125	13
Oraya Therapeutics, Inc.	Therapeutic	Preferred Stock Warrants	Series C	477,966	551	551

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Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Total Oraya Therapeutics, Inc.				477,966	$ 551	$ 551
Total Warrants Therapeutic (0.25%)*				7,033,079	1,484	1,092
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series A	303,872	147	
Total Cozi Group, Inc.				303,872	147	
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants		12,698	6	
		Common Stock Warrants		13,068	6	
		Common Stock Warrants		13,467	11	
		Common Stock Warrants		13,851	15	
		Common Stock Warrants		97,657	44	
Total Invoke Solutions, Inc.				150,741	82	
InXpo, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series C	648,400	98	56
Total InXpo, Inc.				648,400	98	56
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	200,000	43	
Total Prism Education Group, Inc.				200,000	43	
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series C	863,599	1,224	
Total RazorGator Interactive Group, Inc.				863,599	1,224	
Reply! Inc.[4]	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	137,225	320	395

Total Reply! Inc.				137,225	320	395
Trulia, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series D	168,165	188	413
Total Trulia, Inc.				168,165	188	413
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants	Series B-1	253,378	51	26
Total Tectura Corporation				253,378	51	26
Total Warrants Internet Consumer & Business Services (0.21%)				2,725,380	2,153	890
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants	Series AA	235,294	106	
		Common Stock Warrants		34,939	49	

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Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Total Lilliputian Systems, Inc.				270,233	$ 155	$
Total Warrants Energy (0.00%)*				270,233	155	
Box.net, Inc.	Information Services	Preferred Stock Warrants	Series C	199,219	117	1,557
		Preferred Stock Warrants	Series B	271,070	73	2,280
		Preferred Stock Warrants	Series D-1	62,255	193	233
Total Box.net, Inc.				532,544	383	4,070
Buzznet, Inc.	Information Services	Preferred Stock Warrants	Series B	19,962	9	
Total Buzznet, Inc.				19,962	9	
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants	Series F	48,232	58	1
Total Cha Cha Search, Inc.				48,232	58	1
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock Warrants	Series B	1,104,020	213	
Total Magi.com				1,104,020	213	
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants	Series A	266,567	265	332
Total Jab Wireless, Inc.				266,567	265	332
Solutionary Inc.	Information Services	Preferred Stock Warrants	Series E	117,171	96	
Total Solutionary, Inc.				117,171	96	
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants	Series B	190,234	230	83
Total Intelligent Beauty, Inc.				190,234	230	83
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants	Series A	620,000	172	237
Total Zeta Interactive Corporation				620,000	172	237
Total Warrants Information Services (1.10%)				2,898,730	1,426	4,723

Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock Warrants	Series A	1,113,403	80	150
		Preferred Stock Warrants	Series B	3,092,784	680	453
		Preferred Stock Warrants	Series C	2,000,000	309	269
Total Optiscan Biomedical, Corp.				6,206,187	1,069	872
Total Warrants Diagnostic (0.20%)*				6,206,187	1,069	872
deCODE genetics ehf.	Biotechnology Tools	Preferred Stock Warrants	Series A-2	135,871	305	305
Total deCODE genetics ehf.				135,871	305	305
Labcyte, Inc.	Biotechnology Tools	Common Stock Warrants	Series C	840,817	197	263
Total Labcyte, Inc.				840,817	197	263
Cempra Holdings LLC	Biotechnology Tools	Preferred Stock Warrants	Series C	370,714	187	186
Total Cempra Holdings LLC				370,714	187	186
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series B	204,545	45	203
		Preferred Stock Warrants	Series C	30,114	33	15

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Portfolio Company	Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Total NuGEN Technologies, Inc.				234,659	$ 78	$ 218
Total Warrants Biotechnology Tools (0.23%)*				1,582,061	767	972
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants	Series B	62,500	87	85
Total Entrigue Surgical, Inc.				62,500	87	85
Transmedics, Inc. (4)	Surgical Devices	Preferred Stock Warrants	Series B	40,436	225	
Total Transmedics, Inc.				40,436	225	
Total Warrants Surgical Devices (0.02%)*				102,936	312	85
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants	Series D	407,457	482	2
Total Glam Media, Inc.				407,457	482	2
Neoprobe (pka Navidea)	Media/Content/Info	Common Stock Warrants		333,333	244	245
Total Neoprobe (pka Navidea)				333,333	244	245
Everyday Health, Inc. (Waterfront Media, Inc.)	Media/Content/Info	Preferred Stock Warrants	Series C	110,018	60	504
Total Everyday Health				110,018	60	504
Total Warrants Media/Content/Info (0.17%)*				850,808	786	751
BrightSource Energy, Inc.(4)	Clean Tech	Preferred Stock Warrants	Series D	130,120	675	834
Total BrightSource Energy, Inc.				130,120	675	834
Calera, Inc.	Clean Tech	Preferred Stock Warrants	Series C	44,529	513	475
Total Calera, Inc.				44,529	513	475
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants	Series B	218,750	154	323
		Preferred Stock Warrants	Series B	218,750	154	323
Total EcoMotors, Inc.				437,500	308	646

Enphase Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series E	330,882	102	49
Total Enphase Energy, Inc.				330,882	102	49
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D-1	393,212	548	208
Total GreatPoint Energy, Inc.				393,212	548	208
NanoSolar, Inc.	Clean Tech	Preferred Stock Warrants	Series D	76,353	355	355
Total NanoSolar, Inc.				76,353	355	355
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants	Series C	3,200,000	211	170
Total Propel Biofuels, Inc.				3,200,000	211	170
SCIenergy, Inc.	Clean Tech	Preferred Stock Warrants		5,792	8	2
		Preferred Stock Warrants	Series C	92,673	130	30
Total SCIenergy, Inc.				98,465	138	32
Solexel, Inc.	Clean Tech	Preferred Stock Warrants	Series B	245,682	1,161	275

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Total Solexel, Inc.				245,682	$ 1,161	$ 275
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants	Series A	320,000	162	82
Total Trilliant, Inc.				320,000	162	82
Integrated Photovoltaics	Clean Tech	Preferred Stock Warrants	Series A-1	390,000	82	81
Total Integrated Photovoltaics				390,000	82	81
Total Warrants Clean Tech (0.74%)*				5,666,743	4,255	3,207
Total Warrants (6.97%)					29,107	30,045
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock		144,017	1,092	2,411
Total Aegerion Pharmaceuticals, Inc.				144,017	1,092	2,411
Aveo Pharmaceuticals	Drug Discovery & Development	Common Stock		167,864	842	2,887
Total Aveo Pharmaceuticals				167,864	842	2,887
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series B	502,684	503	374
Total Dicerna Pharmaceuticals, Inc.				502,684	503	374
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock	Series C	15,334	1,500	
Total Inotek Pharmaceuticals Corp.				15,334	1,500	
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series E	546,448	2,000	3,825
Total Merrimack Pharmaceuticals, Inc.				546,448	2,000	3,825

Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series H	244,158	1,000	1,231
Total Paratek Pharmaceuticals, Inc.				244,158	1,000	1,231
Total Equity Drug Discovery & Development (2.49%)*				1,620,505	6,937	10,728
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock	Series C	93,456	243	163
Acceleron Pharmaceuticals, Inc.		Preferred Stock	Series E	43,488	98	138
Acceleron Pharmaceuticals, Inc.		Preferred Stock	Series F	19,268	60	61
Acceleron Pharmaceuticals, Inc.		Preferred Stock	Series B	600,601	1,000	724
Total Acceleron Pharmaceuticals, Inc.				756,813	1,401	1,086

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock		41,570	$ 500	$ 325
Total Transcept Pharmaceuticals, Inc.				41,570	500	325
Total Equity Drug Delivery (0.33%)*				798,383	1,901	1,411
E-band Communications, Corp.(6)	Communications & Networking	Preferred Stock	Series B	564,972	2,000	
		Preferred Stock	Series C	649,998	372	
		Preferred Stock	Series D	847,544	508	
Total E-Band Communications, Corp.				2,062,514	2,880	
Neonova Holding Company	Communications & Networking	Preferred Stock	Series A	500,000	250	212
Total Neonova Holding Company				500,000	250	212
Peerless Network, Inc.	Communications & Networking	Preferred Stock	Series A	1,000,000	1,000	2,335
Total Peerless Network, Inc.				1,000,000	1,000	2,335
Stoke, Inc(4)	Communications & Networking	Preferred Stock	Series E	152,905	500	458
Total Stoke, Inc.				152,905	500	458
Total Equity Communications & Networking (0.70%)*				3,715,419	4,630	3,005
Atrenta, Inc.	Software	Preferred Stock	Series D	297,477	250	474
Total Atrenta, Inc.				297,477	250	474
Total Equity Software (0.11%)*				297,477	250	474
Maxvision Holding, LLC.(7)	Electronics & Computer	Common Stock		3,581,329	3,581	

	Hardware				
Total Maxvision Holding, LLC				3,581,329	3,581
Spatial Photonics, Inc.[8]	Electronics & Computer Hardware	Preferred Stock	Series D	4,717,813	268
Total Spatial Photonics Inc.				4,717,813	268
Total Equity Electronics & Computer Hardware (0.00%)*				8,299,142	3,849
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	Series E	166,419	750
Total Quatrx Pharmaceuticals Company				166,419	750
Total Equity Specialty Pharmaceuticals (0.00%)*				166,419	750

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	LLC Interest	500,000	$ 500	$ 360
Total IPA Holding, LLC				500,000	500	360
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	Series B	187,970	500	491
Total Market Force Information, Inc.				187,970	500	491
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock		317,893	880	
Total Caivis Acquisition Corporation				317,893	880	
Wageworks, Inc.	Consumer & Business Products	Preferred Stock	Series D	38,520	250	388
Total Wageworks, Inc.				38,520	250	388
Total Equity Consumer & Business Products (0.29%)*				1,044,383	2,130	1,239
iWatt, Inc.	Semiconductors	Preferred Stock	Series E	2,412,864	490	984
Total iWatt, Inc.				2,412,864	490	984
NEXX Systems, Inc.	Semiconductors	Preferred Stock	Series D	1,273,392	277	802
Total NEXX Systems, Inc.				1,273,392	277	802
Total Equity Semiconductors (0.41%)*				3,686,256	767	1,786
BARRX Medical, Inc.	Therapeutic	Preferred Stock	Series C	750,000	1,500	3,628
Total BARRX Medical, Inc.				750,000	1,500	3,628
Gelesis	Therapeutic	Common Stock		674,208		108
		Preferred Stock	Series A-1	674,208	425	519
		Preferred Stock	Series A-2	675,676	500	520

Total Gelesis				2,024,092	925	1,147
Gynesonics, Inc	Therapeutic	Preferred Stock	Series B	219,298	250	156
Gynesonics, Inc		Preferred Stock	Series C	656,512	283	295
Total Gynesonics, Inc				875,810	533	451
Novasys Medical, Inc.	Therapeutic	Preferred Stock	Series D-1	4,118,444	1,000	799
Total Novasys Medical, Inc.				4,118,444	1,000	799
Total Equity Therapeutic (1.40%)*				7,768,346	3,958	6,025

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series B	218,251	$ 177	$ 44
Total Cozi Group, Inc.				218,251	177	44
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series A	347,827	1,000	
Total RazorGator Interactive Group, Inc.				347,827	1,000	
Total Equity Internet Consumer & Business Services (0.01%)				566,078	1,177	44
Box.net, Inc.	Information Services	Preferred Stock	Series C	390,625	500	3,543
		Preferred Stock	Series D	282,638	1,500	2,564
Total Box.net, Inc.				673,263	2,000	6,107
Buzznet, Inc.	Information Services	Preferred Stock	Series C	263,158	250	26
Total Buzznet, Inc.				263,158	250	26
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock	Series C	8,232,092	250	247
Total Magi.com				8,232,092	250	247
Solutionary, Inc.	Information Services	Preferred Stock	Series E	50,505	250	55
Total Solutionary, Inc.				50,505	250	55
Good Technologies, Inc. (Visto Inter)	Information Services	Common Stock		500,000	603	90
Total Good Technologies, Inc.				500,000	603	90
Zeta Interactive Corporation	Information Services	Preferred Stock	Series A	500,000	500	629

Total Zeta Interactive Corporation				500,000	500	629
Total Equity Information Services (1.66%)				10,219,018	3,853	7,154
Novadaq Technologies, Inc.(5)	Diagnostic	Common Stock		136,983	1,057	671
Total Novadaq Technologies, Inc. (5)				136,983	1,057	671
Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock	Series B	6,185,567	655	711
		Preferred Stock	Series C	1,927,309	3,000	1,757

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Total Optiscan Biomedical, Corp.				8,112,876	$ 3,655	$ 2,468
Total Equity Diagnostic (0.73%)*				8,249,859	4,712	3,139
Kamada, LTD.	Biotechnology Tools	Common Stock		71,490	427	384
Total Kamada, LTD.				71,490	427	384
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	Series C	189,394	500	473
Total NuGEN Technologies, Inc.				189,394	500	473
Total Equity Biotechnology Tools (0.20%)*				260,884	927	857
Transmedics, Inc. (4)	Surgical Devices	Preferred Stock	Series C	119,999	300	
		Preferred Stock	Series D	88,961	1,100	
Total Transmedics, Inc.				208,960	1,400	
Total Equity Surgical Devices (0.00%)*				208,960	1,400	
Everyday Health, Inc. (Waterfront Media, Inc.)	Media/ Content/ Info	Preferred Stock	Series D	145,590	1,000	1,196
Total Everyday Health				145,590	1,000	1,196
Total Equity Media/Content/Info (0.28%)*				145,590	1,000	1,196
Total Equity (8.60%)					38,241	37,058
Total Investments (151.47%)					$ 656,540	$ 652,870

* Value as a percent of net assets

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

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

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

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
(5) Non-U.S. company or the company s principal place of business is outside the United States.
(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners as least 25% but not more than 50% of the voting securities of the company
(8) Debt is on non-accrual status at December 31, 2011, and is therefore considered non-income producing.

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the Years Ended December 31,		
(Dollars in thousands, except per share data)	**2012**	**2011**	**2010**
Investment Income:			
Interest income			
Non Control/Non Affliate investments	$ 85,258	$ 69,552	$ 51,417
Affliate investments	2,345		
Control investments.		794	3,283
Total interest income	87,603	70,346	54,700
Fees			
Non Control/Non Affliate investments	9,897	9,400	5,045
Affliate investments	20	14	
Control investments		95	(271)
Total fees	9,917	9,509	4,774
Total investment income	97,520	79,855	59,474
Operating expenses:			
Interest	19,835	13,252	8,572
Loan fees	3,917	2,635	1,259
General and administrative	8,108	7,992	7,086
Employee Compensation:			
Compensation and benefits	13,326	13,260	10,474
Stock-based compensation	4,227	3,128	2,709
Total employee compensation	17,553	16,388	13,183
Total operating expenses	49,413	40,267	30,100
Net investment income	48,107	39,588	29,374
Net realized gains (losses) on invesmtents			
Non Control/Non Affliate investments	3,168	2,741	(28,873)
Control investments			2,491
Total net realized (loss) gain on investments	3,168	2,741	(26,382)
Net increase (decrease) in unrealized appreciation on investments			
Non Control/Non Affliate investments	(2,448)	(3,976)	1,118
Affliate investments	(2,068)	3,425	795
Control investments		5,158	77
Total net unrealized (depreciation) appreciation on investments	(4,516)	4,607	1,990
Total net realized and unrealized gain (loss)	(1,348)	7,348	(24,392)
Net increase in net assets resulting from operations	$ 46,759	$ 46,936	$ 4,982

Net investment income and investment gains and losses per common share:

Basic	$ 0.96	$ 0.91	$ 0.80
Change in net assets per common share:			
Basic	$ 0.93	$ 1.08	$ 0.12
Diluted	$ 0.93	$ 1.07	$ 0.12
Weighted average shares outstanding			
Basic	49,068	42,988	36,156
Diluted	49,156	43,299	36,870

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands)

	Common Stock							
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains (Losses) on Investments	Distributions from Net Investment Income	Provision for Income Taxes on Investment Gains	Net Assets
Balance at January 1, 2010	35,634	$ 35	$ 409,036	$ (10,028)	$ (28,129)	$ (4,057)	$ (342)	$ 366,515
Net increase in net assets resulting from operations				1,990	(26,382)	29,374		4,982
Issuance of common stock	531	1	2,661					2,662
Issuance of common stock under restricted stock plan	485							
Acquisition of common stock under repurchase plan	(403)		(3,699)					(3,699)
Issuance of common stock under dividend reinvestment plan	199		1,927					1,927
Retired shares from net issuance	(189)		(1,934)					(1,934)
Public Offering	7,187	7	68,097					68,104
Dividends declared						(28,816)		(28,816)
Stock-based compensation			2,790					2,790
Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles			(1,329)		3,478	(2,149)		
Balance at December 31, 2010	43,444	$ 43	$ 477,549	$ (8,038)	$ (51,033)	$ (5,648)	$ (342)	$ 412,531
Net increase in net assets resulting from operations		$	$	$ 4,607	$ 2,741	$ 39,588	$	$ 46,936
Issuance of common stock	188	1	981					982
Issuance of common stock under restricted stock plan	140							
Issuance of common stock as stock dividend	167		1,649					1,649
Retired shares from net issuance	(86)		(952)					(952)
Issuance of the Convertible Senior Notes (see Note 4)			5,190					5,190
Dividends declared						(38,490)		(38,490)
Stock-based compensation			3,195					3,195
Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles			(3,368)		5,250	(1,882)		
Balance at December 31, 2011	43,853	$ 44	$ 484,244	$ (3,431)	$ (43,042)	$ (6,432)	$ (342)	$ 431,041
Net increase in net assets resulting from operations		$	$	$ (4,516)	$ 3,168	$ 48,107	$	$ 46,759
Issuance of common stock	578	1	3,287					3,288
Issuance of common stock under restricted stock plan	505							
Issuance of common stock as stock dividend	219		2,305					2,305
Retired shares from net issuance	(330)		(4,625)					(4,625)
Public Offering	8,100	8	80,872					80,880
Dividends declared						(47,983)		(47,983)
Stock-based compensation			4,303					4,303
			(5,878)		2,958	2,920		

Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles														
Balance at December 31, 2012	52,925	$	53	$	564,508	$	(7,947)	$	(36,916)	$	(3,388)	$	(342)	$ 515,968

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Years Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 46,759	$ 46,936	$ 4,982
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities:			
Purchase of investments	(507,098)	(445,066)	(322,331)
Principal payments received on investments	245,777	247,325	196,119
Proceeds from sale of investments	25,948	17,733	7,613
Net unrealized (appreciation) / depreciation on investments	4,516	(4,607)	(1,990)
Net realized (gain) / loss on investments	(3,048)	(2,741)	26,382
Net unrealized appreication due to lender			(13)
Accretion of paid-in-kind principal	(1,400)	(1,943)	(3,246)
Accretion of loan discounts	(5,441)	(6,999)	(4,526)
Accretion of loan discount on Convertible Senior Notes	1,083	767	
Accretion of loan exit fees	(3,986)	(94)	437
Change in deferred loan origination revenue	2,301	2,420	4,013
Unearned fees related to unfunded commitments	(1,900)	615	172
Amortization of debt fees and issuance costs	1,560	1,688	539
Depreciation	289	348	400
Stock-based compensation and amortization of restricted stock grants	4,303	3,195	2,790
Common stock issued in lieu of Director compensation			105
Change in operating assets and liabilities:			
Interest and fees receivable	(3,815)	(1,300)	(1,200)
Prepaid expenses and other assets	(988)	318	(276)
Accounts payable	279	(563)	350
Income tax receivable / (payable)			(41)
Accrued liabilities	926	2,443	(3,529)
Net cash used in operating activities	(193,935)	(139,525)	(93,250)
Cash flows from investing activities:			
Purchases of capital equipment	(87)	(189)	(244)
Other long-term assets		(25)	350
Net cash provided by / (used in) investing activities	(87)	(214)	106
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	79,647	30	68,727
Stock repurchase program			(3,699)
Dividends paid	(45,678)	(36,843)	(26,889)
Borrowings of credit facilities	64,000	92,500	39,400
Repayments of credit facilities	(74,228)	(27,313)	
Issuance of Convertible Senior Notes		75,000	
Issuance of 2019 Notes Payable	170,365		
Issuance of Asset-Backed Notes	129,300		
Cash paid for debt issuance costs	(10,864)	(3,110)	
Fees paid for credit facilities and debentures		(3,065)	(2,209)
Net cash provided by financing activities	312,542	97,199	75,330
Net increase / (decrease) in cash	118,520	(42,540)	(17,814)

Cash and cash equivalents at beginning of year	64,474	107,014	124,828
Cash and cash equivalents at end of year	$ 182,994	$ 64,474	$ 107,014
Supplemental disclosures:			
Interest paid	$ 18,928	$ 11,270	$ 8,274
Income taxes paid	$ 44	$ 66	$ 39
Stock divided	$ 2,305	$ 1,649	$ 1,927

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

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

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

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

HT II and HT III hold approximately $154.4 million and $250.8 million in assets, respectively, and accounted for approximately 10.5% and 17.0% of our total assets prior to consolidation at December 31, 2012.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all variable interest entities of which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the party with both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company considers all the facts and circumstances including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE s economic performance and identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE is determined to have the power to direct the activities of a VIE. To assess whether the Company has the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity interests, servicing rights and fee arrangements, and any other variable interests in the VIE. If the Company determines that it is the party with the power to make the most significant decisions affecting the VIE, and the Company has a potentially significant interest in the VIE, then its consolidates the VIE.

