HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 497
November 30, 2006

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting offers to buy in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 30, 2006
PRELIMINARY PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED OCTOBER 18, 2006

5,500,000 Shares

Common Stock

We are offering 5,500,000 shares of our common stock. Our common stock is listed on the Nasdaq Global Market under the symbol HTGC. The last reported sale price for our common stock on November 29, 2006 was $13.76 per share. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended.

The underwriters have an option to purchase a maximum of 825,000 additional shares to cover over-allotments of shares.

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

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

including the risk of leverage.

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

(1) Expenses payable by us are estimated to be $250,000.

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 , 2006.

Credit Suisse

JMP Securities **Ferris, Baker Watts Incorporated**

The date of this prospectus supplement is , 2006.

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You should only rely on the information contained in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective date as of which information is given.

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

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

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.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	5.0%
Offering expenses	0.3%(2)
Dividend reinvestment plan fees	%(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	5.3%
Annual Expenses (as a percentage of net assets attributable to common stock)(4):	
Operating expenses	7.4%(5)(6)
Interest payments on borrowed funds	3.9%(7)
Fees paid in connection with borrowed funds	0.5%(8)
Total annual expenses	11.8%(9)

(1) Represents the underwriting discount with respect to the shares to be sold by us in this offering.

(2) The percentage reflects estimated offering expenses of approximately $250,000.

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

(4) Average net assets attributable to common stock equals estimated weighted average net assets for 2006 which is approximately $152.2 million.

(5) Operating expenses represent our estimated expenses for the year ending December 31, 2006. This percentage for the year ended December 31, 2005, was approximately 7.9%.

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

(7) Interest payments on borrowed funds represents estimated annualized interest payments on borrowed funds for 2006. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans,

warrants and shares underlying the warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. Since inception of the agreement, we have paid Citigroup approximately $195,000 under the warrant participation agreement, thereby reducing our realized gains. During 2005, we recorded a liability and reduced our unrealized gain by approximately $342,000 for unrealized gains in our warrant and equity investments due Citigroup under our warrant participation agreement. In addition, we recorded a liability and reduced our realized gain by approximately $59,000 for amounts due to Citigroup from the sale of equity securities in 2005. During the nine months ended September 30, 2006, we reduced our realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized appreciation by approximately $248,000 for Citigroup s participation in unrealized appreciation in the warrant portfolio. Based on our estimated average borrowings for the year ending December 31, 2006 and the annualized amount of the reduction we recorded for our unrealized gains for the nine months ended September 30, 2006, the additional cost of our borrowings as a result of the warrant participation agreement could be approximately 0.47%. There can be no assurances that the unrealized gains on the warrants will not be higher or lower at the end of the year due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. The value of their participation right on unrealized appreciation in the related equity investments since inception of the agreement was approximately $454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized appreciation recognized by us at September 30, 2006.

(8) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2006.

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

Example

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

	1 Year	**3 Years**	**5 Years**	**10 Years**
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 158.84	$ 355.37	$ 526.73	$ 865.14

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.

PROSPECTUS SUPPLEMENT SUMMARY

Our Company

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

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio s 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 primary business objectives are to increase our net income, net operating income and net asset value by investing in structured mezzanine debt 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 investment. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth, and 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 their development. Our emphasis is on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. To a lesser extent, we make investments in established companies comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

Our management team, which includes Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, is currently comprised of 15 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.

Since inception through September 30, 2006, we have made debt commitments of $428.7 million to 59 companies. At September 30, 2006, our portfolio had a fair value of $237.5 million in 55 companies.

From October 1, 2006 through November 22, 2006, we entered into binding agreements to invest approximately $20.0 million in structured mezzanine debt in two new portfolio companies.

During this same period, we funded the following debt investments totaling $12.1 million in two new portfolio companies and two existing portfolio companies.

Company		**Principal Business**	**Funded Investment**	
Affinity Express	Senior Debt	Consumer and Business Services	$	94,204
Elixir Pharmaceuticals, Inc.	Senior Debt	Biopharmaceuticals		10,000,000
ForeScout Technologies, Inc	Senior Debt	Software		1,000,000
NeoScale Systems, Inc.	Senior Debt	Electronics and Computer Hardware		1,000,000
		Total Investments	$	12,094,204

In addition, at November 22, 2006, we had unfunded commitments totaling approximately $105.3 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. In addition, we had extended non-binding term sheets to five prospective new portfolio companies and one existing portfolio company representing approximately $35.0 million of structured mezzanine debt investments. These investments are subject to finalization of our due diligence and approval process as well as negotiation of definitive agreements with the prospective portfolio company and, as a result, may not result in completed investments.

As of November 22, 2006, we had $91.0 million outstanding under our securitization credit facility.

In November 2006, we exercised our warrant in Omrix Biopharmaceuticals, Inc. and sold the shares of common stock received on exercise for net proceeds of $742,945. In accordance with our participation agreement with Citigroup, 10% of the net proceeds received or approximately $74,294 was paid to Citigroup. Our net realized gain on the sale of the shares of common stock is approximately $657,000 which will be recognized in the fourth quarter of 2006.

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 structured mezzanine investments in technology-related and life-science companies for the following reasons:

Technology-Related Companies 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, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. 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.

Unfulfilled Demand for Structured Debt Financing by Technology-Related Companies. Private debt capital from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that this demand is currently unfulfilled, in part because historically the largest capital providers to technology-related companies have exited the market, while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe we entered the structured lending market at an opportune time.

Structured Mezzanine Debt Products Complement Equity Financing from Venture Capital and Private Equity Funds. We believe that our structured mezzanine debt products will provide an additional source of growth capital for technology-related companies that may otherwise only be able to obtain equity financing through incremental investments by their existing investors. Generally, we believe emerging-growth and expansion-stage companies target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth prior to subsequent equity financing rounds or liquidity events.

Lower Valuations for Private Technology-Related Companies. During the downturn in technology-related industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. We believe that the valuations currently assigned to these companies in private financing rounds will allow us to build a portfolio of equity-related securities at attractive valuation levels.

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. We have assembled a team of senior investment professionals with extensive experience as venture capitalists, commercial lenders and originators of structured debt and equity investments in technology-related companies. 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.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments will have the potential to produce attractive risk-adjusted returns through current income as well as capital appreciation from our equity-related investments. We believe that we can mitigate the risk of loss on our debt investments through the combination of principal amortization, cash interest payments, relatively short maturities, taking security interests in the assets of our portfolio companies, 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. Our debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We believe that our debt investments will be viewed as an attractive source of capital and that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing 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, which we believe provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally choose to make investments during a particular stage in a company s 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.

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, 2006, our proprietary SQL-based database system included over 8,900 technology-related companies and over 1,900 venture capital private equity sponsor/investors, as well as various other industry contacts.

Recent Developments

During the fourth quarter, we expect that we will increase our facility with Citigroup by $25.0 million. We are currently discussing this increase with Citigroup; however, the increase remains subject to further negotiation and diligence, and there can be no assurances that we will be successful in increasing this facility.

We also expect that one of our grade 4 portfolio companies and one of our grade 3 portfolio companies will be repaying their loans in full during the fourth quarter in the total amount of approximately $4.0 to $5.0 million. However, we can offer no assurances that such repayments will in fact occur.

In October 2006, John Hershey resigned as a Managing Director of the Company and has served as a consultant to the Company.

We hired Paul Walborsky as a Managing Director. He previously served as founder and CEO of Grupo Arca, Inc., from January 2004 to November 2006. Prior to founding Grupo Arca, Mr. Walborsky was Senior Vice President in the Wealth and Asset Management group of Lehman Brothers from May 2002 to December 2003. Mr. Walborsky was a Senior Vice President of Business Development at Moneyline, Inc. from November 2001 until May 2002. Prior to this, Mr. Walborsky founded and served as Senior Vice President of Corporate Development at WorldStreet Corporation from February 1996 through October 2001. Mr. Walborsky holds a B.A. in Economics from Brandeis University and an M.A. in Finance and Economics from the Lemberg Program at Brandeis University.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 5,500,000 shares of common stock we are offering will be approximately $71.6 million and approximately $82.4 million, if the underwriters option is exercised in full, assuming a public offering price of $13.76 per share (based on the last reported sales price of our common stock on November 29, 2006) and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We may change the size of this offering based on demand and market conditions.