The Company performs ongoing reassessments, usually quarterly, of whether it is the primary beneficiary of a VIE. The reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The Company also reconsiders whether entities previously determined not to be VIEs have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework.

Valuation of Investments

The Company s investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (ASC) topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At December 31, 2012, 80.7% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and clean technology industries. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company s Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

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

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate;

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

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

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

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

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

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

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In accordance with ASU 2011-04, the following table provides quantitative information about the Company s Level 3 fair value measurements of the Company s investments as of December 31, 2012. In addition to the techniques and inputs noted in the table below, according to the Company s valuation policy the Company may also use other valuation techniques and methodologies when determining the Company s fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements.

Investment Type - Level Three Debt Investments	Fair Value at December 31, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range
Pharmaceuticals Debt	$266,978	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	12.83% - 16.11% (2.0%) - 1.0%
		Option Pricing Model[(b)]	Average Industry Volatility[(c)] Risk Free Interest Rate Estimated Time to Exit (in months)	57.67% 0.190% 15.2
Medical Devices Debt	46,022	Market Comparable Companies	Hypothetical Market Yield Premium	16.19% 0.0% - 1.0%
Technology Debt	159,341	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	12.36% - 20.49% (1.5%) - 1.0%
		Liquidation	Investment Collateral	$0 - $7.4 million
Clean Tech Debt	91,305	Market Comparable Companies	Hypothetical Market Yield Premium	12.69% 0% - 1.0%
Lower Middle Market Debt	263,894	Market Comparable Companies	Hypothetical Market Yield Premium	10.75% - 16.25% 0.0% - 1.0%
		Broker Quote[(d)]	Price Quotes Market Comparable Index Yield Spreads Par Value	78.0% -100% of par 4.33% - 5.93% $30.0 million
Total Level Three Debt Investments	$827,540			

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

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

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

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

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

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

(b) An option pricing model valuation technique was used to derive the fair value of the conversion feature of convertible notes.
(c) Represents the range of industry volatility used by market participants when pricing the investment.
(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

Investment Type - Level Three Warrant and Equity Investments	Fair Value at December 31, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range
Warrant and Equity positions	$57,685	Market Comparable Companies	EBITDA Multiple[(b)]	1.43x -20.68x
			Revenue Multiple[(b)]	0.42x -16.98x
			Discount for Lack of Marketability[(c)]	10.4% -25.2%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility[(d)]	46.49% -141.2%
			Risk-Free Interest Rate	0.17% - 0.46%
			Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$57,685			

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

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

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

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

Debt Investments

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

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

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

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

Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or if under the in exchange premise the value of a debt security were to be greater than amortized cost.

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

Equity-Related Securities and Warrants

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

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

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

(in thousands)		Investments at Fair Value as of December 31, 2012		
Description	12/31/2012	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 827,540	$	$	827,540
Preferred stock	33,889			33,889
Common stock	15,321	13,665		1,656
Warrants	29,550		7,410	22,140
	$ 906,300	$ 13,665	$ 7,410	$ 885,225

(in thousands)		Investments at Fair Value as of December 31, 2011		
Description	12/31/2011	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 585,767	$	$	$ 585,767
Preferred stock	30,289			30,289

Common stock	6,769	6,679		90
Warrants	30,045		3,761	26,284
	$ 652,870	$ 6,679	$ 3,761	$ 642,430

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

(in thousands)	Balance, January 1, 2012	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or depreciation[2]	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balances, December 31, 2012
Senior Debt	$ 585,767	$ (5,178)	$ (2,262)	$ 545,913	$ (2,000)	$ (294,294)	$		$ (406)	827,540
Preferred Stock	30,289	(733)	4,112	10,562	(6,553)			356	(4,144)	33,889
Common Stock	90	(16)	5,523	9,558	(45)				(13,453)	1,656
Warrants	$ 26,284	4,413	(2,453)	7,362	(9,211)				(4,256)	22,140
Total	$ 642,430	$ (1,514)	$ 4,920	$ 573,395	$ (17,809)	$ (294,294)	$	$ 356	$ (22,259)	$ 885,225

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

(1) Includes net realized gains (losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.
(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statements of operations.
(3) Transfers in to Level 3 relate to the conversion of E-Band Communications, Inc. debt to equity. Transfers out of Level 3 relate to the respective initial public offerings of Annie s, Inc., Cempra, Inc., Enphase Energy, Inc. Facebook, Inc., Merrimack Pharmaceuticals, Inc. Trulia, Inc. and WageWorks, Inc. to level 1.

For the year ended December 31, 2012, approximately $3.8 million in unrealized appreciation and $2.2 million in unrealized depreciation was recorded for equity and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $2.3 million in unrealized depreciation was recorded for Level 3 debt investments relating to assets still held at the reporting date.

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

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

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The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation anddepreciation on control and affiliate investments for the years ended December 31, 2012 and December 31, 2011:

(in thousands)				Year Ended December 31, 2012		
Portfolio Company	**Type**	**Fair Value at December 31, 2012**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
E-Band Communications, Corp	Non-Controlled Affiliate	$	$ 4	$ 18	$	$
Gelesis, Inc	Non-Controlled Affiliate	1,665	712	(672)	$	$
Optiscan BioMedical, Corp	Non-Controlled Affiliate	10,207	1,649	2,722		
Total		$ 11,872	$ 2,365	$ 2,068	$	$

(in thousands)				Year Ended December 31, 2011		
Portfolio Company	**Type**	**Fair Value at December 31, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
MaxVision Holding, LLC	Control	$ 1,027	$ 889	$ (5,158)	$	$
E-Band Communications, Corp	Non-Controlled Affiliate		14	(3,425)		
Total		$ 1,027	$ 903	$ (8,583)	$	$

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

A summary of the composition of the Company s investment portfolio as of December 31, 2012 and December 31, 2011 at fair value is shown as follows:

	December 31, 2012		December 31, 2011	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 652,041	72.0%	$ 482,268	73.9%
Senior secured debt	205,049	22.6%	133,544	20.4%
Preferred stock	33,885	3.7%	30,181	4.6%
Common Stock	15,325	1.7%	6,877	1.1%
	$ 906,300	100.0%	$ 652,870	100.0%

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

	December 31, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 901,041	99.4%	$ 634,736	97.2%
England	5,259	0.6%	8,266	1.3%
Iceland			4,970	0.7%
Ireland			3,842	0.6%
Canada			672	0.1%
Israel			384	0.1%
	$ 906,300	100.0%	$ 652,870	100.0%

The following table shows the fair value the Company s portfolio by industry sector at December 31, 2012 and December 31, 2011:

	December 31, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 188,479	20.8%	$ 131,428	20.1%
Internet Consumer & Business Services	136,149	15.0%	117,542	18.0%
Clean Tech.	126,600	14.0%	64,587	9.9%
Drug Delivery	74,218	8.2%	62,665	9.6%
Software.	70,838	7.8%	27,850	4.3%
Medical Device & Equipment	54,575	6.0%		0.0%
Information Services	53,523	5.9%	45,850	7.0%
Media/Content/Info	51,534	5.7%	38,476	5.9%
Communications & Networking	37,560	4.1%	28,618	4.4%
Healthcare Services, Other.	36,481	4.0%		0.0%
Diagnostic.	16,307	1.8%	15,158	2.3%
Consumer & Business Products	13,723	1.5%	4,186	0.6%
Electronics & Computer Hardware	12,715	1.4%	1,223	0.2%
Specialty Pharma	12,473	1.4%	39,384	6.0%
Surgical Devices	11,358	1.3%	11,566	1.8%
Biotechnology Tools	6,845	0.8%	18,693	2.9%
Semiconductors	2,922	0.3%	9,733	1.5%
Therapeutic			35,911	5.5%
	$ 906,300	100.0%	$ 652,870	100.0%

During the year ended December 31, 2012, the Company funded investments in debt securities and equity investments, totaling approximately $486.8 million and $9.7 million, respectively. During the year ended December 31 2012, the Company converted approximately $356,000 of debt to equity in one portfolio company.

In addition, in December 2011, Hercules entered into an agreement to acquire shares of Facebook, Inc. common stock for approximately $9.6 million through a secondary marketplace. The investments were subject to a Facebook, Inc. right of first refusal, which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules. Accordingly, during the year ended December 31, 2012, the investment in Facebook, Inc. was transferred from Other Assets to Investments.

During the year ended December 31, 2011, the Company funded investments in debt securities and equity investments, totaling approximately $433.4 million and $2.1 million, respectively. During the year ended December 31, 2011, the Company converted approximately $4.4 million of debt to equity in two portfolio companies.

No single portfolio investment represents more than 10% of the fair value of the investments as of December 31, 2012 and 2011.

During the year ended December 31,2012, the Company recognized net realized gains of approximately $3.2 million on the portfolio. During the year ended December 31, 2012, we recorded realized gains of approximately $5.1 million, $3.1 million, $2.6 million $2.4 million and $2.4 million from the sale of NEXX Systems, Inc., BARRX Medical, DeCode Genetics, Aegerion Pharmaceuticals and Annie s. These gains were offset by losses of approximately $8.7 million, $2.2 million, $672,000 and $463,000, respectively, from the liquidation of MaxVision Holding, L.L.C, Razorgator Interactive Group, Zeta Interactive Corporation and Magi.com (pka Hi5 Networks, Inc.).

In 2011, we generated realized gains totaling approximately $11.1 million primarily due to the sale of warrants and equity investments in 3 portfolio companies. We recognized realized losses in 2011 of approximately $8.4 million on the disposition of investments in 13 portfolio companies.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately $2.0 million and $4.5 million of unamortized fees at December 31, 2012 and December 31, 2011, respectively, and approximately $6.8 million and $4.4 million in exit fees receivable at December 31, 2012 and December 31, 2011, respectively.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately $1.5 million and $1.7 million in PIK income during the years ended December 31, 2012 and December 31, 2011, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the year ended December 31, 2012.

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At December 31, 2012, approximately 62.4% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 36.0% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1.6% of portfolio company loans had an equipment only lien.

Income Recognition

The Company records interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, the Company will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of December 31, 2012, the Company had one portfolio company on non-accrual status with an approximate cost of $347,000 and no fair market value. There was one loan on non-accrual status with an aggregate cost of approximately $7.7 million and a fair value of approximately $1.0 million as of December 31, 2011. During the third quarter of 2012 the Company recognized a realized loss of approximately $5.1 million on our warrant, equity and debt investments in this company.

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.

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Management fees are generally recognized as income when the services are rendered. Loan origination fees are capitalized and then amortized into interest income using the effective interest rate method. In certain loan arrangements, warrants or other equity interests are received from the borrower as additional origination fees.

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

Financing costs

Debt financing costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing and are recognized as prepaid expenses and amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, were as follows:

	As of December 31	
(in thousands)	**2012**	**2011**
Wells Facility	$ 867	$ 906
SBA Debenture	5,877	5,828
Convertible Senior Notes	1,900	2,477
Asset-Backed Notes	4,074	
2019 Notes	6,287	
	$ 19,005	$ 9,211

Cash Equivalents

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

Stock Based Compensation

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

Earnings Per Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

Income Taxes

We operate to qualify to be taxed as a RIC under the Internal Revenue Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine taxable income. Taxable income includes our net taxable interest, dividend and fee income, as well as our net realized capital gains. Taxable

income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. In addition, taxable income generally excludes any unrealized appreciation or depreciation in our investments, because gains and losses are not included in taxable income until they are realized and required to be recognized. Taxable income includes certain income, such as contractual payment-in-kind interest and amortization of discounts and fees that is required to be accrued for tax purposes even though cash collections of such income are generally deferred until repayment of the loans or debt securities that gave rise to such income.

We have distributed and currently intend to distribute sufficient dividends to eliminate taxable income. We are subject to a nondeductible federal excise tax of 4% if we do not distribute at least 98% of our investment company taxable income in any calendar year and 98.2% of our capital gain net income for each one year period ending on October 31. We did not record an excise tax provision for the years ended December 31, 2012 and 2011. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines.

Comprehensive Income

The Company reports all changes in comprehensive income in the Consolidated Statement of Operations. Comprehensive income is equal to net increase in net assets resulting from operations.

Dividends

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

We have adopted an opt out dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividend automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. During 2012, 2011 and 2010, the Company issued approximately 219,000, 167,000 and 199,000 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

Segments

The Company lends to and invests in portfolio companies in various technology-related companies, including clean technology, life science, and lower middle market companies. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, or ASU 2011-04. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes the application of some requirements for measuring fair value and requires additional disclosure for fair value measurements. The highest and best use valuation premise is only applicable to non-financial assets. In addition, the disclosure requirements are expanded to include for fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement; (2) a description of the valuation processes in place; and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between

those inputs. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, for public entities and as such the Company has adopted this ASU beginning with the quarter ended March 31, 2012. The Company has increased the disclosures related to Level 3 fair value measurement, in addition to other required disclosures. There were no related impacts on our financial position or results of operations.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes payable (the April 2019 Notes and the September 2019 Notes , together the 2019 Notes), the Asset-Backed Notes and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At December 31, 2012, the April 2019 Notes were trading on the New York Stock Exchange for $0.986 per dollar at par value, and the September 2019 Notes were trading on the New York Stock Exchange for $1.003 per dollar at par value. Based on market quotations on or around December 31, 2012, the Convertible Senior Notes were trading for $1.0375 per dollar at par value and the Asset-Backed Notes were trading for $1.00 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately $242.3 million, compared to the carrying amount of $225.0 million as of December 31, 2012.

(in thousands)

Description	12/31/2012	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Convertible Senior Notes	$ 77,813	$	$ 77,813	$
April 2019 Notes	$ 83,307	$	$ 83,307	$
September 2019 Notes	$ 86,150	$	$ 86,150	$
Asset-Backed Notes	$ 129,300	$	$	$ 129,300
SBA Debentures	$ 242,300	$	$	$ 242,300

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

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

4. Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $38.0 million in HT II as of December 31, 2012, HT II has the capacity to issue a total of $76.0 million of SBA guaranteed debentures, subject to SBA approval, of which $76.0 million was outstanding as of December 31, 2012. As of December 31, 2012, HT II has paid commitment fees of approximately $1.5 million. As of December 31, 2012, the Company held investments in HT II in 51 companies with a fair value of approximately $132.6 million, accounting for approximately 14.6% of the Company s total portfolio.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of December 31, 2012, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, subject to SBA approval, of which $149.0 million was outstanding as

of December 31, 2012. As of December 31, 2012, HT III has paid commitment fees of approximately $1.5 million. As of December 31, 2012, the Company held investments in HT III in 35 companies with a fair value of approximately $223.6 million, accounting for approximately 24.7% of the Company s total portfolio.

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

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

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

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2012 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.25% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2012 for HT II was approximately $95.2 million with an average interest rate of approximately 5.68%. The average amount of debentures outstanding for the quarter ended December 31, 2012 for HT III was approximately $112.0 million with an average interest rate of approximately 3.25%.

HT II and HT III hold approximately $154.4 million and $250.8 million in assets, respectively, and accounted for approximately 10.5% and 17.0% of the Company s total assets prior to consolidation at December 31, 2012.

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

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In February 2012, the Company repaid $24.25 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a $24.25 million dollar commitment for HT III.

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

As of December 31, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at December 31, 2012 there was $225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

The Company reported the following SBA debentures outstanding on its Consolidated Statement of Assets and Liabilities as of December 31, 2102 and December 31, 2011:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate[1]	December 31, 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	$	$ 12,000
March 26, 2008	March 1, 2018	6.38%	34,800	58,050
September 24, 2008	September 1, 2018	6.63%		13,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
September 19, 2012	September 1, 2022	3.05%	24,250	
November 14, 2012	November 1, 2022	3.05%[2]	24,750	
Total SBA Debentures			$ 225,000	$ 225,000

(1) Interest rate includes annual charge

(2) Interim interest on the November 14, 2012 borrowing is expected to pool in March 2013 at which date the principal interest rate will be set.

Wells Facility

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

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

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Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three-month period ended December 31, 2012, this non-use fee was approximately $96,000. On June 20, 2011 the Company paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term. At December 31, 2012, there were no borrowings outstanding on this facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. As of December 31, 2012, the minimum tangible net worth covenant has increased to $392.3 million as a result of the October 2012 follow-on public offering of 3.1 million shares of common stock for proceeds of approximately $33.6 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at December 31, 2012.

Union Bank Facility

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

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

On December 17, 2012, we further amended the Union Bank Facility to remove RBC from the Union Bank

Facility. Following the removal of RBC, the Union Bank Facility consists solely of Union Bank s commitment of

$30.0 million. In connection with the amendment, the maximum availability under the Union Bank Facility,

subject to a borrowing base, was reduced from $55.0 million to $30.0 million. The Union Bank Facility contains

an accordion feature, in which we could increase the credit line by up to $95.0 million in the aggregate, funded

by commitments from additional lenders and with the agreement of Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join 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%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended December 31, 2012, this nonuse fee was approximately $65,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At December 31, 2012, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of December 31, 2012, the minimum tangible net worth covenant has increased to $386.8 million as a result of the January and October 2012 follow-on public offerings of 5.0 and 3.1 million shares of common stock, respectively, for total net proceeds of approximately $80.9 million. The Union Bank Facility will mature on November 1, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at December 31, 2012.