We expect to use the net proceeds from this offering to reduce borrowings, to fund the capital commitment of our SBIC subsidiary and to invest in debt and equity securities and for other general corporate purposes. Amounts repaid under our securitized credit facility will remain available for future borrowings. At November 29, 2006, our securitized credit facility bore interest at one month LIBOR plus 165 basis points and there was approximately $91.0 million outstanding. This securitized credit facility expires on July 31, 2007. We have not yet determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have flexibility in applying the net proceeds of this offering.

We anticipate that substantially all of the net proceeds from this offering will be used within six to 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.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between us and the underwriters, the underwriters, for whom Credit Suisse Securities (USA) LLC is acting as representative, have agreed to purchase from us the following number of shares of our common stock described in this prospectus supplement at the offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus.

Underwriters	**Number of Shares**
Credit Suisse Securities (USA) LLC	
JMP Securities LLC	
Ferris, Baker Watts, Inc.	
Total	

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters will purchase all such shares of the common stock if any of these shares are purchased. The underwriters are obligated to take and pay for all of the shares of common stock offered hereby, if any are taken.

The underwriters have advised us that they propose to offer the shares of common stock to the public at the offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of $ per share.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 825,000 additional shares. The option may be exercised only to cover any over-allotments of common stock.

We, our directors and senior executive officers have agreed that during the 75 days after the date of this prospectus supplement, subject to certain exceptions, they will not, without the prior written consent of Credit Suisse Securities (USA) 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, any options or warrants to purchase any shares or any securities convertible into or redeemable or exchangeable for shares 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 the 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 anything herein to the contrary, 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 604,436 shares of our outstanding common stock and shares underlying warrants in the aggregate and will not cover shares of common stock received as a result of participation in our dividend reinvestment plan or shares received as a result of the exercise of options and will not cover the issuance by the Company of shares to the directors in lieu of cash compensation. Credit Suisse Securities (USA) 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 75 day period. There are, however, no agreements between Credit Suisse Securities (USA) LLC and the parties that would allow them to do so as of the date of this prospectus supplement.

	Per Share	Total No Exercise	Total Full Exercise
Public offering Price			
Underwriting discounts and commissions			
Proceeds, before expenses, to us			

The underwriters propose to offer the common stock directly to the public initially at the offering price set forth on the cover page of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from the public offering price. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms.

We expect to incur total expenses of approximately $250,000, excluding underwriting discounts and commissions, in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

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. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

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

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

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market.

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 they do engage in any of these transactions, they may discontinue them at any time.

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

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

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

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

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

Each of the underwriters severally represents, warrants and agrees as follows:

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling with Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

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

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

The principal address of Credit Suisse is Eleven Madison Avenue, New York, NY 10010. The principal address of Ferris, Baker Watts, Inc. is 100 Light Street, Baltimore, MD 21202. The principal address of JMP Securities LLC is 600 Montgomery Street, San Francisco, CA 94111.

This offering is being conducted in compliance with Rule 2810 of the Conduct Rules of the National Association of Securities Dealers, Inc.

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

- where required by law, that the purchaser is purchasing as principal and not as agent,

- the purchaser has reviewed the text above under Resale Restrictions, and

- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the common stock to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of Action Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this prospectus supplement and prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the common stock, for rescission against us in the event that the prospectus or this prospectus supplement contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the common stock as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

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

INTERIM MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

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

Overview

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

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code (the Code). During the second quarter ended June 30, 2006, we determined that it is more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC.

Portfolio and Investment Activity

We commenced investment operations in September 2004 and entered into our first debt investment in November 2004. The total value of our investment portfolio was $237.5 million at September 30, 2006 as compared to $176.7 million at December 31, 2005. During the three and nine months ended September 30, 2006, we made debt commitments to 10 and 27 portfolio companies totaling $81.5 million and $194.6 million, respectively. We funded $65.4 million to 14 companies including five existing portfolio companies, and $130.0 million to 34 companies including three existing portfolio companies during the three and nine-months ended September 30, 2006, respectively. During the quarter, we also made equity investments in two portfolio companies totaling $1.7 million bringing total equity investments to five investments of $3.0 million during the nine-months ended September 30, 2006. In addition, during the quarter ended September 30, 2006, we exercised an equity participation right with one portfolio company converting $1.0 million of debt to equity, bringing total equity investments at fair value to approximately $8.3 million at September 30, 2006. We had unfunded contractual commitments of $95.7 million at September 30, 2006 that are subject to the same underwriting and ongoing portfolio maintenance as are the financial instruments that we hold.

During the three and nine months ended September 30, 2006, we received normal principal repayments of approximately $9.5 million and $24.9 million, respectively. We received repayments under one working capital line of credit of $7.1 million and $10.8 million for the three and nine-months ended September 30, 2006, respectively. We also received $1.0 million repaid through a loan restructuring agreement during the three months ended September 30, 2006. In addition, we had two companies make early repayments totaling $4.4 million during the third quarter bringing total early repayments from eight companies to $34.1 million during the nine months ended September 30, 2006. Total portfolio investment activity (exclusive of unearned income) as of and for the nine-month period ended September 30, 2006 was as follows:

	September 30, 2006 ($ in millions)
Beginning Portfolio	$ 176.7
Purchase of investments	130.0
Equity Investments	3.0
Principal payments received on investments	(36.7)
Early pay-offs	(34.1)
Accretion of loan discounts	1.2
Net realized and unrealized change in investments	(2.6)
Ending Portfolio	$ 237.5

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2006 and December 31, 2005 (excluding unearned income):

	September 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio

		($ in millions)			
Senior debt with warrants	$ 226.9	95.5%	$ 168.4	95.3%
Subordinated debt	2.3	1.0%	3.4	1.9%
Preferred stock	8.3	3.5%	3.5	2.0%
Common stock		0.0%	1.4	0.8%
	$ 237.5	100.0%	$ 176.7	100.0%

A Summary of the company s investment portfolio at value by geographic location is as follows:

	September 30, 2006			December 31, 2005		
	Investments at Fair Value		Percentage of Total Portfolio	Investments at Fair Value		Percentage of Total Portfolio
	($ in millions)					
United States	$	223.1	93.9%	$	155.9	88.2%
Canada		11.4	4.8%		16.8	9.5%
Israel		3.0	1.3%		4.0	2.3%
	$	237.5	100.0%	$	176.7	100.0%

The following table shows the fair value of our portfolio by industry sector at September 30, 2006 and December 31, 2005 (excluding unearned income):

	September 30, 2006			December 31, 2005		
	Investments at Fair Value		Percentage of Total Portfolio	Investments at Fair Value		Percentage of Total Portfolio
	($ in millions)					
Biopharmaceuticals	$	82.6	34.8%	$	43.6	24.7%
Software		41.1	17.3%		29.0	16.4%
Electronics & computer hardware		23.7	10.0%		17.8	10.1%
Consumer & business products		23.3	9.8%		19.8	11.2%
Medical devices & equipment		20.6	8.7%		14.8	8.4%
Communications & networking		19.9	8.4%		32.5	18.4%
Internet consumer & business services		14.7	6.2%		8.7	4.9%
Semiconductors		10.1	4.2%		10.5	5.9%
Energy		1.5	0.6%			0.0%
	$	237.5	100.0%	$	176.7	100.0%

We use the following investment grading system as amended January 2006 and approved by our Board of Directors:

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.

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

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.

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 being monitored.

5. The borrower is in workout, materially performing below expectations and 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 we anticipate, if any, will be recovered.

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, 2006 and December 31, 2005:

	September 30, 2006		December 31, 2005	
Investment Grading	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
1	$ 10.5	4.8%	$ 9.9	5.8%
2	174.4	79.3%	150.3	87.5%
3	24.6	11.2%	5.8	3.4%
4	10.5	4.7%	4.5	2.6%
5		%	1.3(1)	0.7%
	$ 220.0	100.0%	$ 171.8	100.00%

(1) Reflects the value of the assets of this portfolio company that were sold in January 2006 for which we received approximately $1.3 million in cash distributions. We received an additional contingent payment of approximately $469,000 in the first quarter of 2006, and approximately $361,000 in the second quarter of 2006. We may receive future distributions related to this sale but such distributions are contingent on future deliverables.