Citibank Credit Facility

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

During the year ended December 31, 2012, the Company reduced its realized gain by approximately $270,000 for Citigroup s participation in the gain on sale of equity securities and recorded a decrease on participation liability and increased its unrealized gains by a net amount of approximately $386,000 for Citigroup s participation. The value of their participation right on unrealized gains in the related equity investments was approximately $313,000 as of December 31, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $1.4 million under the warrant participation agreement thereby reducing the Company s realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between January 2013 and January 2017.

Convertible Senior Notes

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

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

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

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

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14- 1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). In accounting for the Convertible Senior Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the accompanying consolidated statement of assets and liabilities. As a result, the Company records interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Senior Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were approximately $2.9 million and $224,000, respectively. At the time of issuance and as of December 31, 2012, the equity component, net of issuance costs, as recorded in the capital in excess of par value in the balance sheet was approximately $5.2 million.

As of December 31, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	**As of December 31, 2012**
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(3,564)
Carrying value of debt	$ 71,436

For the years ended December 31, 2012 and 2011, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	For the Years Ended December 31,	
(in thousands)	**2012**	**2011**
Stated interest expense	$ 4,500	$ 3,187
Accretion of original issue discount	1,083	767
Amortization of debt issuance cost	577	409
Total interest expense	$ 6,160	$ 4,363
Cash paid for interest expense	$ 4,500	$ 2,250

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1 % and 8.2% for the three and twelve-months ended December 31, 2012, respectively. As of December 31, 2012, the Company is in compliance with the terms of the indentures governing the Convertible Senior Notes.

2019 Notes

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

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

2019 Notes payable is compromised of:

	As of	
(in thousands)	**December 31, 2012**	**December 31, 2011**
April 2019 Notes	$ 84,490	$
September 2019 Notes	85,875	
Carrying value of debt	$ 170,365	$

April 2019 Notes

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

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

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes

and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

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

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

September 2019 Notes

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

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

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

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

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

For the years ended December 31, 2012 and 2011, the components of interest expense and related fees and cash paid for interest expense and fees for the April 2019 and September 2019 Notes are as follows:

	For the Years Ended December 31,	
(in thousands)	2012	2011
Stated interest expense	$ 5,139	$
Amortization of debt issuance cost	423	
Total interest expense and fees	$ 5,562	$
Cash paid for interest expense and fees	$ 4,790	$

As of December 31, 2012, the Company is in compliance with the terms of the indenture governing the April 2019 Notes and the September 2019 Notes.

Asset-Backed Notes

On December 19, 2012, the Company completed a $230.7 million term debt securitization in connection with which an affiliate of the Company made an offering of $129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the Asset-Backed Notes), which Asset-Backed Notes were rated A2(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among us, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), Hercules Capital Funding Trust 2012-1, as Issuer (the Issuer), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

As part of this transaction, the Company entered into a sale and contribution agreement with the Trust Depositor under which the Company has agreed to sell or have contributed to the Trust Depositor certain senior loans made to certain of our portfolio companies (the Loans). The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the Loans as of the date of their transfer to the Trust Depositor.

In connection with the issuance and sale of the Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to the Company. The Issuer also entered into an indenture governing the Asset-Backed Notes, which indenture includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans will be serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company will perform certain servicing and administrative functions with respect to the Loans. The Company will be entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee will equal the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

The Company will also serve as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

Outstanding Borrowings

At December 31, 2012 and December 31, 2011, the Company had the following borrowing capacity and outstanding borrowings:

	December 31, 2012		December 31, 2011	
(in thousands)	Total Available	Carrying Value[1]	Total Available	Carrying Value[1]
Union Bank Facility	$ 30,000	$	$ 55,000	$
Wells Facility	75,000		75,000	10,187
Convertible Senior Notes[2]	75,000	71,436	75,000	70,353
2019 Notes	170,364	170,364		
Asset-Backed Notes	129,300	129,300		
SBA Debentures[3]	225,000	225,000	225,000	225,000
Total	$ 704,664	$ 596,100	$ 430,000	$ 305,540

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

(2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $3.6 million at December 31, 2012.

(3) In January 2012, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2012, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.
In February 2012, we repaid $24.25 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.25 million dollar commitment for HT III.
In August 2012, the Company repaid $24.75 million of SBA debentures under HT II, $12.0 million priced at 6.43%, including annual fees, and $12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a $24.75 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

5. Income Taxes

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains

recognized for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. During the year ended December 31, 2012 and 2011, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to accelerated revenue recognition for income tax purposes, respectively, as follows:

	December 31,	
(in thousands)	2012	2011
Distributions in excess of investment income	$ 2,920	$ (1,882)
Accumulated realized gains (losses)	2,958	5,250
Additional paid-in capital	(5,878)	(3,368)

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The tax character of distributions paid for the years ended December 31, 2012 and 2011 was ordinary income in the amounts of $48.0 million and $38.5 million, respectively.

The aggregate gross unrealized appreciation of our investments over cost for federal income tax purposes was $19.9 million and $34.5 million as of December 31, 2012 and 2011, respectively. The aggregate gross unrealized depreciation of our investments under cost for federal income tax purposes was $27.6 million and $39.4 million as of December 31, 2012 and 2011, respectively. The net unrealized depreciation over cost for federal income tax purposes was $7.8 million as of December 31, 2012 and net unrealized depreciation over cost for federal income tax purposes was $4.9 million as of December 31, 2011. The aggregate cost of securities for federal income tax purposes was $916.9 million and $658.0 million as of December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company s Statement of Net Assets and Liabilities by temporary book/ tax differences primarily arising from the treatment of loan related yield enhancements.

	December 31,	
(in thousands)	2012	2011
Accumulated Capital Gains (Losses)	$ (35,940)	$ (48,567)
Other Temporary Differences	(3,726)	(16)
Undistributed Ordinary Income	1,552	236
Unrealized Appreciation (Depreciation)	(10,480)	(4,901)
Components of Distributable Earnings	$ (48,594)	$ (53,248)

The Company will classify interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes.

Based on an analysis of our tax position, there are no uncertain tax positions that met the recognition or measurement criteria. The Company is currently not undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2009, 2010 and 2011 federal tax years for the Company remain subject to examination by the IRS. The 2008, 2009, 2010 and 2011 state tax years for the Company remain subject to examination by the California Franchise Tax Board.

6. Shareholders Equity

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

On July 25, 2012, the Company s Board of Directors approved the extension of the stock repurchase plan under the same terms and conditions that allowed the Company to repurchase up to $35.0 million of its common stock. The stock repurchase plan expired on February 26, 2013. During the year ended December 31, 2012, the Company did not repurchase any common stock.

On October 3, 2012, the Company raised approximately $33.2 million, net of issuance costs, in a public offering of 3,100,000 shares of its common stock.

At December 31, 2012, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

The Company has issued stock options for common stock subject to future issuance, of which 2,574,749 and 4,231,444 were outstanding at December 31, 2012 and 2011, respectively.

7. Equity Incentive Plan

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

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

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

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

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A summary of restricted stock activity under the Company s 2006 and 2004 Plans for each of the three periods ended December 31 2012, 2011 and 2010 is as follows:

	2006 Plan	2004 Plan
Outstanding at December 31, 2009	21,668	530,475
Granted		491,500
Cancelled		(3,872)
Outstanding at December 31, 2010	21,668	1,018,103
Granted	10,000	296,600
Cancelled		(123,502)
Outstanding at December 31, 2011	31,668	1,191,201
Granted	5,000	686,859
Cancelled		(59,019)
Outstanding at December 31, 2012	36,668	1,819,041

A summary of common stock options activity under the Company s 2006 and 2004 Plans for each of the three periods ended December 31 2012, 2011 and 2010 is as follows:

	Common Stock Options	Weighted Average Exercise Price
Shares Outstanding at January 1, 2010	4,924,405	$ 10.72
Granted	575,250	$ 10.16
Exercised	(520,666)	$ 4.91
Cancelled/Forfeited	(249,140)	$ 10.14
Shares Outstanding at December 31, 2010	4,729,849	$ 11.33
Granted	599,860	$ 10.59
Exercised	(178,101)	$ 4.93
Cancelled/Forfeited	(938,004)	$ 11.73
Shares Outstanding at December 31, 2011	4,213,604	$ 11.40
Granted	189,000	$ 10.71
Exercised	(564,196)	$ 5.56
Cancelled/Forfeited	(1,263,659)	$ 12.70
Shares Outstanding at December 31, 2012	2,574,749	$ 12.00
Shares Expected to Vest at December 31, 2012	424,676	$ 12.00

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At December 31, 2012, options for approximately 2.2 million shares were exercisable at a weighted average exercise price of approximately $12.31 per share with weighted average of remaining contractual term of 2.06 years. The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the years ended December 31, 2012, 2011 and 2010 was approximately $326,000, $1.3 million and $1.0 million, respectively. During the years ended December 31, 2012, 2011 and 2010, approximately $416,000, $557,000, and $719,000 of share-based cost due to stock option grants was expensed, respectively. As of December 31, 2012, there was $640,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.07 years. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the three periods ended December 31, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Expected Volatility	46.39%	46.39%	46.39%
Expected Dividends	10%	10%	10%
Expected term (in years)	4.5	4.5	4.5
Risk-free rate	0.49%-1.07%	0.68%-2.15%	0.89%-2.51%

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The following table summarizes stock options outstanding and exercisable at December 31, 2012;

(Dollars in thousands, except exercise price)	Options Outstanding				Options Exercisable			
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
$4.21-$8.49	46,248	4.25	$ 255,836	$ 5.60	46,248	4.25	$ 255,836	$ 5.60
$8.67-$13.40	1,889,501	3.28	600,811	$ 11.46	1,464,825	2.41	293,179	$ 11.76
$13.87-$15.00	668,500	1.06		$ 14.02	668,500	1.06		$ 14.02
$4.21-$15.00	2,604,249	2.73	$ 856,647	$ 12.01	2,179,573	2.03	$ 549,015	$ 12.32

In 2012, 2011 and 2010, the Company granted approximately 691,859 and 306,600 and 491,500 shares, respectively, of restricted stock pursuant to the Plans. Each restricted stock award granted in 2012, 2011 and 2010 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. Share based compensation cost will be recognized ratably over the four year vesting period. No restricted stock was granted pursuant to the 2004 Plan prior to 2009.

The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the years ended December 31, 2012, 2011 and 2010 was approximately $7.5 million, $3.4 million and $5.1 million, respectively. During the years ended December 31, 2012, 2011 and 2010, the Company expensed approximately $3.9 million, $2.6 million and $2.0 million of compensation expense related to restricted stock, respectively. As of December 31, 2012, there was approximately $8.2 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.68 years.

The following table summarizes the activities for our unvested restricted stock for the years ended December 31, 2012, 2011 and 2010:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	487,527	$ 7.06
Granted	491,500	$ 10.39
Vested	(196,491)	$ 6.67
Forfeited	(3,872)	$ 5.05
Unvested at December 31, 2010	778,664	$ 9.27
Granted	306,600	$ 11.14
Vested	(340,253)	$ 9.38
Forfeited	(123,502)	$ 9.63
Unvested at December 31, 2011	621,509	$ 10.06
Granted	691,859	$ 10.83
Vested	(354,560)	$ 9.88
Forfeited	(59,019)	$ 9.95
Unvested at December 31, 2012	899,789	$ 10.73

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

8. Earnings per Share

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

(in thousands, except per share data)	Year Ended December 31, 2012	2011	2010
Numerator			
Net increase in net assets resulting from operations	$ 46,759	$ 46,936	$ 4,982
Less: Dividends declared-common and restricted shares	(47,983)	(38,492)	(28,816)
Undistributed earnings	(1,224)	8,444	(23,834)
Undistributed earnings-common shares	(1,224)	8,444	(23,834)
Add: Dividend declared-common shares	46,967	37,826	28,228
Numerator for basic and diluted change in net assets per common share	$ 45,743	$ 46,270	$ 4,394
Denominator			
Basic weighted average common shares outstanding	49,068	42,988	36,156
Common shares issuable	88	311	714
Weighted average common shares outstanding assuming dilution	49,156	43,299	36,870
Change in net assets per common share			
Basic	$ 0.93	$ 1.08	$ 0.12
Diluted	$ 0.93	$ 1.07	$ 0.12

The calculation of change in net assets resulting from operations per common share assuming dilution, excludes all anti-dilutive shares. For the years ended December 31, 2012, 2011 and 2010, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 2,574,749, 2,583,707 and 5,168,022; shares, respectively.

9. Commitments and Contingencies

The Company s commitments and contingencies consist primarily of unused commitments to extend credit, in the form of loans to the Company s portfolio companies. The balance of unfunded commitments to extend credit at December 31, 2012 totaled approximately $61.9 million. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately $70.0 million of non-binding term sheets outstanding at December 31, 2012. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2020. Total rent expense amounted to approximately $1.2 million, $1.1 million and $1.0 million during the years ended December 31, 2012, 2011 and 2010, respectively.

Future commitments under the credit facility and operating leases were as follows at December 31, 2012:

	Payments due by period (in thousands)				
Contractual Obligations[1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3][4]	$ 596,100	$	$ 129,300	$ 71,436	$ 395,364
Operating Lease Obligations[5]	8,819	1,245	2,881	3,044	1,649

Total	$ 604,919	$ 1,245	$ 132,181	$ 74,480	$ 397,013

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.

(3) Includes $225.0 million in borrowings under the SBA debentures, $170.4 million of the 2019 Notes, $129.3 million in aggregate principal amount of the Asset-Backed Notes and $71.4 million of the Convertible Senior Notes.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $3.6 million at December 31, 2012.
(5) Long-term facility leases.

The Company may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, the Company does not expect any current matters will materially affect the Company s financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on the Company s financial condition or results of operations in any future reporting period.

10. Indemnification

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

11. Concentrations of Credit Risk

The Company s customers are primarily small and medium sized companies in the biotechnology, drug discovery, drug delivery, specialty pharmaceuticals, therapeutics, clean technology, communications and networking, consumer and business products, electronics and computers, information services, internet consumer and business services and products, medical devices, semiconductor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

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

For years ended December 31, 2012 and 2011, the Company s ten largest portfolio companies represented approximately 35.2% and 37.9% of the total fair value of the Company s investments in portfolio companies, respectively. At December 31, 2012 and 2011, the Company had eight and seven investments, respectively, that represented 5% or more of the Company s net assets. At December 31, 2012, the Company had six equity investments representing approximately 70.9% of the total fair value of the Company s equity investments, and each represented 5% or more of the total fair value of the Company s equity investments. At December 31, 2011, the Company had seven equity investments which represented approximately 63.8% of the total fair value of the Company s equity investments, and each represented 5% or more of the total fair value of such investments.

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12. Financial Highlights

Following is a schedule of financial highlights for five years ended December 31, 2012.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

	Years Ended December 31,		
	2012	2011	2010
Per share data:			
Net asset value at beginning of period	$ 9.83	$ 9.50	$ 10.29
Net investment income[1]	0.98	0.92	0.81
Net realized gain (loss) on investments	0.06	0.06	(0.73)
Net unrealized appreciation (depreciation) on investments	(0.09)	0.11	0.06
Total from investment operations	0.95	1.09	0.14
Net increase/(decrease) in net assets from capital share transactions	(0.14)	0.07	(0.21)
Distributions	(0.98)	(0.90)	(0.80)
Stock-based compensation expense included in investment income[2]	0.09	0.07	0.08
Net asset value at end of period	$ 9.75	$ 9.83	$ 9.50
Ratios and supplemental data:			
Per share market value at end of period	$ 11.13	$ 9.44	$ 10.36
Total return[3]	28.28%	-0.83%	7.70%
Shares outstanding at end of period.	52,925	43,853	43,444
Weighted average number of common shares outstanding	49,068	42,988	36,156
Net assets at end of period	$ 515,968	$ 431,041	$ 412,531
Ratio of operating expense to average net assets	10.28%	9.61%	8.25%
Ratio of net investment income to average net assets	10.01%	9.45%	8.05%
Average debt outstanding	$ 360,857	$ 238,873	$ 142,410
Weighted average debt per common share	$ 7.35	$ 5.56	$ 3.94

(1) For 2012, 2011 and 2010, net investment income per share is calculated as net investment income divided by the weighted average shares outstanding.
(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.
(3) The total return for the period ended December 31, 2012, 2011 and 2010 equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

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13. Senior Securities

Information about our senior securities is shown in the following table for the periods as of December 31, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005 and 2004.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit(3)
Bridge Loan Credit Facility with Alcmene Funding L.L.C.			
December 31, 2004			N/A
December 31, 2005	$ 25,000,000	$ 2,505	N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010			N/A
December 31, 2011			N/A
December 31, 2012			N/A
Securitized Credit Facility with Wells Fargo Capital Finance			
December 31, 2004			N/A
December 31, 2005	$ 51,000,000	$ 2,505	N/A
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 79,200,000	$ 6,755	N/A
December 31, 2008	$ 89,582,000	$ 6,689	N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011	$ 10,186,830	73,369	N/A
December 31, 2012			N/A
Securitized Credit Facility with Union Bank, NA			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011(6)			N/A
December 31, 2012			N/A
Small Business Administration Debentures (HT II)(4)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007	$ 55,050,000	$ 9,718	N/A
December 31, 2008	$ 127,200,000	$ 4,711	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 150,000,000	$ 3,942	N/A
December 31, 2011	$ 125,000,000	$ 5,979	N/A
December 31, 2012	$ 76,000,000	$ 14,786	N/A
Small Business Administration Debentures (HT III)(5)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010	$ 20,000,000	$ 29,564	N/A
December 31, 2011	$ 100,000,000	$ 7,474	N/A
December 31, 2012	$ 149,000,000	$ 7,542	N/A

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit(3)
Senior Convertible Notes			
December 31, 2011	$ 70,352,983	$ 10,623	$ 885
December 31, 2012	$ 71,435,783	$ 15,731	$ 1,038
April 2019 Notes Payable			
December 31, 2012	$ 84,489,500	$ 13,300	$ 986
September 2019 Notes Payable			
December 31, 2012	$ 85,875,000	$ 13,086	$ 1,003
Asset-Backed Notes			
December 31, 2012	$ 129,300,000	$ 8,691	$ 1,000

(1) Total amount of each class of senior securities outstanding at the end of the period presented, rounded to nearest thousand.
(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.
(3) Not applicable because senior securities are not registered for public trading.
(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(6) The Company s Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

14. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2012. This information was derived from the Company s unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any further quarter.

	Quarter Ended			
(in thousands, except per share data)	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Total investment income	$ 22,367	$ 23,858	$ 23,901	$ 27,395
Net investment income before provision for income taxes and investment gains and losses	11,375	12,310	11,351	13,071
Net increase (decrease) in net assets resulting from operations	17,105	48	4,745	24,861
Change in net assets per common share (basic)	0.36		0.09	0.47

	Quarter Ended			
	3/31/2011	6/30/2011	9/30/2011	12/31/2011
Total investment income	$ 19,152	$ 20,820	$ 18,684	$ 21,200
Net investment income before provision for income taxes and investment gains and losses	9,804	10,360	8,593	10,831
Net increase (decrease) in net assets resulting from operations	(1,177)	24,317	6,223	17,574
Change in net assets per common share (basic)	0.23	0.56	0.14	0.25

15. Subsequent Events

Dividend Declaration

On February 26, 2013 the Board of Directors increased the quarterly dividend by $0.01, or approximately 4.02%, and declared a cash dividend of $0.25 per share to be paid on March 19, 2013 to shareholders of record as of March 11, 2013. This dividend will represent the Company s thirtieth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $7.89 per share.

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Schedule 12-14

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

As of and for the year ended December 31, 2012

(in thousands)

Portfolio Company	Investment(1)	Amount of Interest Credited to Income(2)	As of December 31, 2011 Fair Value	Gross Additions(3)	Gross Reductions(4)	As of December 31, 2012 Fair Value
Affiliate Investments						
E-band Communications, Inc.	Senior Debt	$ 4	$	$ 356	$ (356)	$
	Preferred Stock			374	(374)	
Gelesis	Senior Debt	712	3,254		(3,254)	
	Preferred Stock		1,147	423		1,570
	Preferred Warrants		106		(11)	95
Optiscan	Senior Debt	1,649	11,147		(1,657)	9,490
	Preferred Stock		2,468		(1,903)	565
	Preferred Warrants		872		(720)	152
Total Control and Affliate Investments		$ 2,365	$ 18,994	$ 1,153	$ (8,275)	$ 11,872

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of December 31, 2012.

(2) Represents the total amount of interest or dividends credited to income for the year an investment was an affiliate or control investment.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increase in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increase in unrealized depreciation or net decreases in unrealized appreciation.

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$400,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

This prospectus relates to the offer, from time to time, in one or more offerings or series, up to $400,000,000 of shares of our common stock, par value $0.001 per share, preferred stock, par value $0.001 per share, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities, which we refer to, collectively, as the securities. The preferred stock, debt securities, subscription rights and warrants offered hereby may be convertible or exchangeable into shares of our common stock. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On May 30, 2012, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending May 30, 2013. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In the event we offer common stock, the offering price per share will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the holders of the majority of our voting securities and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission may permit. See Risk Factors for more information.

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, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for entrepreneurial venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments.

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

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol HTGC. On November 16, 2012, the last reported sale price of a share of our common stock on the NYSE, was $10.39. The net asset value per share of our common stock at September 30, 2012 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.42.

An investment in our securities may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 11 to read about risks that you should consider before investing in our securities, including the risk of leverage.

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

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

This prospectus may not be used to consummate sales of any securities unless accompanied by a prospectus supplement.

The date of this prospectus is December 18, 2012

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

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to $400,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Please carefully read this prospectus and any such supplements together with the additional information described under Where You Can Find Additional Information in the Summary and Risk Factors sections before you make an investment decision.

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

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SUMMARY

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

Our Company

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and clean-technology industries at all stages of development. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of September 30, 2012, our total assets were approximately $909.5 million, of which, our investments comprised $774.5 million at fair value and $792.8 million at cost. Since inception through September 30, 2012, we have made debt and equity commitments of approximately $3.0 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). HT II and HT III hold approximately $182.0 million and $223.3 million in assets, respectively, and accounted for approximately 15.3% and 18.8% of the Company s total assets prior to consolidation at September 30, 2012.

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, 2012, our proprietary structured query language (SQL)-based database system included over 30,100 technology-related companies and approximately 7,800 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, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including, technology, biotechnology, life science, and clean-technology companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by 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,

renewable or alternative energy, media and life science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the clean technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our total assets, including the amount of any borrowings for investment purposes, in such businesses.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies including the right to convert some portion of our debt into equity 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. 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.

As of September 30, 2012, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 30 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Our Market Opportunity

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

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

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

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

Technology-Related Companies are Underserved by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies, 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.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

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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.

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 (generally 12 to 60 months), security interests in the assets of our portfolio companies, among other things.

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.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies, including select publicly listed companies and select lower middle market companies and established-stage companies.

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, and that we may benefit from a lower cost of capital than that available to private investment funds.

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.

Dividend Reinvestment Plan

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

Taxation

Prior to 2006, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended, which we refer to in this prospectus as the Code. We elected to be treated for federal income tax purposes as a regulated investment company (a   RIC) under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election was effective as of January 1, 2006. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. See   Certain United

States Federal Income Tax Considerations. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. There is no assurance that we will meet these tests and be able to maintain our RIC status. If we do not qualify as a RIC, we would be taxed as a C corporation.

Use of Proceeds

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

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. We received an exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity, and Capital Resources for additional information related to our outstanding debt.

Distributions

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

Principal Risk Factors

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

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

Certain Anti-Takeover Provisions

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

General Information

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The footnotes to the fee table state which items are estimates. 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, Inc.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)[1]	%
Offering expenses	%[2]
Dividend reinvestment plan fees	%[3]
Total stockholder transaction expenses (as a percentage of the public offering price)	%[4]
Annual Expenses (as a percentage of net assets attributable to common stock):[9]	
Operating expenses	5.3%[5][6]
Interest and fees paid in connection with borrowed funds	4.6%[7]
Total annual expenses	9.5%[8]

(1) In the event that our securities are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
(2) In the event that we conduct an offering of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses.
(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan .
(4) Total stockholder transaction expenses may include sales load and will be disclosed in a future prospectus supplement, if any.
(5) Operating expenses represent our estimated operating expenses estimated by annualizing our operating expenses incurred for the nine months ended September 30, 2012, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2011 was 5.8%. See Management s Discussion and Analysis and Results of Operations, Management, and Management Compensation of Directors and Corporate Governance Executive Compensation.
(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 and fees paid in connection with borrowed funds represents estimated interest and fee payments on borrowed funds by annualizing our actual interest, fees and credit facility expenses incurred for the nine months ended September 30, 2012, including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the April 2019 Notes, the September 2019 Notes, the Citigroup Warrant Participation Agreement and the SBA debentures, each of which is defined herein. This percentage for the year ended December 31, 2011 was 3.8%. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.
(8) Total annual expenses is the sum of operating expenses and interest and fees paid in connection with borrowed funds. This percentage for the year ended December 31, 2011 was 9.6%.
(9) Net assets attributable to common stock equals the weighted estimated net assets as of September 30, 2012, which is approximately $476.8 million.

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Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return	$ 146	$ 321	$ 478	$ 807

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

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2009, 2008, and 2007 and the selected statement of operations data for fiscal 2009, 2008 and 2007 have been derived from our audited financial statements for these years, which have been audited by Ernst & Young LLP, our former independent registered public accounting firm. The selected balance sheet data as of the end of fiscal 2011 and 2010 and the financial statement of operations data for fiscal 2011 and 2010 have been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period. The selected financial and other data for the nine months ended September 30, 2012 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

	Nine Months Ended (unaudited)		For the year ended December 31,				
	September 30, 2012	September 30, 2011	2011	2010	2009	2008	2007
Investment income:							
Interest	$ 63,188	$ 50,932	$ 70,346	$ 54,700	$ 62,200	$ 67,283	$ 48,757
Fees	6,937	7,723	9,509	4,774	12,077	8,552	5,127
Total investment income	70,125	58,655	79,855	59,474	74,277	75,835	53,884
Operating expenses:							
Interest	13,309	8,803	13,252	8,572	9,387	13,121	4,404
Loan fees	2,977	2,493	2,635	1,259	1,880	2,649	1,290
General and administrative	6,126	6,196	7,992	7,086	7,281	6,899	5,437
Employee Compensation:							
Compensation and benefits	9,566	9,888	13,260	10,474	10,737	11,595	9,135
Stock-based compensation	3,111	2,518	3,128	2,709	1,888	1,590	1,127
Total employee compensation	12,677	12,406	16,388	13,183	12,625	13,185	10,262
Total operating expenses	35,089	29,898	40,267	30,100	31,173	35,854	21,393
Net investment income before provision for income taxes and investment gains and losses	35,036	28,757	39,588	29,374	43,104	39,981	32,491
Provision for income taxes							2
Net investment income	35,036	28,757	39,588	29,374	43,104	39,981	32,489
Net realized gain (loss) on investments	2,049	3,429	2,741	(26,382)	(30,801)	2,643	2,791
Provision for Excise Tax						(203)	(139)
Net increase (decrease) in unrealized appreciation on investments	(15,187)	(2,823)	4,607	1,990	1,269	(21,426)	7,268
Net realized and unrealized gain (loss)	(13,138)	606	7,348	(24,392)	(29,532)	(18,986)	9,920
Net increase (decrease) in net assets resulting from operations	21,898	29,363	$ 46,936	$ 4,982	$ 13,572	$ 20,995	$ 42,409

Cash and stock dividends declared per common share	$ 0.71	$ 0.66	$ 0.88	$ 0.80	$ 1.26	$ 1.32	$ 1.20

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($ in thousands, except per share data)	As of September 30, 2012 (unaudited)	As of December 31, 2011	2010	2009	2008	2007
Balance sheet data:						
Investments, at value	$ 774,459	$ 652,870	$ 472,032	$ 374,669	$ 578,211	$ 525,492
Cash and cash equivalents	107,093	64,474	107,014	124,828	17,242	7,856
Total assets	909,513	747,394	591,247	508,967	608,672	541,943
Total liabilities	440,396	316,354	178,716	142,452	226,214	141,206
Total net assets	469,117	431,041	412,531	366,515	382,458	400,737
Other Data:						
Total debt investments, at value	$ 693,776	$ 585,767	$ 401,618	$ 325,134	$ 536,964	$ 477,643
Total warrant investments, at value	32,871	30,045	23,690	14,450	17,883	21,646
Total equity investments, at value	47,812	37,058	46,724	35,085	23,364	26,203
Unfunded commitments	65,962	168,196	117,200	11,700	82,000	130,602
Net asset value per share[(1)]	$ 9.42	$ 9.83	$ 9.50	$ 10.29	$ 11.56	$ 12.31

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

The following tables set forth certain quarterly financial information for each of the eleven quarters up to and ending September 30, 2012. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(Amounts in thousands, except per share data	For the Quarter End (unaudited) September 30, 2012	June 30, 2012	March 31, 2012
Selected Quarterly Data (unaudited):			
Total investment income	$ 23,901	23,858	22,367
Net investment income before provision for income taxes and investment gains and losses	11,351	12,310	11,375
Net increase in net assets resulting from operations	4,745	48	17,105
Net increase in net assets resulting from operations per common share (basic)	$ 0.09	$	$ 0.36

(Amounts in thousands, except per share data)	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
	For the Quarter End			
Selected Quarterly Data (unaudited):				
Total investment income	$ 21,200	$ 18,684	$ 20,820	$ 19,152
Net investment income before provision for income taxes and investment gains and losses	10,831	8,593	10,360	9,804
Net increase (decrease) in net assets resulting from operations	17,574	6,223	24,317	(1,177)
Net increase in net assets resulting from operations per common share (basic)	$ 0.25	$ 0.14	$ 0.24	$ 0.23

(Amounts in thousands, except per share data)	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	For the Quarter End			
Selected Quarterly Data (unaudited):				
Total investment income	$ 16,807	$ 15,646	$ 14,501	$ 12,520
Net investment income before provision for income taxes and investment gains and losses	8,751	8,148	6,863	5,612

Net increase (decrease) in net assets resulting from operations	11,721	(7,823)	(4,630)	5,714
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.30	$ (0.23)	$ (0.14)	$ 0.16

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RISK FACTORS

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

Risks Related to our Business Structure

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 NYSE, 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, and the SEC has adopted additional rules and regulations that may impact us. 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.

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

Under applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We previously determined to pay a portion of our first quarter 2009 dividend in shares of newly issued common stock, and we may in the future determine to distribute taxable dividends that are payable in part in our common stock.

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

We depend upon the members of our senior management, particularly Mr. Henriquez, as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These

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

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

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

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

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

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total

assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we generally will not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. In addition, our results of operations and financial condition could be adversely affected.

Because we have substantial indebtedness, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. If we are not able to service our substantial indebtedness, our business could be harmed materially.

Our secured credit facilities with Wells Fargo Capital Finance LLC, Union Bank, N.A. and RBC Capital Markets, our Convertible Senior Notes, and our April 2019 Notes and September 2019 Notes contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As of September 30, 2012, we did not have any outstanding borrowings under our credit facilities with either Union Bank or with Wells Fargo. In addition, as of September 30, 2012, we had approximately $225.0 million of indebtedness outstanding incurred by our SBIC subsidiaries, $75.0 million of Convertible Senior Notes payable, approximately $84.5 million of April 2019 Notes and approximately $75.0 million of September 2019 Notes. There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the

amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of September 30, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 383.8%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 207.0% at September 30, 2012.

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[1]	(47.1%)	(29.3%)	(11.5%)	6.4%	24.2%

(1) Assumes $909.5 million in total assets, $434.8 million in debt outstanding, $469.1 million in stockholders equity, and an average cost of funds of 6.7%, which is the approximate average cost of borrowed funds, including our secured credit facilities with Wells Fargo Capital Finance and Union Bank, and our Convertible Senior Notes, our April 2019 Notes, our September 2019 Notes and our SBA debentures for the period ended September 30, 2012. Actual interest payments may be different.

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

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

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

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

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

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

Pending legislation may allow us to incur additional leverage.

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

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

At September 30, 2012, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 85.2% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

There is no single standard for determining fair value in good faith. We value these securities at fair value as determined in good faith by our Board of Directors, based on the recommendations of our Valuation Committee. In making a good faith determination of the value of these securities, we generally start with the cost basis of each security, which includes the amortized OID and PIK interest, if any. The Valuation Committee uses its best judgment in arriving at the fair value of these securities. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while applying a valuation process for the types of investments we make which includes, but is not limited to, deriving a hypothetical exit price. However, the Board of Directors retains ultimate authority as to the appropriate valuation

of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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

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

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

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

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

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

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

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

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

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

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

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt

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

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

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

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

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

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

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have an asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines,

we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders and the issuance of preferred stock could have the effect of delaying, deferring, or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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

In addition to issuing securities to raise capital as described above, we anticipate that, in the future, we may securitize our loans to generate cash for funding new investments. However, the securitization market has been subject to changing market conditions (including the unprecedented dislocation of the securitization and finance markets over the past several years generally), and we cannot assure you that will be able to securitize our loans in the near future, or at all. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy.

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

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

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

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

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

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

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

To the extent original issue discount and paid-in-kind interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include original issue discount, or OID, instruments and contractual payment-in-kind, or PIK, interest, which represents contractual interest added to a loan balance and due at the end of such loan s term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

OID instruments may have higher yields, which reflect the payment deferral and credit risk associated with these instruments.

OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of the collateral; and

OID and PIK instruments may represent a higher credit risk than coupon loans.

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

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

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

Other features of the debt instruments that we hold may also cause such instruments to generate an original issue discount, resulting in a dividend distribution requirement in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may

have difficulty meeting the RIC tax requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level income tax on all our income. See Certain United States Federal Income Tax Considerations.

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

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

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

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

Fluctuations in interest rates may adversely affect our profitability.

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

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

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

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

During the year ended December 31, 2011, the Company recorded an increase on participation liability and decreased its unrealized gains by a net amount of approximately $217,000 for Citigroup s participation. Since inception of the agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains. In addition, our realized gains will be reduced by the amounts owed to Citigroup under the warrant participation agreement. The value of Citigroup s participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $715,000 at December 31, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at December 31, 2011. Citigroup s rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

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

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. As of September 30, 2012, HT II s and HT III s portfolio companies accounted for approximately 20.9% and 25.2%, respectively, of our total portfolio. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC s compliance with the relevant SBA regulations.

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

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect

us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of September 30, 2012 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations.

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

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

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

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

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

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

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

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

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount

of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we are otherwise required to distribute, and we cannot pass such net operating losses through to our stockholders. In addition, net operating losses that we carry over to a taxable year in which we qualify as a RIC normally cannot offset ordinary income or capital gains.

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

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

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

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

Risks Related to Current Economic and Market Conditions

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

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

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in

the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

As of September 30, 2012, we did not have any outstanding borrowings under either the Wells Facility or the Union Bank Facility. As of September 30, 2012, we had approximately $200.25 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, $75.0 million of Convertible Senior Notes payable, $84.5 million of April 2019 Notes and $75.0 million of September 2019 Notes. Available borrowing capacity under these facilities as of September 30, 2012 was $154.75 million and subject to terms and conditions and approvals of the SBA.

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

As of September 30, 2012, we had unfunded debt commitments of approximately $66.0 million. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements or future earning assets. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from the Convertible Senior Notes, the April 2019 Notes and September 2019 Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Risks Related to Our Investments

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

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we will be subject as a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies.

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

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

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

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

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

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

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

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

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

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

Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. Our investments in cleantech companies also face potential litigation, including significant warranty and product liability claims, as well as class action and government claims arising from the increased attention to the industry from the failure of Solyndra. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies. There is also particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the clean technology companies in our portfolio.

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

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

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

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

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

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

Our investments in the drug discovery industry are subject to numerous risks. The successful and timely implementation of the business model of our drug discovery portfolio companies depends on their ability to adapt to changing technologies and introduce new products. As competitors continue to introduce competitive products, the development and acquisition of innovative products and technologies that improve efficacy, safety, patient s and clinician s ease of use and cost-effectiveness are important to the success of such portfolio companies. The success of new product offerings will depend on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture

products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our board of directors. As part of the valuation process, we may take into account the following types of factors, if

relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company s debt and equity), the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company s securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation.

If macro and micro market conditions should deteriorate, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

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

The business and operating results of our portfolio companies may be impacted by worldwide economic conditions. Although the U.S. economy has in recent quarters shown signs of recovery from the 2008 2009 global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. For instance, a number of recent reports indicate that growth in China and other emerging markets may

be slowing relative to historical growth rates. The significant debt in U.S. and European countries is expected to hinder growth in those countries for the foreseeable future. Multiple factors relating to the international operations of some of our portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations.

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

Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could materially adversely affect our ability to service our outstanding borrowings.

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

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

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

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

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

To the extent that venture capital and private equity firms limited partners are unable to fulfill their ongoing funding obligations, the venture capital or private equity firms may be unable to continue financially supporting

the ongoing operations of our portfolio companies. As a result, our portfolio companies may be unable to repay their obligations under the debt securities that we hold, which would harm our financial condition and results of operations.

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

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

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

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

Economic slowdowns or recessions could impair the value of the collateral for our loans to our portfolio companies, increase our funding costs, limit our access to the credit and capital markets, impair the ability of a portfolio company to satisfy covenants imposed by its lenders and consequently increase the possibility of an adverse effect on our business, financial condition and results of operations.

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

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

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

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A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company s loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

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

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

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

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

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

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

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

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management team to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies.

Also, privately-held companies frequently have less diverse product lines and a smaller market presence than do larger competitors. Privately-held companies are, thus, generally more vulnerable to economic downturns and may experience more substantial variations in operating results than do larger competitors. These factors could affect our investment returns and our results of operations and financial condition.

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

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

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

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

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

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

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Our total investments at value in foreign companies were approximately $7.8 million or 0.9% of total assets at September 30, 2012. Investing in foreign companies may expose us to additional risks not typically

associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

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

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

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

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

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

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

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

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock. Any decision we make not to make a follow-on

investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment. Moreover, a follow-on investment may limit the number of companies in which we can make initial investments. In determining whether to make a follow-on investment, our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments and this could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

Any unrealized depreciation that we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could adversely affect our ability to service our outstanding borrowings.

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

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

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

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

We invest primarily in debt securities issued by our portfolio companies. In some cases, portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. Such debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company might not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on a pari passu basis any distributions with other creditors holding such debt in the event of an insolvency,

liquidation, dissolution, reorganization or bankruptcy. In addition, we would not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such companies, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not best serve our interests as debt investors.

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

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

We may not realize expected returns on warrants received in connection with our debt investments.