As of September 30, 2006, our investments had a weighted average investment grading of 2.17 as compared to 2.05 at December 31, 2005. Our policy is to reduce the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until the funding is complete or their operations improve. At September 30, 2006, 10 portfolio companies have been graded at 3, and four portfolio companies have been graded 4 as compared to four and one portfolio companies, respectively, at December 31, 2005.

At September 30, 2006, the weighted average yield to maturity of our loan obligations was approximately 12.75% as compared to 12.87% at December 31, 2005. Yields to maturity are computed using interest rates at inception and include amortization of 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 are based on the assumption that all contractual loan commitments have been fully funded.

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 $20.0 million, with an average initial principal balance of between $3.0 million and $7.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from 8.0% to 14.0% (based on current interest rate conditions). In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, or prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In some cases, we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth and expansion-stage companies. In addition, certain loans may include an interest-only period ranging from three to nine months. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date. Our mezzanine debt investments also generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation.

Results of Operations

Comparison of the Three and nine-Months Ended September 30, 2006 and 2005

Operating Income

Interest income totaled approximately $6.7 million and $18.5 million for the three and nine-month periods ended September 30, 2006, respectively, compared with $3.4 million and $5.8 million for the three and nine-month periods ended September 30, 2005. Income from commitment and facility fees totaled approximately $847,000 and $2.3 million for the three and nine-month periods ended September 30, 2006, respectively, as compared with $241,000 and $512,000 for the three and nine-month periods ended September 30, 2005. The increases in investment income and income from commitment and facility fees for both periods presented are the result of higher average loan balances outstanding due to origination activity and yield from the related investments. At September 30, 2006, we had approximately $3.6 million of deferred revenue related to commitment and facility fees, as compared to approximately $1.8 million as of September 30, 2005. We expect to generate additional interest income and loan fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately $4.4 million and $13.2 million during the three and nine-month periods ended September 30, 2006, respectively, compared with $2.8 million and $5.7 million during the three and nine-month periods ended September 30, 2005, respectively. Operating expenses for the three and nine-month periods ended September 30, 2006 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately $1.6 million and $5.1 million, respectively, compared with $839,000 and $1.7 million for the three and nine-month periods ended September 30, 2005, respectively. The increase in interest expense and loan fees was due to the additional debt outstanding under the Citigroup Facility that was not outstanding during the first nine months of 2005. This increase was offset by a lower interest rate under our debt facilities as a result of the repayment of the Bridge Loan Facility which bore a higher average rate of interest.

Employee compensation and benefits were approximately $1.2 million and $3.6 million for the three and nine-month periods ended September 30, 2006, respectively, compared with $987,000 and $2.4 million during the three and nine-month periods ended September 30, 2005, respectively. The increase in compensation expense was directly related to increasing our headcount from 18 employees at September 30, 2005 to 23 employees at September 30, 2006.

General and administrative expenses increased to $1.4 million and $4.0 million for the three and nine-month periods ended September 30, 2006, respectively, up from $834,000 and $1.5 million during the three and nine-month periods ended September 30, 2005, respectively. The increase for both periods was primarily due to increased Board of Director expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries, legal expenses, higher business insurance expense as a public company as well as increased business development expenses. In addition, our Board of Directors elected to take part of their compensation in common stock of the Company. As such, we issued 11,250 shares of our common stock with a fair market value of approximately

$134,000 during the third quarter.

In addition, we incurred approximately $176,000 and $429,000 of stock-based compensation expense in the three and nine-month periods ended September 30, 2006, respectively, as compared to $115,000 and

$195,000 in 2005, respectively. The increase in stock-based compensation expense was the result of the options outstanding for the entire period in 2006 as compared to a partial period in 2005 as well as additional options granted in 2006.

We anticipate that operating expenses will continue to increase as we continue to incur higher interest expense on higher average outstanding debt balances, increase the number of our employees to support our growth, incur higher expenses for our office facilities and incur additional expenses related to being a public company, including expenses related to the implementation of the requirements under the Sarbanes-Oxley Act.

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

Net investment income before provision for income tax expense for the three and nine-months ended September 30, 2006 totaled $3.1 million and $7.6 million as compared with net investment income before provision for income tax expense of approximately $885,000 and $584,000 for the three and nine-months ended September 30, 2005. These changes are made up of the items described above.