We generally receive warrants in connection with our debt investments. At September 30, 2012, we held warrant positions received in connection with many of our debt investments; however these warrant positions accounted for only approximately 4.2% of the total value of our portfolio investments. If we do not receive the returns that are anticipated on the warrants, our investment returns on our portfolio companies, and the value of an investment in us, may be lower than expected.

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

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

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

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

We may not realize gains from our equity investments.

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

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

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

At September 30, 2012, approximately 64.4% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 34.9% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 0.7% of portfolio company loans had an equipment only lien.

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

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

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

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 10.4% of the outstanding balance of our portfolio as of September 30, 2012. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company s common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

Risks Related to Our Securities

Investing in our securities may involve an above average degree of risk.

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

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

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

Provisions of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our securities.

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

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

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

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

undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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

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

At our Annual Meeting of Stockholders on May 30, 2012, our stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company s net asset value per share, subject to Board approval of the offering. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater discounts if we determine to conduct such offerings at prices below net asset value. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during the nine months ended September 30, 2012.

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

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

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

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

If we issue preferred stock, debt securities or convertible debt securities, the net asset value and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock

than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. If we do not maintain our required asset coverage ratios, we may not be permitted to declare dividends. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;

- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities. You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

Investors in offerings of our common stock will likely incur immediate dilution upon the closing of such offering.

We generally expect the public offering price of any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock (unless we offer shares pursuant to a rights offering or after obtaining prior approval for such issuance from our stockholders and our independent directors). Accordingly, investors purchasing shares of common stock in offerings pursuant to this prospectus may pay a price per share that exceeds the tangible book value per share after such offering.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Our stockholders may experience dilution upon the conversion of the Convertible Notes.

The Convertible Senior Notes are convertible into shares of our common stock beginning October 15, 2015, or, under certain circumstances, earlier. Upon conversion of the Convertible Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the Convertible Senior Notes is

approximately

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$11.89 per share of common stock, in each case subject to adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Senior Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

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

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

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

- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departures of key personnel.

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

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FORWARD-LOOKING STATEMENTS

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

our future operating results;

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

the impact of investments that we expect to make;

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

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

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

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

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

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

the adequacy of our cash resources and working capital;

- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus, please see the discussion under Risk Factors. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made and are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933.

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

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

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USE OF PROCEEDS

We intend to use the net proceeds from selling our securities for funding investments in debt and equity securities in accordance with our investment objective and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

We anticipate that substantially all of the net proceeds from any offering of our securities 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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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NYSE under the symbol HTGC.

The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Select Market for those periods prior to April 30, 2012 and the NYSE thereafter, the sales price as a percentage of net asset value and the dividends declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

		Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend per Share
	NAV(1)	High	Low			
2010						
First quarter	$ 10.11	$ 11.15	$ 9.16	10.3%	(9.4%)	$ 0.200
Second quarter	$ 9.80	$ 11.50	$ 8.62	17.3%	(12.0%)	$ 0.200
Third quarter	$ 9.36	$ 10.57	$ 9.13	12.9%	(2.5%)	$ 0.200
Fourth quarter	$ 9.50	$ 10.91	$ 9.87	14.8%	3.8%	$ 0.200
2011						
First quarter	$ 9.20	$ 11.40	$ 10.42	23.9%	13.3%	$ 0.220
Second quarter	$ 9.67	$ 11.36	$ 10.09	17.5%	4.3%	$ 0.220
Third quarter	$ 9.61	$ 10.80	$ 8.51	12.4%	(11.4%)	$ 0.220
Fourth quarter	$ 9.83	$ 9.99	$ 8.20	1.6%	(16.6%)	$ 0.220
2012						
First quarter	$ 7.76	$ 11.26	$ 9.53	45.1%	22.8%	$ 0.230
Second quarter	$ 9.54	$ 11.50	$ 10.21	20.5%	7.0%	$ 0.240
Third quarter	$ 9.42	$ 11.57	$ 10.99	22.8%	16.7%	$ 0.240
Fourth quarter (through November 16, 2012)	*	$ 11.09	$ 10.05	*	*	$ 0.240

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

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

The last reported price for our common stock on November 16, 2012 was $10.39 per share.

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

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Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.025
December 9, 2005	January 6, 2006	January 27, 2006	0.300
April 3, 2006	April 10, 2006	May 5, 2006	0.300
July 19, 2006	July 31, 2006	August 28, 2006	0.300
October 16, 2006	November 6, 2006	December 1, 2006	0.300
February 7, 2007	February 19, 2007	March 19, 2007	0.300
May 3, 2007	May 16, 2007	June 18, 2007	0.300
August 2, 2007	August 16, 2007	September 17, 2007	0.300
November 1, 2007	November 16, 2007	December 17, 2007	0.300
February 7, 2008	February 15, 2008	March 17, 2008	0.300
May 8, 2008	May 16, 2008	June 16, 2008	0.340
August 7, 2008	August 15, 2008	September 15, 2008	0.340
November 6, 2008	November 14, 2008	December 15, 2008	0.340
February 12, 2009	February 23, 2009	March 30, 2009	0.320*
May 7, 2009	May 15, 2009	June 15, 2009	0.300
August 6, 2009	August 14, 2009	September 14, 2009	0.300
October 15, 2009	October 20, 2009	November 23, 2009	0.300
December 16, 2009	December 24, 2009	December 30, 2009	0.040
February 11, 2010	February 19, 2010	March 19, 2010	0.200
May 3, 2010	May 12, 2010	June 18, 2010	0.200
August 2, 2010	August 12, 2010	September 17, 2010	0.200
November 4, 2010	November 10, 2010	December 17, 2010	0.200
March 1, 2011	March 10, 2011	March 24, 2011	0.220
May 5, 2011	May 11, 2011	June 23, 2011	0.220
August 4, 2011	August 15, 2011	September 15, 2011	0.220
November 3, 2011	November 14, 2011	November 29, 2011	0.220
February 27, 2012	March 12, 2012	March 15, 2012	0.230
May 8, 2012	May 18, 2012	May 25, 2012	0.240
July 30, 2012	August 17, 2012	August 24, 2012	0.240
October 26, 2012	November 14, 2012	November 21, 2012	0.240
			$ 7.645

* Dividend paid in cash and stock

On October 26, 2012, our Board of Directors declared a cash dividend of $0.24 per share to be paid on November 21, 2012 to shareholders of record as of November 14, 2012. This dividend represents our twenty-ninth consecutive quarterly dividend declaration since our initial public offering, and brings the total cumulative dividend declared to date to $7.645 per share.

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

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the year ended December 31, 2011 and 2010, 100% were distributions of ordinary

income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2012 distributions to stockholders will actually be.

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

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

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

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

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

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

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RATIO OF EARNINGS TO FIXED CHARGES

The following contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus.

	For the nine months ended September 30, 2012 (unaudited)	For the year ended December 31, 2011	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Earnings to Fixed Charges[(1)]	1.34	2.95	0.51[(2)]	1.20	1.33	7.45

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.
(2) Due to realized losses of approximately $31.1 million on the disposition of investments in 10 portfolio companies, the ratio of earnings to fixed charges was less than 1:1. The Company would have needed to generate additional earnings of approximately $5.0 million to achieve a coverage ratio of 1:1.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

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

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

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of income, asset diversification and income distribution requirements. The

income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as good income. Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

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

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

Portfolio and Investment Activity

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

Portfolio Activity

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Portfolio

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

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

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends

may come from available cash or the liquidation of certain investments. We recorded approximately $866,000 and $1.4 million in PIK income in the nine-month periods ended September 30, 2012 and 2011. In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the nine-month period ended September 30, 2012.

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

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

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

The overall weighted average yield to maturity of our loan investments was approximately 12.85% and 12.64% at September 30, 2012 and December 31, 2011, respectively. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

Portfolio Composition

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

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

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

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

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

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

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

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

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

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

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

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

Portfolio Grading

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

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

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

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

Results of Operations

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

Investment Income

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

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

Income from commitment, facility and loan related fees for the three and nine-month periods ended September 30, 2012 totaled approximately $2.2 million and $6.9 million, respectively, compared to $2.3 million

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

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

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

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

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

Operating Expenses

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

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

accelerations of approximately $457,000 and $416,000 of unamortized fees in connection with the pay down of $24.25 million SBA debentures in February 2012 and $24.75 million in SBA debentures in August 2012, respectively.

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

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

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

Net Investment Income Before Investment Gains and Losses

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

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

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

During the three and nine-month periods ended September 30, 2012, we recognized net realized losses of approximately $9.1 million and net realized gains of approximately $2.0 million, respectively, on the portfolio. During the quarter ended September 30, 2012, we recorded realized losses of approximately $8.7 million, $672,000 and $463,000, respectively, from the liquidation of our investments in MaxVision Holding, L.L.C, Zeta Interactive Corporation and Magi.com (pka Hi5 Networks, Inc.), respectively. These losses were partially offset by realized gains in the third quarter related to a milestone payment of approximately $825,000 from Covidien PLC s acquisition of our portfolio company, BÂRRX Medical, Inc. in the first quarter of 2012. Under the terms

of the acquisition agreement, additional milestone payments may be received within sixty days of the eighteen month and second anniversaries of the closing. These milestone payments are subject to performance factors and, therefore, their future receipt cannot be reasonably assured at this time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income and Excise Taxes

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

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

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

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

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

Results of Operations

Comparison of periods ended December 31, 2011 and 2010

Investment Income

Interest income totaled approximately $70.3 million and $54.7 million for 2011 and 2010, respectively. Income from commitment, facility and loan related fees totaled approximately $9.5 million 2011, compared with $4.8 million for 2010. The increase in interest income was directly related to an increase in the average investment portfolio outstanding in 2011 than in 2010.

In 2011 and 2010, interest income included approximately $7.4 million and $6.2 million of income from accrued exit fees, respectively. The year over year increase is attributed to an increase in the average investment portfolio outstanding in 2011 than in 2010.

At December 31, 2011 and 2010, we had approximately $10.3 million and $6.6 million of deferred income related to commitment, facility and loan related fees, respectively. The increase in deferred income was attributed to increased investment originations in 2011.

The following table shows the PIK-related activity for the years ended December 31, 2011 and 2010, at cost:

(in thousands)	Twelve months ended December 31, 2011	2010
Beginning PIK loan balance	$ 3,955	$ 2,315
PIK interest capitalized during the period	2,093	3,054
Payments received from PIK loans	(3,567)	(1,084)
PIK converted to other securities	(440)	
Realized Loss		(330)
Ending PIK loan balance	$ 2,041	$ 3,955

The increase in payments received from PIK loans during the year ended December 31, 2011 includes $1.5 million of PIK collected in conjunction with the sale of our investment in Infologix, Inc. in the first quarter of 2011.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $40.3 million and $30.1 million during the periods ended December 31, 2011 and 2010, respectively.

Interest and fees totaled approximately $15.9 million and $9.8 million during the periods ended December 31, 2011 and 2010, respectively. This $6.1 million year over year increase is largely attributed to $1.4 million of incremental interest and fee expense due to the increase in SBA debentures from $170.0 million as of December 31, 2010 to $225.0 million as of December 31, 2011 and $4.5 million of interest and fee expenses during the period ended December 31, 2011 related to the $75.0 million of Convertible Senior Notes issued on April 15, 2011. Additionally, we incurred approximately $767,000 of non cash interest expense during the period ended December 31, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. We had a weighted average cost of debt comprised of interest and fees of approximately 6.23% at December 31, 2011, as compared to 6.27% as of December 31, 2010. The decrease was primarily attributed to the weighted average cost of debt on the senior convertible notes of 8.1% offset by a lower weighted average cost of debt on outstanding SBA debentures at 5.0% in 2011 as compared to 6.1% in 2010.

General and administrative expenses include legal, consulting, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses increased to approximately $8.0 million from $7.1 million for the periods ended December 31, 2011 and 2010, respectively, largely due to an increase in accounting and printer fees from approximately $1.0 million to $1.6 million during the same periods, respectively.

Employee compensation and benefits totaled approximately $13.3 million and $10.5 million during the periods ended December 31, 2011 and 2010, respectively. The $2.8 million increase is due to $1.6 million of increases in compensation expense attributable to increases in headcount, executive severance payments and payroll taxes associated with restricted stock vesting and $1.2 million in increases in variable compensation expense. Stock-based compensation totaled approximately $3.1 million and $2.7 million during the periods ended December 31, 2011 and 2010, respectively. This increase is due to the incremental expense attributed to restricted stock grants issued in the first quarter of 2011.

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

Net investment income before income tax expense for the year ended December 31, 2011 totaled $39.6 million as compared with a net investment income before income tax expense in 2010 of approximately $29.4 million. The changes are made up of the items described above under Investment Income and Operating Expenses.

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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.

In 2011, we generated realized gains totaling approximately $11.1 million primarily due to the sale of warrants and equity investments in 3 portfolio companies. We recognized realized losses in 2011 of approximately $8.4 million on the disposition of investments in 13 portfolio companies. We recognized realized gains of approximately $4.7 million during the year ended December 31, 2010 primarily due to the sale of warrants and common stock of twelve portfolio companies. We recognized realized losses in 2010 of approximately $31.1 million on the disposition of investments in ten portfolio companies. A summary of realized gains and losses for the years end December 31, 2011 and 2010 is as follows:

	December 31,	
(in millions)	**2011**	**2010**
Realized gains	$ 11,092	$ 4,677
Realized losses	(8,351)	(31,059)
Net realized gains (losses)	$ 2,741	$ (26,382)

During the year ended December 31, 2011 net change in unrealized appreciation totaled approximately $4.6 million from loan, warrant and equity investments. Approximately $9.0 million was due to net unrealized appreciation on debt investments attributable to reversal of unrealized depreciation to realized loss of approximately $5.0 million on one technology debt investment and due to the reversal of unrealized depreciation of approximately $3.1 million on one life science debt investment as a result of improvements at the portfolio company. Approximately $5.8 million of net unrealized depreciation on equity investments during the year ended December 31, 2011, was primarily attributable to the sale of InfoLogix, Inc. resulting in the reversal of $7.7 million of unrealized appreciation on equity investments to realized gains offset by approximately $1.9 million of net appreciation due to net increases in private and public portfolio company valuations. For the year ended December 31, 2010 approximately $ 3.6 million and approximately $500,000 of the net unrealized depreciation was attributable to debt and warrant investments, respectively, and approximately $5.2 million of appreciation that was attributable to equity investments. During the year ended December 31, 2011, net unrealized investment appreciation recognized by the Company was reduced by approximately $217,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Borrowings.

The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2011 and 2010:

	December 31,	
(in thousands)	**2011**	**2010**
Gross unrealized appreciation on portfolio investments	$ 58,980	$ 40,696
Gross unrealized depreciation on portfolio investments	(49,327)	(64,465)
Reversal of prior period net unrealized appreciation upon a realization event	(13,224)	(3,902)
Reversal of prior period net unrealized depreciation upon a realization event	8,395	29,674
Citigroup Warrant Participation	(217)	(13)
Net unrealized appreciation/(depreciation) on portfolio investments	$ 4,607	$ 1,990

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

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Income and Excise Taxes

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

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

For the year ended December 31, 2011 net increase in net assets resulting from operations totaled approximately $46.9 million compared to approximately $5.0 million for the period ended December 31, 2010. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $1.08 and $1.07, respectively, for the year ended December 31, 2011, compared to a basic and fully diluted net income per share of $0.12 and $0.12, respectively, for the year ended December 31, 2010.

Comparison of periods ended December 31, 2010 and 2009

Investment Income

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

Operating Expenses

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

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

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

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

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

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

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

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

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

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

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

The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. During the year ended December 31, 2010, net unrealized investment appreciation recognized by the company was reduced by approximately $13,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see the discussion set forth under Borrowings. The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2010 and 2009:

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

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

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

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

Financial Condition, Liquidity, and Capital Resources

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

At September 30, 2012, we had $75.0 million of Convertible Senior Notes payable, $84.5 million of April 2019 Notes, $75.0 million of September 2019 Notes and $200.25 million of SBA debentures payable. We had no borrowings outstanding under either the Wells Facility or the Union Bank Facility. See Subsequent Events below. At December 31, 2011, we had approximately $10.2 million of outstanding borrowings under the Wells Facility, $75.0 million of Convertible Senior Notes payable and $225.0 million SBA debentures payable, and had not issued the April 2019 Notes and September 2019 Notes.

During the nine-months ended September 30, 2012, our operating activities used $88.6 million of cash and cash equivalents, compared to $139.5 million used during the year ended December 31, 2011. The $50.9 million decrease in cash used by operating activities resulted primarily from a reduction of principal payments received on investments of approximately $82.2 million, partially offset by a decrease in purchase of investments of $142.4 million during the nine-month period ended September 30, 2012. During the nine-months ended September 30, 2012, our financing activities provided $131.3 million of cash, compared to $97.2 million provided during the year ended December 31, 2011. This $34.1 million increase in cash provided by financing activities was primarily attributed to net proceeds from the issuance of common stock of $46.6 million and our issuance of the April 2019 Notes and September 2019 Notes of $159.5 million.

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

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

Additionally, we expect to raise additional capital to support our future growth through future equity and debt offerings, and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing

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investors will experience dilution. During our 2012 Annual Shareholder Meeting held on May 30, 2012, our stockholders authorized us, with the approval of our Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. The Board of Directors, subject to fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share. There can be no assurance that these capital resources will be available.

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

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

Outstanding Borrowings

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

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

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
(2) In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal amount.
(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $3.8 million at September 30, 2012.
(4) In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III. In August 2012, the Company repaid $24.75 million of SBA debentures under HT II, $12.0 million priced at 6.43%, including annual fees, and $12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a $24.75 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

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

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies.

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

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

Contractual Obligations

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

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

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.
(3) Includes $200.25 million in borrowings under the SBA debentures, $84.5 million in aggregate principal amount of the April 2019 Notes, and $75.0 million in aggregate principal amount of the September 2019 Notes. See Subsequent Events below.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $3.8 million at September 30, 2012.
(5) Long-term facility leases.

The following table shows our contractual obligations as of December 31, 2011:

		Payments due by period (in thousands)			
Contractual Obligations[1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3][4]	$ 305,540	$	$ 10,187	$ 70,353	$ 225,000
Operating Lease Obligations[5]	8,497	1,244	2,294	2,520	2,439
Total	$ 314,037	$ 1,244	$ 12,481	$ 72,873	$ 227,439

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have warrant participation with Citigroup. See Borrowings.
(3) Includes borrowings under the Wells Facility, Union Bank Facility and the SBA debentures. There were no outstanding borrowings under the Union Bank Facility at December 31, 2011.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $4,647 at December 31, 2011.
(5) Long-term facility leases.

Certain premises are leased under agreements which expire at various dates through October 2018. Total rent expense amounted to approximately $868,000 and $1.1 million for the nine months ended September 30, 2012 and the year ended December 31, 2011, respectively.

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

Borrowings

Long-term SBA Debentures

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

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

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

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

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect

us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of September 30, 2012 as a result of having sufficient capital as defined under the SBA regulations.

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

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

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

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

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

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

Wells Facility

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

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

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

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

Union Bank Facility

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

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

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended September 30, 2012, this nonuse fee was approximately $70,000.

The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At September 30, 2012, there were no borrowings outstanding on this facility.