Net Investment Gains (Losses)

During the three-months ended September 30, 2006, we generated a net realized loss totaling approximately $2.5 million from the sale of one portfolio company.

When we exit an investment and realize a gain or loss, we make an accounting entry to reverse any unrealized appreciation or depreciation we previously recorded to reflect the appreciated or depreciated value of the investment. We recorded a reversal of $3.3 million from unrealized depreciation and recorded a realized loss of $3.3 million for the nine months ended September 30, 2006. During the fourth quarter of 2005, we recorded unrealized depreciation of approximately $3.3 million in one portfolio company. As disclosed in Footnote 16 Subsequent Events; to the financial statements filed under Form 10-K for the year ended December 31, 2005, the assets of the portfolio company were sold in January 2006, and a realized loss was incurred. The difference between the unrealized depreciation as recorded in 2005 and the actual realized loss was not material. We did not reverse the loss from an unrealized depreciation to a realized loss in the first quarter of 2006. If the loss had been reversed, the net realized gain of approximately $1.5 million as reported in the first quarter would have resulted in a net realized loss of $1.7 million and the net unrealized appreciation of approximately $674,000 as reported in the first quarter would have resulted in an unrealized appreciation of $3.9 million. This reversal does not affect the reported Net Investment Income, Net Income, Earnings per Share, Net Asset Value or Net Asset Value per Share for the first quarter or on a year to date basis. The total realized loss for the nine-month period ended September 30, 2006 was $2.6 million and net unrealized appreciation was $3.0 million after the reversal. There were no realized gains or losses during the three and nine-months periods ended September 30, 2005.

The Citigroup Facility is collateralized by loans and warrants from our portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, requires us to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2006, we reduced our realized gain by approximately

$136,000 for Citigroup s participation in the gain on sale of an equity security and recorded an additional liability and reduced unrealized gains by approximately $248,000 for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized appreciation in the related equity investments since inception of the agreement was approximately $454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized appreciation recognized by us at September 30, 2006. Since inception of the agreement, we have paid Citigroup approximately $195,000 under the warrant participation agreement thereby reducing its realized gains.

For the three and nine-months ended September 30, 2006, the net increase in unrealized investment appreciation totaled approximately $593,000 and $3.0 million, compared with a net increase in unrealized investment appreciation of $677,000 and $1.7 million for the three and nine-month periods ended September 30, 2005. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors.

At September 30, 2006, net unrealized appreciation in our investment portfolio totaled approximately $3.9 million and was comprised of $5.7 million of appreciation in 16 of our portfolio investment companies and approximately $1.8 million of gross unrealized depreciation on 35 of our portfolio investment companies. At September 30, 2005, the net unrealized appreciation totaled approximately $1.7 million and was comprised of unrealized gains of $1.8 million in nine of our portfolio companies and approximately $93,000 of gross unrealized depreciation in 15 of our portfolio investment companies.

The net increase in unrealized appreciation totaling approximately $593,000 for the three-months ended September 30, 2006 was primarily the result of an increase in value of a debt conversion right in one investment of approximately $287,000 and the net increase in our warrant and equity portfolio of approximately $306,000. The net increase in unrealized appreciation totaling approximately $3.0 million for the nine-months ended September 30, 2006 was the result of the reversal of $3.3 million of unrealized depreciation to a realized loss on one portfolio company and the net increase in the warrant, equity and debt conversion right of approximately $2.6 million offset by the reversal of unrealized appreciation of warrants in two portfolio companies of $1.9 million to realized gains upon the exercise and sale of the portfolio company s common stock and an unrealized depreciation of $1.0 million in one portfolio company.

Income Taxes

During the second quarter ended June 30, 2006, we determined that it is more likely than not that we qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC. At March 31, 2006, we had a deferred tax asset of approximately $181,000. During the second quarter, a full valuation reserve was recorded against this asset in anticipation that we would not have a future federal tax expense to offset the deferred tax asset. In addition, during the first quarter of 2006, we recorded a tax expense in the amount of approximately $1.8 million that was reversed in the second quarter as we would not be subject to federal income or excise taxes in 2006. As a result, we recorded a tax benefit of approximately $800,000 in the second quarter. Upon completion of the 2005 tax returns during the third quarter, we recorded an additional tax benefit of approximately $345,000.