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

Citibank Credit Facility

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

Convertible Senior Notes

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

The Convertible Senior Notes mature on April 15, 2016 (the Maturity Date), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated;

effectively junior in right of payment to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

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

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

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

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

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

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

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

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

2019 Notes Payable

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

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

April 2019 Notes

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

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

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

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

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

September 2019 Notes

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

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

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

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

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

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

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

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

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

Outstanding Borrowings

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

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

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
(2) In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal amount.
(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $3.8 million at September 30, 2012.
(4) In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III. In August 2012, the Company repaid $24.75 million of SBA debentures under HT II, $12.0 million priced at 6.43%, including annual fees, and $12.75 million priced at 6.38%, including annual fees. In September 2012, the SBA approved a $24.75 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

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Dividends

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

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

* Dividend paid in cash and stock.

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

Valuation of Portfolio Investments.

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

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

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

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

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

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

(3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate.

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

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

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

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

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

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

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

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Quantitative Information about Level 3 Fair Value Measurements of Debt Investments

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

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

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

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

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

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

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

(b) An option pricing model valuation technique was used to derive the fair value conversion feature of convertible notes.
(c) Represents the range of industry volatility used by market participants when pricing the investment.
(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

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

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

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

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

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

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

Debt Investments

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

In making a good faith determination of the value of our investments, we generally start with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest which has been accrued to principal as earned. We then apply the valuation methods as set forth below.

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

Our process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If there is a

significant deterioration of the credit quality of a debt investment, we may consider other factors than those a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

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

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

Equity-Related Securities and Warrants

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

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

Income Recognition.

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

Paid-In-Kind and End of Term Income.

Contractual paid-in-kind (PIK) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent

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

Fee Income.

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

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

Equity Offering Expenses

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

Debt Issuance Costs

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

Stock-Based Compensation.

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

Federal Income Taxes.

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98.2% of our capital gain net income for each one year period ending on October 31. At December 31, 2011, 2010 and 2009, no excise tax was recorded. At December 31, 2008, we recorded a liability for excise tax of approximately $203,000 on income and capital gains of approximately $5.0 million which was distributed in 2009. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary.

Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Recent Accounting Pronouncement

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

Departure of Chief Compliance Officer and Secretary

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

Subsequent Events

Liquidity and Capital Resources

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

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

Dividend Declaration

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

Portfolio Company Developments

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

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Closed and Pending Commitments

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

a. Closed commitments of approximately $73.6 million to new and existing portfolio companies, and funded approximately $29.2 million since the close of the third quarter.

b. Pending commitments (signed non-binding term sheets) of approximately $166.0 million.

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

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

Notes:

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

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

Quantitative and Qualitative Disclosures About Market Risk

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

As of September 30, 2012, approximately 99.3% of our portfolio loans were at variable rates or variable rates with a floor and 0.7% of our loans were at fixed rates. Over time additional investments may be at variable rates. We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding nine-months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in nine-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 2.25% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on September 19, 2012 were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT II was approximately $88.9 million with an average interest rate of

approximately 4.83%. The average amount of debentures outstanding for the quarter ended September 30, 2012 for HT III was approximately $110.8 million with an average interest rate of approximately 3.3%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

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

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

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

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

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

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

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

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer, Chief Financial and Accounting Officer have concluded that our disclosure controls and procedures are effective in timely alerting them of material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

Internal Control Over Financial Reporting

Management s Annual Report on Internal Control Over Financial Reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial and accounting officer, approved and monitored by the Company s Board of Directors, and implemented by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

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

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

Management of the Company conducted an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this assessment, management has concluded that the Company s internal control over financial reporting was effective as of December 31, 2011.

Attestation Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who also audited the Company s consolidated financial statements, as stated in their report, which is included in this prospectus.

Remediation of Previously Disclosed Material Weakness

As described in Item 4 of the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, the Company identified a material weakness in its internal control over financial reporting. In particular, management became aware of matters where existing controls did not operate effectively to detect manual input errors in calculations used to derive the fair value of some investment portfolio holdings as of the measurement date, thereby impacting reported amounts with respect to investments and net increase (decrease) in unrealized appreciation on investments. The Company initiated a remediation effort during the second quarter of 2011 to address the material weakness. During the remediation effort the Company:

- added additional reviews of the accuracy of the number of equity security holdings as of the measurement date;

- added additional reviews of manually input data used in the calculations supporting the fair value of investments as of the measurement date; and

- added experienced professionals to augment and upgrade its financial staff to address issues of timeliness and completeness in financial reporting.

The Company continued its implementation and assessment of the additional controls during the third and fourth quarters of 2011 and found them to be operating effectively and have concluded as of December 31, 2011, this material weakness has been remediated.

Changes in Internal Control Over Financial Reporting in 2011

As a result of the remediation of the material weakness described above, there were changes in our internal control over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

BUSINESS

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

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

We also make investments in qualifying small businesses through two wholly-owned, SBIC subsidiaries, HT II and HT III. As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of September 30, 2012, we held investments in HT II in 52 companies with a fair value of approximately $162.1 million. HT II s portfolio companies accounted for approximately 20.9% of our total portfolio at September 30, 2012. As of September 30, 2012, we held investments in HT III in 32 companies with a fair value of approximately $195.4 million. HT III s portfolio accounted for approximately 25.2% of our total portfolio at September 30, 2012.

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

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

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

Corporate History and Offices

We are a Maryland Corporation formed in December 2003 that began investment operations in September 2004. We are an internally managed, non-diversified closed-end investment company that has elected to be 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. A business development company also must meet a coverage ratio of total net assets to total senior securities, which include all of our borrowings (including accrued interest payable) except for debentures issued by the Small Business Administration, or the SBA, and any preferred stock we may issue in the future, of at least 200% subsequent to each borrowing or issuance of senior securities.

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

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

Our Market Opportunity

We believe that technology-related companies compete in one of the largest and most rapidly growing sectors of the U.S. economy and that continued growth is supported by ongoing innovation and performance improvements in technology products as well as the adoption of technology across virtually all industries in

response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on investments in structured debt with warrants in technology-related companies for the following reasons:

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

Technology-Related Companies are Under served by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies 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 2012, venture capital-backed companies received, in approximately 2,525 transactions, equity financing in an aggregate amount of approximately $22.8 billion, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the three-month period ended September 30, 2012 was approximately $3.7 million. We believe the number of venture-backed companies receiving financing provides us an opportunity to provide debt financing to these companies. Overall, seed- and first-round deals made up 48% of the deal flow, and later-stage deals made up roughly 52% of the deal flow in the nine-months ended September 30, 2012.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants product provides

access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe technology-related companies at all stages of development target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth. In addition, because financial sponsor-backed companies have reached a more mature stage prior to reaching a liquidity event, we believe our investments could provide the debt capital needed to grow or recapitalize during the extended period prior to liquidity events.

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured debt, debt with warrants and equity investments in over 215 technology-related companies, representing over $3.0 billion in commitments from inception to September 30, 2012, 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 (generally 12 to 60 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash and the continued support from a venture capital or private equity firm at the time we make our investment.

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

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

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

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

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

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of September 30, 2012, our proprietary SQL-based database system included over 30,100 technology-related companies and over 7,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Our Investments and Operations

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

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

We expect that our investments will generally range from $1.0 million to $25.0 million. We typically structure our debt securities to provide for amortization of principal over the life of the loan, but may include an interest-only period of three to 12 months for emerging growth and expansion-stage companies and longer for

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established-stage companies. Our loans will be collateralized by a security interest in the borrower s assets, although we may not have the first claim on these assets and the assets may not include intellectual property. Our debt investments carry fixed or variable contractual interest rates which generally ranged from Prime to approximately 13.85% as of September 30, 2012. As of September 30, 2012, 99.3% of our loans were at floating rates or floating rates with a floor and 0.7% of the loans were at fixed rates. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees, commitment fees, success fees, payment-in-kind (PIK) provisions or prepayment fees, which we may be required to include in income prior to receipt. We also generate revenue in the form of commitment, facility fees and amendment fees.

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

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

Structured debt with warrants. We seek to invest a majority of our assets in structured debt with warrants of prospective portfolio companies. Traditional mezzanine debt is a layer of high-coupon financing between debt and equity that most commonly takes the form of subordinated debt coupled with warrants, combining the cash flow and risk characteristics of both senior debt and equity. However, our investments in structured debt with warrants may be the only debt capital on the balance sheet of our portfolio companies, and in many cases we have a first priority security interest in all of our portfolio company s assets, or in certain investments we may have a negative pledge on intellectual property. Our structured debt with warrants typically have maturities of between two and seven years, with full amortization after an interest only period for emerging-growth or expansion-stage companies and longer deferred amortization for select established-stage companies. Our structured debt with warrants generally carry a contractual interest rate between Prime and approximately 14.0% and may include an additional end-of-term payment or PIK. In most cases we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may prohibit a company from pledging or otherwise encumbering their intellectual property. We may structure our structured debt with warrants with restrictive affirmative and negative covenants, default penalties, prepayment penalties, lien protection, equity calls, change-in-control provisions or board observation rights.

Senior Debt. We seek to invest a limited portion of our assets in senior debt. Senior debt may be collateralized by accounts receivable and/or inventory financing of prospective portfolio companies. Senior debt has a senior position with respect to a borrower s scheduled interest and principal payments and holds a first priority security interest in the assets pledged as collateral. Senior debt also may impose covenants on a borrower with regard to cash flows and changes in capital structure, among other items. We generally collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company s intellectual property. Our senior loans, in certain instances, may be tied to the financing of specific assets. In connection with a senior debt investment, we may also provide the borrower with a working capital line-of-credit that will carry an interest rate ranging from Prime or LIBOR plus a spread with a floor, generally maturing in one to three years, and will be secured by accounts receivable and/or inventory.

Equipment Loans. We intend to invest a limited portion of our assets in equipment-based loans to early-stage prospective portfolio companies. Equipment-based loans are secured by a first priority security interest in only the specific assets financed. These loans are generally for amounts up to $3.0 million but may be up to $15.0 million for certain clean technology venture investments, carry a contractual interest rate between Prime and Prime plus 9.0%, and have an average term between three and four years. Equipment loans may also include end of term payments.

Equity-Related Securities. The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our structured debt investments. In addition to the warrants received as a part of a structured debt financing, we typically receive the right to make equity investments in a portfolio company in connection with that company s next round of equity financing. We may also on certain debt investments have the right to convert a portion of the debt investment into equity. These rights will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. These equity-related investments are typically in the form of preferred or common equity and may be structured with a dividend yield, providing us with a current return, and with customary anti-dilution protection and preemptive rights. In the future, we may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company s stock or by exercising our right, if any, to require a portfolio company to buy back the equity-related securities we hold. We may also make stand alone direct equity investments into portfolio companies in which we may not have any debt investment in the company. As of September 30, 2012, we held equity interests in 37 portfolio companies.

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

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

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Investment Criteria

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

Portfolio Composition. While we generally focus our investments in venture capital and private equity-backed technology-related companies, we seek to diversify across various financial sponsors as well as across various stages of companies development and various technology industry sub-sectors and geographies. As of September 30, 2012, approximately 63.5% of the fair value of our portfolio was composed of investments in five industries: 19.2% was composed of investments in the drug discovery and development industry, 15.6% was composed of investments in the internet consumer and business services industry, 11.0% was composed of investments in the clean technology industry, 9.2% was composed of investments in the software industry and 8.5% was composed of investments in the drug delivery industry.

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

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

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

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

Covenants. Our investments may include one or more of the following covenants: cross-default, or material adverse change provisions, require the portfolio company to provide periodic financial reports and operating metrics and will typically limit the portfolio company s ability to incur additional debt, sell assets, dividend

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recapture, engage in transactions with affiliates and consummate an extraordinary transaction, such as a merger or recapitalization without our consent. In addition, we may require other performance or financial based covenants, as we deem appropriate.

Exit Strategy. Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of our equity interest. Liquidity events may include an initial public offering, a private sale of our equity interest to a third party, a merger or an acquisition of the company or a purchase of our equity position by the company or one of its stockholders.

Investment Process

We have organized our management team around the four key elements of our investment process:

- Origination;
- Underwriting;
- Documentation; and
- Loan and Compliance Administration.

Our investment process is summarized in the following chart:

Origination

The origination process for our investments includes sourcing, screening, preliminary due diligence and deal structuring and negotiation, all leading to an executed non-binding term sheet. Our investment origination team, which consists of approximately 30 investment professionals, is headed by our Senior Managing Directors of Technology, Clean Technology, and Life Science, and our Chief Executive Officer. The origination team is

responsible for sourcing potential investment opportunities and members of the investment origination team use their extensive relationships with various leading financial sponsors, management contacts within technology-related companies, trade sources, technology conferences and various publications to source prospective portfolio companies. Our investment origination team is divided into middle market, technology, clean technology, and life science sub-teams to better source potential portfolio companies.

In addition, we have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of, our proprietary SQL-based database system included over 30,100 technology-related companies and over 7,800 venture capital private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows our origination team to maintain, cultivate and grow our industry relationships while providing our origination team with comprehensive details on companies in the technology-related industries and their financial sponsors.

If a prospective portfolio company generally meets certain underwriting criteria, we perform preliminary due diligence, which may include high level company and technology assessments, evaluation of its financial sponsors support, market analysis, competitive analysis, identify key management, risk analysis and transaction size, pricing, return analysis and structure analysis. If the preliminary due diligence is satisfactory, and the origination team recommends moving forward, we then structure, negotiate and execute a non-binding term sheet with the potential portfolio company. Upon execution of a term sheet, the investment opportunity moves to the underwriting process to complete formal due diligence review and approval.

Underwriting

The underwriting review includes formal due diligence and approval of the proposed investment in the portfolio company.

Due Diligence. Our due diligence on a prospective investment is typically completed by two or more investment professionals whom we define as the underwriting team. The underwriting team for a proposed investment consists of the deal sponsor who typically possesses general industry knowledge and is responsible for originating and managing the transaction, other investment professional(s) who perform due diligence, credit and corporate financial analyses and, as needed, our legal professionals. To ensure consistent underwriting, we generally use our standardized due diligence methodologies, which include due diligence on financial performance and credit risk as well as an analysis of the operations and the legal and applicable regulatory framework of a prospective portfolio company. The members of the underwriting team work together to conduct due diligence and understand the relationships among the prospective portfolio company s business plan, operations and financial performance.

As part of our evaluation of a proposed investment, the underwriting team prepares an investment memorandum for presentation to the investment committee. In preparing the investment memorandum, the underwriting team typically interviews select key management of the company and select financial sponsors and assembles information necessary to the investment decision. If and when appropriate, the investment professionals may also contact industry experts and customers, vendors or, in some cases, competitors of the company.

Approval Process. The sponsoring managing director or principal presents the investment memorandum to our investment committee for consideration. The approval of a majority of our investment committee and an affirmative vote by our Chief Executive Officer is required before we proceed with any investment. The members of our investment committee are our Chief Executive Officer, our Chief Financial Officer, our Chief Credit Officer and the Senior Managing Directors of Technology, Clean Technology and Life Science. The investment committee generally meets weekly and more frequently on an as-needed basis. The Senior Managing Directors abstain from voting with respect to investments they originate.

Documentation

Our documentation group, currently headed by our Associate General Counsel, administers the front-end documentation process for our investments. This group is responsible for documenting the term sheet approved by the investment committee to memorialize the transaction with a prospective portfolio company. This group negotiates loan documentation and, subject to the approval of the Associate General Counsel, final documents are prepared for execution by all parties. The documentation group generally uses the services of external law firms to complete the necessary documentation.

Loan and Compliance Administration

Our loan and compliance administration group, headed by our Chief Financial Officer and Chief Credit Officer, administers loans and tracks covenant compliance, if applicable, of our investments and oversees periodic reviews of our critical functions to ensure adherence with our internal policies and procedures. After funding of a loan in accordance with the investment committee s approval, the loan is recorded in our loan administration software and our SQL-based database system. The loan and compliance administration group is also responsible for ensuring timely interest and principal payments and collateral management as well as advising the investment committee on the financial performance and trends of each portfolio company, including any covenant violations that occur, to aid us in assessing the appropriate course of action for each portfolio company and evaluating overall portfolio quality. In addition, the loan and compliance administration group advises the investment committee and the Valuation Committee of our Board of Directors, accordingly, regarding the credit and investment grading for each portfolio company as well as changes in the value of collateral that may occur.

The loan and compliance administration group monitors our portfolio companies in order to determine whether the companies are meeting our financing criteria and their respective business plans and also monitors the financial trends of each portfolio company from its monthly or quarterly financial statements to assess the appropriate course of action for each company and to evaluate overall portfolio quality. In addition, our management team closely monitors the status and performance of each individual company through our SQL-based database system and periodic contact with our portfolio companies management teams and their respective financial sponsors.

Credit and Investment Grading System. Our loan and compliance administration group uses an investment grading system to characterize and monitor our outstanding loans. Our loan and compliance administration group monitors and, when appropriate, recommends changes to investment grading. Our investment committee reviews the recommendations and/or changes to the investment grading, which are submitted on a quarterly basis to the Valuation Committee and our Board of Directors for approval.

From time to time, we will identify investments that require closer monitoring or become workout assets. We develop a workout strategy for workout assets and our investment committee monitors the progress against the strategy. We may incur losses from our investing activities, however, we work with our troubled portfolio companies in order to recover as much of our investments as is practicable, including possibly taking control of the portfolio company. There can be no assurance that principal will be recovered.

We use the following investment grading system approved by our Board of Directors:

Grade 1.	Loans involve the least amount of risk in our portfolio. The borrower is performing above expectations, and the trends and risk profile is generally favorable.
Grade 2.	The borrower is performing as expected and the risk profile is neutral to favorable. All new loans are initially graded 2.
Grade 3.	The borrower may be performing below expectations, and the loan s risk has increased materially since origination. We increase procedures to monitor a borrower that may have limited amounts of cash remaining on the balance sheet, is approaching its next equity capital raise within the next

three to six months, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a level 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2 or maintain it at a grade 3 as the company continues to pursue its business plan.

Grade 4. The borrower is performing materially below expectations, and the loan risk has substantially increased since origination. Loans graded 4 may experience some partial loss or full return of principal but are expected to realize some loss of interest which is not anticipated to be repaid in full, which, to the extent not already reflected, may require the fair value of the loan to be reduced to the amount we anticipate will be recovered. Grade 4 investments are closely monitored.

Grade 5. The borrower is in workout, materially performing below expectations and a significant risk of principal loss is probable. Loans graded 5 will experience some partial principal loss or full loss of remaining principal outstanding is expected. Grade 5 loans will require the fair value of the loans be reduced to the amount, if any, we anticipate will be recovered.

At September 30, 2012, our investments had a weighted average investment grading of 2.12%.

Managerial Assistance

As a business development company, we are required to offer, and provide upon request, managerial assistance to our eligible portfolio companies. See Regulation. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

Competition

Our primary competitors provide financing to prospective portfolio companies and include non-bank financial institutions, federally or state chartered banks, venture debt funds, financial institutions, venture capital funds, private equity funds, investment funds and investment banks. Many of these entities have greater financial and managerial resources than we have, and the 1940 Act imposes certain regulatory restrictions on us as a business development company to which many of our competitors are not subject. However, we believe that few of our competitors possess the expertise to properly structure and price debt investments to venture capital and private equity backed technology-related companies. We believe that our specialization in financing technology-related companies will enable us to determine a range of potential values of intellectual property assets, evaluate the business prospects and operating characteristics of prospective portfolio companies and, as a result, identify investment opportunities that produce attractive risk-adjusted returns. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business and Structure We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.

Employees

As of September 30, 2012, we had 52 employees, including approximately 30 investment and portfolio management professionals, all of whom have extensive experience working on financing transactions for technology-related companies.

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PORTFOLIO COMPANIES

(dollars in thousands)

The following tables set forth certain information as of September 30, 2012 regarding each portfolio company in which we had a debt or equity investment. The general terms of our loans and other investments are described in Business Our Investments. We offer to make available significant managerial assistance to our portfolio companies. In addition, we may receive rights to observe the Board of Directors meetings of our portfolio companies.

Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Anthera Pharmaceuticals Inc.[3]	Senior Debt				
25801 Industrial Blvd Suite B	Matures December 2014				
Hayward, CA 94545	Interest rate Prime + 7.30% or				
	Floor rate of 10.55%		$ 22,799	22,828	22,929
Aveo Pharmaceuticals, Inc.[3]	Senior Debt				
75 Sidney Street 4th Floor	Matures September 2015				
Cambridge, MA 02139	Interest rate Prime + 7.15% or				
	Floor rate of 11.90%		$ 26,500	26,500	27,030
Cempra, Inc.[3]	Senior Debt				
6340 Quadrangle Drive, Suite 100	Matures December 2015				
Chapel Hill NC, 27517	Interest rate Prime + 6.30% or				
	Floor rate of 9.55%		$ 10,000	9,827	9,529
Chroma Therapeutics, Ltd.[5][10]	Senior Debt				
93 Milton Park	Matures November 2013				
Abington, Oxon OX14 4RY	Interest rate Prime + 7.75% or				
	Floor rate of 12.00%		$ 4,727	5,339	3,313
Concert Pharmaceuticals, Inc.[4]	Senior Debt				
99 Hayden Avenue, Suite 100	Matures October 2015				
Lexington, MA 02421-7966	Interest rate Prime + 3.25% or				
	Floor rate of 8.50%		$ 20,000	19,576	18,520
Coronado BioSciences, Inc.[3]	Senior Debt				
24 New England Executive Park, Suite 105	Matures March 2016				
Burlington, MA 01803	Interest rate Prime + 6.00% or				
	Floor rate of 9.25%		$ 15,000	14,684	14,684
Dicerna Pharmaceuticals, Inc.	Senior Debt				

480 Arsenal Street, Bldg 1 Suite 120	Matures January 2015			
Watertown, MA 02472	Interest rate Prime + 5.75% or			
	Floor rate of 10.15%	$ 10,136	9,931	9,823
	Senior Debt			
	Matures January 2016			
	Interest rate Prime + 4.75% or			
	Floor rate of 9.25%	$ 10,000	9,648	9,648
NeurogesX, Inc.[(3)]	Senior Debt			
999 Baker Way Suite 200	Matures February 2015			
San Mateo, CA 94404	Interest rate Prime + 6.25% or			
	Floor rate of 9.50%	$ 14,559	14,508	14,295
NextWave Pharmaceuticals, Inc.[(4)]	Senior Debt			
20450 Stevens Creek Boulevard, Suite 150	Matures June 2015			
Cupertino, CA 95014	Interest rate Prime + 4.30% or			
	Floor rate of 9.55%	$ 6,000	5,982	5,862

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Paratek Pharmaceuticals, Inc.	Senior Debt[9]				
75 Kneeland Street	Matures upon liqudation				
Boston, MA 02111	Interest rate Fixed 10.00%				
	Beginning September 2012		$ 45	45	45
	Senior Debt[9]				
	Matures upon liqudation				
	Interest rate Fixed 10.00%				
	Beginning September 2012		$ 36	31	31
Total Paratek Pharmaceuticals, Inc.				76	76
Total Debt Drug Discovery & Development (28.93%)*				138,898	135,708
Bridgewave Communications	Senior Debt				
3350 Thomas Road	Matures March 2016				
Santa Clara, CA 95054	Interest rate Prime + 8.75% or				
	Floor rate of 12.00%		$ 7,500	6,946	6,778
OpenPeak, Inc.[4]	Senior Debt				
5355 Town Center Road, Suite 301	Matures July 2015				
Santa Clara, CA 95054	Interest rate Prime + 8.75% or				
	Floor rate of 12.00%		$ 15,000	14,809	14,959
Pac-West Telecomm, Inc.	Senior Debt				
201 Mision Street Suite 720	Matures October 2013				
San Francisco, CA 94105	Interest rate Prime + 7.50% or				
	Floor rate of 12.00%		$ 3,458	3,400	3,320
PeerApp, Inc.[4]	Senior Debt				
375 Elliot Street, Suite 150K	Matures April 2013				
Newton Upper Falls, MA 02464	Interest rate Prime + 7.50% or				
	Floor rate of 11.50%		$ 834	914	914
PointOne, Inc.	Senior Debt				
6500 River Place Boulevard Building 2 Suite 200	Matures April 2015				
Austin, TX 78730	Interest rate Libor + 9.00% or				
	Floor rate of 11.50%		$ 7,333	7,195	6,881
	Senior Debt				
	Matures September 2015		$ 356	351	330

	Interest rate Libor + 9.00% or			
	Floor rate of 11.50%			
Total PointOne, Inc.			7,546	7,211
Total Debt Communications & Networking (7.08%)*			33,615	33,182
Box, Inc.[(4)]	Senior Debt			
4440 El Camino Real	Matures March 2015			
Los Altos, CA 94022	Interest rate Prime + 3.75% or			
	Floor rate of 7.50%	$ 10,000	9,905	9,424
	Senior Debt			
	Matures July 2014			
	Interest rate Prime + 5.25% or			
	Floor rate of 8.50%	$ 1,165	1,216	1,205
	Senior Debt			
	Matures July 2016			
	Interest rate Prime + 5.13% or			
	Floor rate of 8.88%	$ 20,000	20,064	19,529
Total Box, Inc.			31,184	30,159

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Caplinked	Senior Debt[9]				
1500 Rosecrans Avenue, Suite 500	Matures May 2015				
Manhattan Beach, CA 90266	Interest rate Fixed 5.00%		$ 50	50	50
Clickfox, Inc.	Senior Debt				
3445 Peachtree Road, Suite 450	Matures November 2015				
Atlanta, GA 30326	Interest rate Prime + 8.25% or				
	Floor rate of 11.50%		$ 8,000	7,213	7,453
EndPlay, Inc.	Senior Debt				
5870 W. Jefferson Blvd., Studio H	Matures August 2015				
Los Angeles, CA 90016	Interest rate Prime + 7.35% or				
	Floor rate 10.6%		$ 2,000	1,914	1,914
Hillcrest Laboratories, Inc.	Senior Debt				
15245 Shady Grove Road, Suite 400	Matures July 2015				
Rockville, MD 20850	Interest rate Prime + 7.50% or				
	Floor rate of 10.75%		$ 4,000	3,909	3,909
JackBe Corporation	Senior Debt				
4600 North Park Aveune Suite G1N	Matures January 2016				
Chevy Chase, MD 20815	Interest rate Prime + 7.25% or				
	Floor rate of 10.50%		$ 3,000	2,882	2,882
Kxen, Inc.[4]	Senior Debt				
201 Mission Street Suit 1950	Matures January 2015				
San Francisco, CA 94105	Interest rate Prime + 5.08% or				
	Floor rate of 8.33%		$ 2,590	2,608	2,422
Tada Innovations, Inc.	Senior Debt[9]				
5900 Hollis Street, Suite W	Matures November 2012				
Emeryville CA, 94608	Interest rate Fixed 8.00%		$ 100	100	100
Total Debt Software (10.42%)*				49,861	48,890
Althea Technologies, Inc.	Senior Debt				
11040 Roselle Street	Matures October 2013				
San Diego, CA 92121	Interest rate Prime + 7.70% or				
	Floor rate of 10.95%		$ 8,364	8,537	8,537
Quatrx Pharmaceuticals Company	Senior Debt[9]				

777 East Eisenhower Pkwy, Suite 100	Matures March 2014			
Ann Arbor, MI 48108	Interest rate Fixed 8.00%	$ 1,888	1,888	2,346
Total Debt Specialty Pharmaceuticals (2.32%)*			10,425	10,883
Achronix Semiconductor Corporation	Senior Debt			
2953 Bunker Hill Lane, Suite 101	Matures January 2015			
Santa Clara, CA 95054	Interest rate Prime + 10.60% or			
	Floor rate of 13.85%	$ 2,034	1,979	1,980
Kovio Inc.	Senior Debt			
2865 Zanker Road	Matures March 2015			
San Jose, CA 95134	Interest rate Prime + 5.50% or			
	Floor rate of 9.25%	$ 1,216	1,195	1,106
	Senior Debt			
	Matures March 2015			
	Interest rate Prime 3.75% or			
	Floor rate of 9.75%	$ 2,836	2,782	2,603
Total Kovio Inc.			3,976	3,709
Total Debt Semiconductors (1.20%)*			5,955	5,689

Portfolio Company	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
AcelRX Pharmaceuticals, Inc.(3)	Senior Debt				
575 Chespeake Drive	Matures December 2014				
Redwood City, CA 94063	Interest rate Prime + 3.25% or				
	Floor rate of 8.50%		$ 9,097	8,994	8,753
	Senior Debt				
	Matures December 2014				
	Interest rate Prime + 3.25% or				
	Floor rate of 8.50%		$ 9,097	8,994	8,752
Total AcelRX Pharmaceuticals, Inc.				17,988	17,505
Alexza Pharmaceuticals, Inc.(3)(4)	Senior Debt				
2091 Stierlin Court	Matures October 2013				
Mountain View, CA 94303	Interest rate Prime + 6.50% or				
	Floor rate of 10.75%		$ 6,470	6,772	6,772
BIND Biosciences, Inc.	Senior Debt				
325 Vassar St	Matures July 2014				
Cambridge, MA 02139	Interest rate Prime + 7.45% or				
	Floor rate of 10.70%		$ 3,799	3,744	3,820
Intelliject, Inc.(4)	Senior Debt				
111 Virginia St, Suite 405	Matures September 2015				
Richmond, VA 23219	Interest rate Prime + 5.75% or				
	Floor rate of 11.00%		$ 15,000	14,485	14,485
Revance Therapeutics, Inc.	Senior Debt				
7555 Gateway Blvd	Matures March 2015				
Newark, CA 94560	Interest rate Prime + 6.60% or				
	Floor rate of 9.85%		$ 20,248	20,016	19,710
Total Debt Drug Delivery (13.28%)*				63,004	62,292
Ahhha, Inc.(8)	Senior Debt				
2000 University Avenue	Matures January 2015				
Palo Alto, CA, 94301	Interest rate Fixed 10.00%		$ 350	347	
Blurb, Inc.	Senior Debt				
580 California Street, Suite 300	Matures December 2015		$ 8,000	7,667	7,576
San Francisco, CA 94104	Interest rate Prime + 5.25% or				

	Floor rate 8.50%			
Education Dynamics, LLC	Senior Debt			
5 Marine View Plaza, Suite 212	Matures March 2016			
Hoboken, NJ 07030	Interest rate LIBOR + 9.50%,			
	PIK Interest 1.50%	$ 27,500	26,889	26,889
Just.Me, Inc.	Senior Debt			
301 Barclay Court	Matures June 2015			
Palo Alto, CA 94306	Interest rate Prime + 2.50% or			
	Floor rate 5.75%	$ 600	584	584
Loku, Inc.	Senior Debt(9)			
1605 E. 7th Street	Matures June 2013			
Austin, TX 78702	Interest rate Fixed 6.00%	$ 100	100	100
NetPlenish, Inc.	Senior Debt			
505 Poli Street, Suite 308	Matures April 2015			
Ventura, CA 93001	Interest rate Fixed 10.00%	$ 500	488	456

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Reply! Inc.[4]	Senior Debt				
12667 Alcosta Blvd., Suite 200	Matures June 2015				
San Ramon, CA 94583	Interest rate Prime + 6.875% or				
	Floor rate of 10.125%		$ 12,068	11,895	11,718
	Senior Debt				
	Matures June 2015				
	Interest rate Prime + 7.25% or				
	Floor rate of 11.00%		$ 2,000	1,926	1,926
Total Reply! Inc.				13,821	13,645
Second Rotation, Inc.	Senior Debt				
25 Thomson Place, 3rd Floor	Matures August 2015				
Boston, MA 02210	Interest rate Prime + 6.50% or				
	Floor rate of 10.25%,				
	PIK Interest 2.50%		$ 6,000	5,966	5,966
	Senior Debt				
	Matures August 2015				
	Interest rate Prime + 6.50% or				
	Floor rate of 10.25%,				
	PIK Interest 1.50%		$ 2,000	1,927	1,927
Total Second Rotation, Inc.				7,893	7,893
Tectura Corporation	Revolving Line of Credit				
411 Borel Avenue Suite 205	Matures July 2013				
San Mateo, CA 94402	Interest rate Fixed 11.00%		$ 16,404	16,419	16,097
	Senior Debt				
	Matures December 2014				
	Interest rate Fixed 13.00%		$ 6,978	7,776	7,699
	Senior Debt				
	Matures April 2013				
	Interest rate Fixed 13.00%		$ 1,390	1,471	1,471
Total Tectura Corporation				25,666	25,268
Trulia, Inc.[3][4]	Senior Debt				
116 New Montgomery St Suite 300	Matures March 2015		$ 5,000	4,914	4,567
San Francisco, CA 94105	Interest rate Prime + 2.75% or				

	Floor rate of 6.00%			
	Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	$ 5,000	4,914	4,780
Total Trulia, Inc.			9,828	9,347
Vaultlogix, Inc. 75 Sylvan Street Danvers, MA 01923	Senior Debt Matures September 2016 Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	$ 7,500	7,620	6,874
	Senior Debt Matures September 2015 Interest rate LIBOR + 7.00% or Floor rate of 8.50%	$ 10,850	10,761	10,025
Total Vaultlogix, Inc.			18,381	16,899

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Portfolio Company	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Votizen, Inc.	Senior Debt(9)				
548 Market Street	Matures February 2013				
San Francisco, CA 94104	Interest rate Fixed 5.00%		$ 100	100	100
Wavemarket, Inc.(4)	Senior Debt				
5980 Horton Street	Matures September 2015				
Emeryville, CA 94608	Interest rate Prime + 5.75% or				
	Floor rate of 9.50%		$ 10,000	9,814	9,814
Total Debt Internet Consumer & Business Services (25.28%)*				121,578	118,571
Cha Cha Search, Inc.	Senior Debt				
14550 Clay Terrace Blvd. Suite 130	Matures February 2015				
Carmel, IN 46032	Interest rate Prime + 6.25% or				
	Floor rate of 9.50%		$ 2,912	2,866	2,804
Eccentex Corporation	Senior Debt				
6101 W. Centinela Ave, Suite 110	Matures May 2015				
Culver City, CA 90230	Interest rate Prime + 7.00% or				
	Floor rate of 10.25%		$ 1,000	968	968
InXpo, Inc.	Senior Debt				
770 N. Halsted Street, Suite 6s	Matures March 2014				
Chicago, IL 60642	Interest rate Prime + 7.50% or				
	Floor rate of 10.75%		$ 2,550	2,457	2,423
Jab Wireless, Inc.	Senior Debt				
400 Inverness Parkway Suite 330	Matures August 2016				
Englewood, CO 80112	Interest rate Prime + 5.25% or				
	Floor rate of 6.75%		$ 25,773	25,459	25,386
RichRelevance, Inc.	Senior Debt				
275 Battery Street Suite 1150	Matures January 2015				
San Francisco, CA 94111	Interest rate Prime + 3.25% or				
	Floor rate of 7.50%		$ 4,702	4,647	4,534
Total Debt Information Services (7.70%)*				36,397	36,114
Gynesonics, Inc.	Senior Debt				
604 5th Avenue, Suite D	Matures October 2013		$ 4,726	4,736	4,798

Redwood City, CA 94063	Interest rate Prime + 8.25% or			
	Floor rate of 11.50%			
	Senior Debt[9]			
	Matures November 2012			
	Interest rate Fixed 8.00%	$ 253	202	202
Total Gynesonics, Inc.			4,938	4,999
Lanx, Inc.	Senior Debt			
310 Interlocken Parkway, Suite 120	Matures October 2016			
Broomfield, CO 80021	Interest rate Prime + 6.50% or			
	Floor rate of 10.25%	$ 15,000	14,239	14,239
	Revolving Line of Credit			
	Matures October 2015			
	Interest rate Prime + 5.25% or			
	Floor rate of 9.00%	$ 5,500	5,287	5,287
Total Lanx, Inc.			19,526	19,526

Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Novasys Medical, Inc.	Senior Debt[9]				
39684 Eureka Drive	Matures January 2013				
Newark, CA 94560	Interest rate Fixed 8.00%		$ 65	63	63
	Senior Debt[9]				
	Matures August 2013				
	Interest rate Fixed 8.00%		$ 22	20	20
Total Novasys Medical, Inc.				83	83
Optiscan Biomedical, Corp.	Senior Debt				
21021 Corsair Blvd.	Matures December 2013				
Hayward, CA 94545	Interest rate Prime + 8.00% or				
	Floor rate of 11.45%		$ 8,260	8,747	2,500
	Senior Debt[9]				
	Matures April 2013				
	Interest rate Fixed 8.00%		$ 288	288	
Total Optiscan Biomedical, Corp.				9,035	2,500
Oraya Therapeutics, Inc.[4]	Senior Debt[9]				
8000 Jarvis Avenue	Matures December 2013				
Menlo Park, CA 94560	Interest rate Fixed 7.00%		$ 500	500	500
	Senior Debt				
	Matures September 2015				
	Interest rate Prime + 5.50% or				
	Floor rate of 10.25%		$ 10,000	9,765	9,563
Total Oraya Therapeutics, Inc.				10,265	10,063
USHIFU, LLC	Senior Debt				
801 E. Morehead St., Suite 201	Matures April 2016				
Charlotte, NC 28202	Interest rate Prime + 7.75% or				
	Floor rate of 11.00%		$ 6,000	5,200	5,200
Total Debt Medical Device & Equipment (9.03%)*				49,047	42,371
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Senior Debt				
425 Metro Place North, Suite 300	Matures December 2014				
Dublin OH, 43017	Interest rate Prime + 6.75% or				
	Floor rate of 10.00%		$ 6,380	6,272	6,314

Tethys Bioscience, Inc.	Senior Debt			
5858 Horton Street, Suite 280	Matures December 2015			
Emeryville, CA 94608	Interest rate Prime + 8.40% or			
	Floor rate of 11.65%	$ 10,000	9,852	9,852
Total Debt Diagnostic (3.45%)*			16,124	16,166
deCODE genetics ehf.(5)(10)	Senior Debt			
Sturlugata 8, IS-101	Matures September 2014			
Reykjavik, Iceland	Interest rate Prime + 10.25% or			
	Floor rate of 13.50%,			
	PIK interest 2.00%	$ 4,143	4,045	4,128
Labcyte, Inc.	Senior Debt			
1190 Borregas Avenue	Matures May 2013			
Sunnyvale, CA 94089	Interest rate Prime + 8.60% or			
	Floor rate of 11.85%	$ 1,194	1,257	1,257

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Portfolio Company	**Type of Investment(1)**	**Percentage of Class Held on a Fully Diluted Basis(8)**	**Principal Amount**	**Cost(2)**	**Value(3)**
	Senior Debt Matures June 2016 Interest rate Prime + 6.70% or Floor rate of 9.95%		$ 5,000	4,847	4,847
Total Labcyte, Inc.				6,104	6,104
Total Debt Biotechnology Tools (2.18%)*				10,149	10,232
MedCall, LLC 202 E. Industry Drive Oxford NC, 27565	Senior Debt Matures January 2016 Interest rate 7.79% or Floor rate of 9.50%		$ 5,038	4,961	4,680
	Senior Debt Matures January 2016 Interest rate LIBOR +8.00% or Floor rate of 10.00%		$ 4,144	4,071	4,071
Total MedCall, LLC				9,031	8,750
Pacific Child & Family Associates, LLC 216 N. Eighth Street Santa Paula, CA 93060	Senior Debt Matures January 2015 Interest rate LIBOR + 8.00% or Floor rate of 10.50%		$ 3,511	3,554	3,486
	Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.50% or Floor rate of 9.00%		$ 1,500	1,488	1,312
	Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.00%, PIK interest 3.75%		$ 5,900	6,490	6,344
Total Pacific Child & Family Associates, LLC				11,532	11,142
ScriptSave (Medical Security Card Company, LLC) 4911 E. Broadway, Suite 200	Senior Debt Matures Febuary 2016		$ 16,804	16,568	16,252

Tucson, AZ 85711	Interest rate LIBOR + 8.75% or			
	Floor rate of 11.25%			
Total Debt Health Services, Other (7.70%)*			37,131	36,145
Entrigue Surgical, Inc.	Senior Debt			
12672 Silicon Drive, Suite 150	Matures December 2014			
San Antonio, TX 78249	Interest rate Prime + 5.90% or			
	Floor rate of 9.65%	$ 2,735	2,684	2,646
Transmedics, Inc.[4]	Senior Debt			
200 Minuteman Road, Suite 302	Matures February 2014			
Andover, MA 01810	Interest rate Prime + 9.70% or			
	Floor rate of 12.95%	$ 7,660	8,019	8,019
Total Debt Surgical Devices (2.27%)*			10,702	10,665
Westwood One Communications	Senior Debt			
40 West 57th Street	Matures October 2016			
New York NY, 10019	Interest rate LIBOR + 6.50% or			
	Floor rate of 8.00%	$ 20,606	19,014	18,803

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Women s Marketing, Inc.	Senior Debt				
1221 Post Road East Suite 201	Matures May 2016				
Westport, CT 06880	Interest rate Libor + 9.50% or				
	Floor rate of 12.00%,				
	PIK interest 3.00%		$ 9,681	9,912	9,679
	Senior Debt				
	Matures November 2015				
	Interest rate Libor + 7.50% or				
	Floor rate of 10.00%		$ 8,449	8,304	7,959
	Senior Debt				
	Matures November 2015				
	Interest rate Libor + 7.50% or				
	Floor rate of 10.00%		$ 8,663	8,515	8,160
Total Women s Marketing, Inc.				26,731	25,797
Total Debt Media/Content/Info (9.51%)*				45,745	44,601
Alphabet Energy, Inc.	Senior Debt				
26225 Eden Landing Road, Suite D	Matures February 2015				
Hayward, CA 94545	Interest rate Prime + 5.75% or				
	Floor rate of 9.00%		$ 962	916	890
American Supercondutor Corporation[3]	Senior Debt				
Two Technology Drive	Matures December 2014				
Westborough, MA 01581	Interest rate Prime + 7.25% or				
	Floor rate of 11.00%		$ 10,000	9,780	9,780
BrightSource Energy, Inc.	Senior Debt				
1999 Harrison Street, Suite 500	Matures November 2012				
Oakland, CA 94612	Interest rate Prime + 7.25% or				
	Floor rate of 10.50%		$ 35,000	34,992	34,992
EcoMotors, Inc.	Senior Debt				
17000 Federal Dr., Suite 200	Matures February 2014				
Allen Park, MI 48101	Interest rate Prime + 6.10% or				
	Floor rate of 9.35%		$ 3,297	3,369	3,347

Enphase Energy, Inc.[(3)]	Senior Debt			
1420 North McDowell Blvd.	Matures June 2014			
Petaluma, CA 94954	Interest rate Prime + 4.40% or			
	Floor rate of 9.00%	$ 4,335	4,297	4,164
Glori Energy, Inc.	Senior Debt			
4315 South Drive	Matures June 2015			
Houston, TX 77053	Interest rate Prime + 6.75% or			
	Floor rate of 10.00%	$ 8,000	7,754	7,754
Integrated Photovoltaics, Inc.	Senior Debt			
51 Daggett Drive	Matures February 2015			
San Jose, CA 95134	Interest rate Prime + 7.38% or			
	Floor rate of 10.63%	$ 2,832	2,742	2,668
Propel Biofuels, Inc.	Senior Debt			
690 Broadway St	Matures September 2013			
Redwood City, CA 94063	Interest rate of 11.00%	$ 770	823	823
SCIenergy, Inc.[(4)]	Senior Debt			
2107 Dwight Way #120	Matures September 2015			
Berkeley, CA 94704	Interest rate Prime + 8.75% or			
	Floor rate 12.00%	$ 5,296	5,012	5,170

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Portfolio Company	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Solexel, Inc.	Senior Debt				
1530 McCarthy Blvd.	Matures June 2013				
Milpitas, CA 95035	Interest rate Prime + 8.25% or				
	Floor rate of 11.50%		$ 4,251	4,235	4,235
	Senior Debt				
	Matures June 2013				
	Interest rate Prime + 7.25% or				
	Floor rate of 10.50%		$ 489	487	487
Total Solexel, Inc.				4,722	4,722
Stion Corporation(4)	Senior Debt				
6321 San Ignacio Avenue	Matures February 2015				
San Jose, CA 95119	Interest rate Prime + 6.75% or				
	Floor rate of 10.00%		$ 8,286	8,170	7,957
Total Debt Clean Tech (17.54%)*				82,577	82,267
Total Debt (147.89%)				711,207	693,775

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Series	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc.	Common Stock Warrants	0.05%		39	52
149 Sidney Street	Preferred Stock Warrants	0.43%	Series A	69	340
Cambridge, MA 02139	Preferred Stock Warrants	0.11%	Series B	35	63
Total Warrants Acceleron Pharmaceuticals, Inc.				143	456
Anthera Pharmaceuticals Inc.[3]	Common Stock Warrants	0.41%		984	141
25801 Industrial Blvd Suite B					
Hayward, CA 94545					
Cempra, Inc.[3]	Common Stock Warrants	0.19%		187	67
6340 Quadrangle Drive, Suite 100					
Chapel Hill NC, 27517					
Chroma Therapeutics, Ltd.[5][10]	Preferred Stock Warrants	0.60%	Series D	490	
93 Milton Park					
Abington, Oxon OX14 4RY					
Concert Pharmaceuticals, Inc.[4]	Preferred Stock Warrants	0.53%	Series C	367	121
99 Hayden Avenue, Suite 100					
Lexington, MA 02421-7966					
Coronado Biosciences, Inc.[3]	Common Stock Warrants	0.30%		142	109
24 New England Executive Park, Suite 105					
Burlington, MA 01803					
Dicerna Pharmaceuticals, Inc.	Common Stock Warrants	0.08%		28	12
480 Arsenal Street, Bldg 1 Suite 120	Preferred Stock Warrants	0.80%	Series A	236	128
Watertown, MA 02472	Preferred Stock Warrants	1.00%	Series B	311	160
Total Warrants Dicerna Pharmaceuticals, Inc.				575	300
EpiCept Corporation[3]	Common Stock Warrants	0.35%		4	0
777 Old Saw Mill River Road					
Tarrytown, NY 10591					
Horizon Pharma, Inc.[3]	Common Stock Warrants	0.04%		231	0
1033 Skokie Boulevard, Suite 355					
Northbrook, IL 60062					
Insmed, Incorporated[3]	Common Stock Warrants	1.06%		570	840
9 Deer Park Drive, Suite C					
Monmouth Junction, NJ 08852					

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Series	Cost[2]	Value[3]
Merrimack Pharmaceuticals, Inc.[3] One Kendall Square, Building 700 2nd Floor Cambridge, MA 02139	Common Stock Warrants	2.55%		155	1,347
NeurogesX, Inc.[3] 999 Baker Way Suite 200 San Mateo, CA 94404	Common Stock Warrants	5.85%		503	126
NextWave Pharmaceuticals, Inc.[4] 20450 Stevens Creek Boulevard, Suite 150 Cupertino, CA 95014	Preferred Stock Warrants	0.43%	Series A-1	126	370
PolyMedix, Inc.[3] 170 N. Radnor Chester Road, Suite 300 Radnor, PA 19087	Common Stock Warrants	0.59%		480	8
Portola Pharmaceuticals, Inc. 270 E Grand Avenue South San Francisco, CA 94080	Preferred Stock Warrants	0.24%	Series B	152	289
Total Warrants Drug Discovery & Development (0.89%)*				5,109	4,173
Bridgewave Communications 3350 Thomas Road Santa Clara, CA 95054	Preferred Stock Warrants	1.07%	Series 5	753	720
Intelepeer, Inc. 2855 Campus Drive, Suite 450 San Mateo, CA 94404	Preferred Stock Warrants	0.32%	Series C	102	116
Neonova Holding Company 1000 Perimeter Park Drive, Suite K Morrisville, NC 27560	Preferred Stock Warrants	1.76%	Series A	94	45
OpenPeak, Inc.[4] 5355 Town Center Road, Suite 301 Santa Clara, CA 95054	Preferred Stock Warrants	0.19%	Series E	149	19
Pac-West Telecomm, Inc. 201 Mision Street Suite 720 San Francisco, CA 94105	Common Stock Warrants	0.78%		121	
PeerApp, Inc.[4] 375 Elliot Street, Suite 150K Newton Upper Falls, MA 02464	Preferred Stock Warrants	0.39%	Series B	61	37

Peerless Network, Inc. 222 South Riverside Plaza Suite 2730 Chicago, IL 60606	Preferred Stock Warrants	0.43%	Series A	95	265
Ping Identity Corporation 1099 18th Street, Suite 2950 Denver, CO 80202	Preferred Stock Warrants	0.68%	Series B	52	125
PointOne, Inc. 6500 River Place Boulevard Building 2 Suite 200 Austin, TX 78730	Common Stock Warrants	1.49%		131	10
Purcell Systems, Inc. 16125 East Euclid Avenue Spokane, WA 99216	Preferred Stock Warrants	1.19%	Series B	123	147

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Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Series	Cost[2]	Value[3]
Stoke, Inc.	Preferred Stock Warrants	0.23%	Series C	53	125
5403 Betsy Ross Dr.					
Santa Clara, CA 94043	Preferred Stock Warrants	0.11%	Series D	65	52
Total Stoke, Inc.				118	177
Total Warrants Communications & Networking (0.35%)*				1,798	1,660
Atrenta, Inc.	Preferred Stock Warrants	0.94%	Series C	136	779
2077 Gateway Place, Suite 300					
San Jose, CA 95110	Preferred Stock Warrants	0.28%	Series D	95	261
Total Atrenta, Inc.				231	1,040
Box, Inc.[4]	Preferred Stock Warrants	0.21%	Series C	117	2,235
4440 El Camino Real	Preferred Stock Warrants	0.29%	Series B	73	3,242
Los Altos, CA 94022	Preferred Stock Warrants	0.07%	Series D-1	194	566
Total Box, Inc.				383	6,043
Braxton Technologies, LLC.	Preferred Stock Warrants	0.63%	Series A	188	
770 Wooten Road, Suite 105					
Colorado Springs, CO 80915					
Central Desktop, Inc.	Preferred Stock Warrants	1.91%	Series B	108	258
129 N Hill Ave # 202					
Pasadena, CA 91106					
Clickfox, Inc.	Preferred Stock Warrants	1.56%	Series B	329	594
3445 Peachtree Road, Suite 450					
Atlanta, GA 30326	Preferred Stock Warrants	0.89%	Series C	730	727
Total Clickfox, Inc.				1,059	1,322
Daegis Inc. (pka Unify Corporation)[3]	Common Stock Warrants	4.88%		1,434	62
1420 Rocky Ridge Drive, Suite 380					
Roseville CA 95661					
Endplay, Inc.	Preferred Stock Warrants	0.56%	Series B	67	34
5870 W. Jefferson Blvd., Studio H					
Los Angeles, CA 90016					
Forescout Technologies, Inc.	Preferred Stock Warrants	0.88%	Series D	99	163
10001 De Anza Blvd., Suite 220					
Cupertino, CA 95014					
HighRoads, Inc.	Preferred Stock Warrants	0.83%	Series B	44	8
150 Presidential Way					

Woburn, MA 01801					
Hillcrest Laboratories, Inc. 15245 Shady Grove Road, Suite 400 Rockville, MD 20850	Preferred Stock Warrants	0.75%	Series E	55	23
JackBe Corporation 4600 North Park Aveune Suite G1N Chevy Chase, MD 20815	Preferred Stock Warrants	0.13%	Series C	73	73
Kxen, Inc.[4] 201 Mission Street Suit 1950 San Francisco, CA 94105	Preferred Stock Warrants	0.46%	Series D	47	14
Rockyou, Inc. 208 Utah St Suite 300 San Francisco, CA 94103	Preferred Stock Warrants	0.09%	Series B	117	0

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Portfolio Company	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Series	Cost(2)	Value(3)
SugarSync Inc.	Preferred Stock Warrants	0.41%	Series CC	78	139
2121 South El Camino Real #600					
San Mateo, CA 94403	Preferred Stock Warrants	0.13%	Series DD	34	35
Total SugarSync Inc.				112	174
Tada Innovations, Inc.	Preferred Stock Warrants	0.44%	Series A	25	30
5900 Hollis Street, Suite W					
Emeryville CA, 94608					
White Sky, Inc.	Preferred Stock Warrants	0.44%	Series B-2	54	4
1825 S. Grant Street Suite 250					
San Mateo, CA 94402					
WildTangent, Inc.	Preferred Stock Warrants	0.17%	Series 3A	238	84
18578 NE 67th Court, Building 5					
Redmond, WA 98052					
Total Warrants Software (1.99%)*				4,335	9,332
Luminus Devices, Inc.	Common Stock Warrants	0.10%		601	
1100 Technology Park Drive					
Billerica, MA 02821					
Shocking Technologies, Inc.	Preferred Stock Warrants	0.26%	Series A-1	63	54
5870 Hellyer Avenue					
San Jose, CA 95138					
Total Warrant Electronics & Computer Hardware (0.01%)*				664	54
Althea Technologies, Inc.	Preferred Stock Warrants	3.16%	Series D	309	758
11040 Roselle Street					
San Diego, CA 92121					
Pacira Pharmaceuticals, Inc.(3)	Common Stock Warrants	0.55%		1,086	1,303
5 Sylvan Way					
Parsippany, NJ 07054					
Quatrx Pharmaceuticals Company	Preferred Stock Warrants	1.25%	Series E	528	
777 East Eisenhower Pkwy, Suite 100					
Ann Arbor, MI 48108					
Total Warrants Specialty Pharmaceuticals (0.44%)*				1,923	2,061
IPA Holdings, LLC	Common Stock Warrants	2.26%		275	377

2775 Premiere Parkway, Suite 100 Deluth, GA 30097					
Market Force Information, Inc. PO Box 270355 Louisville, CO 80027	Preferred Stock Warrants	0.31%	Series A	24	68
Seven Networks, Inc. 2100 Seaport Blvd, Suite 100 Redwood City CA, 94063	Preferred Stock Warrants	0.51%	Series C	174	253
Wageworks, Inc.[3] 1100 Park Place 4th Floor San Mateo, CA 94403	Common Stock Warrants	0.79%		252	1,953
Wavemarket, Inc.[4] 5980 Horton Street Emeryville, CA 94608	Preferred Stock Warrants	0.34%	Series E	106	62
Total Warrant Consumer & Business Products (0.58%)*				831	2,713

Portfolio Company	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Series	Cost[2]	Value[3]
Achronix Semiconductor Corporation 2953 Bunker Hill Lane, Suite 101 Santa Clara, CA 95054	Preferred Stock Warrants	0.48%	Series D	160	132
Enpirion, Inc. 53 Frontage Road, Suite 210 Perryville III Corporate Park Hampton, NJ 08807	Preferred Stock Warrants	0.13%	Series D	157	
iWatt, Inc. 90 Albright Way	Preferred Stock Warrants	0.22%	Series C	46	19
Los Gatos, CA 95032-1827	Preferred Stock Warrants	0.78%	Series D	583	379
Total iWatt, Inc.				628	398
Kovio Inc. 2865 Zanker Road San Jose, CA 95134	Preferred Stock Warrants	0.43%	Series B	92	0
Quartics, Inc. 15241 Laguna Canyon Road, Suite 200 Irvine, CA 92618	Preferred Stock Warrants	0.04%	Series C	53	
Total Warrants Semiconductors (0.11%)*				1,090	530
AcelRX Pharmaceuticals, Inc.[3] 575 Chespeake Drive Redwood City, CA 94063	Common Stock Warrants	1.21%		357	252
Alexza Pharmaceuticals, Inc.[3][4] 2091 Stierlin Court Mountain View, CA 94303	Common Stock Warrants	0.28%		645	17
BIND Biosciences, Inc. 325 Vassar St Cambridge, MA 02139	Preferred Stock Warrants	0.51%	Series C-1	291	503
Intelliject, Inc.[4] 111 Virginia St, Suite 405 Richmond, VA 23219	Preferred Stock Warrants	0.47%	Series B	594	518
Merrion Pharma, Plc.[3][5][10] 3200 Lake Drive, Citwest Business Campus Dublin 24, Ireland	Common Stock Warrants	7.96%		211	100

Revance Therapeutics, Inc. 7555 Gateway Blvd Newark, CA 94560	Preferred Stock Warrants	0.68%	Series D	557	484
Transcept Pharmaceuticals, Inc.[3] 1003 W. Cutting Blvd, Suite 110 Point Richmond, CA 94804	Common Stock Warrants	0.33%		87	66
Total Warrant Drug Delivery (0.41%)*				2,741	1,940
Blurb, Inc. 580 California Street, Suite 300	Preferred Stock Warrants	0.88%	Series B	323	514
San Francisco, CA 94104	Preferred Stock Warrants	0.47%	Series C	636	323
Total Blurb, Inc.				959	838
Cozi Group, Inc. 506 Second Avenue, Suite 710 Seattle, WA 98104	Preferred Stock Warrants	0.71%	Series A	147	

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Portfolio Company	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Series	Cost(2)	Value(3)
Invoke Solutions, Inc. 375 Totten Pond Road, Suite 400 Waltham, MA 02451	Common Stock Warrants	0.92%		82	
Just.Me, Inc. 301 Barclay Court Palo Alto, CA 94306	Preferred Stock Warrants	0.94%	Series A	20	24
Prism Education Group, Inc. 233 Needham Street Newton, MA 02464	Preferred Stock Warrants	0.92%	Series B	43	
RazorGator Interactive Group, Inc. 11150 Santa Monica Blvd, Suite 500 Los Angeles, CA 90025	Preferred Stock Warrants	3.41%	Series C	1,224	
Reply! Inc.(4) 12667 Alcosta Blvd., Suite 200 San Ramon, CA 94583	Preferred Stock Warrants	0.83%	Series B	320	670
Second Rotation, Inc. 25 Thomson Place, 3rd Floor Boston, MA 02210	Preferred Stock Warrants	0.45%	Series D	93	86
Tectura Corporation 411 Borel Avenue Suite 205 San Mateo, CA 94402	Preferred Stock Warrants	0.22%	Series B-1	51	14
Trulia, Inc.(3)(4) 116 New Montgomery St Suite 300 San Francisco, CA 94105	Preferred Stock Warrants	1.47%	Series D	188	574
Total Warrants Internet Consumer & Business Services (0.47%)*				3,127	2,205
Buzznet, Inc.					