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

For the three and nine-months ended September 30, 2006, net income totaled approximately $1.6 million and $7.4 million, respectively, compared to net income of approximately $1.6 million and $2.3 million for the three and nine-months ended September 30, 2005. These changes are made up of the items previously described.

Basic and diluted net income per share for the three and nine-months ended September 30, 2006 was $0.12, $0.11, $0.61 and $0.61, respectively, as compared to a basic and diluted income per share of $0.16, $0.16, $0.39 and $0.38 for the three and nine-months ended September 30, 2005. The weighted average basic shares outstanding for the three and nine-months ended September 30, 2006 was approximately 13.7 million and 12.2 million shares, respectively, as compared to approximately 9.8 million and 6.0 million shares for the comparable periods of 2005.

Financial Condition, Liquidity, and Capital Resources

At September 30, 2006 and December 31, 2005, we had approximately $7.1 million and $15.4 million in cash and cash equivalents, respectively. In addition, at September 30, 2006 and December 31, 2005, we had approximately $34.0 million and $49.0 million, respectively, in available borrowing capacity under our Citigroup Facility, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

On April 21, 2006, we raised approximately $34.0 million, net of issuance costs, from a rights offering of 3,411,992 shares of common stock. Funds raised in the offering were partially used to pay off the remaining $15.0 million outstanding under the Bridge Loan Credit Facility and to pay down $10.0 million under our Citigroup Facility.

On October 20, 2006, we raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of common stock delivered on October 25, 2006.

For the nine-months ended September 30, 2006, net cash used in operating activities totaled approximately $55.2 million. This use of cash was primarily due to $133.0 million used for investments in our portfolio companies, net unrealized appreciation of $3.2 million, accretion of loan discounts of $1.2 million, and an income tax payment of $1.7 million offset by net income of $7.4 million, proceeds of $70.8 million in principal repayments, net realized loss of $2.6 million, an increase in accrued liabilities of $1.5 million and a net increase in deferred revenue of $837,000. Cash provided by investing activities for the nine-months ended September 30, 2006 totaled $3.0 million and was primarily due to proceeds from the sale of common stock in two portfolio companies and proceeds from contingent payments from the sale of one portfolio company. Net cash provided by financing activities totaled $43.9 million for the nine-months ended September 30, 2006. In March and April, we received approximately $5.0 million and $34.0 million, net of issuance costs, respectively, from the sale of common stock, we drew an additional $15.0 million under our Citigroup Facility, and paid cash dividends totaling $9.9 million.

As of September 30, 2006, net assets totaled $151.3 million, with a net asset value per share of $11.06, and we had approximately $7.1 million in cash and cash equivalents. We intend to generate additional cash primarily from future borrowings as well as cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. After we have used our current capital resources, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of September 30, 2006 was approximately 266%.

We anticipate that we will continue to fund our investment activities through a combination of debt and additional equity capital over the next year. As of September 30, 2006, based on eligible loans in the investment portfolio and existing advance rates, we have access to approximately $6.7 million of the $34.0 million of borrowing capacity available under our existing $125.0 million securitized credit facility from Citigroup and $182.1 million of loans and warrants collateralized outstanding under the facility. As additional new loans are funded and pledged as collateral, we will be able to increase our borrowing capacity under the Citigroup Facility beyond the current $6.7 million. As of September 30, 2006, we had $91.0 million outstanding under the Citigroup Facility. Advances under the facility bear interest at one-month LIBOR plus 165 basis points. There was $51.0 million outstanding under the Citigroup Facility as of December 31, 2005. In addition, Citigroup has an equity participation right of 10% of the realized gains on warrants collateralized under the Citigroup facility. See Note 5 for discussion of the participation. We anticipate that portfolio fundings entered into in succeeding periods will allow us to utilize the full borrowing capacity of the Citigroup Facility.

On September 27, 2006, HT II received a license to operate as a Small Business Investment Company under the SBIC program and will be able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. At September 30, 2006, we had a net investment of $2.5 million in HT II, and there is one outstanding investment in the amount of $3.0 million and we have not drawn any leverage. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner.

On October 20, 2006, we raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of common stock. The net proceeds from the sale of the shares in the offering are intended to be used to reduce credit borrowings, originate investments and for general corporate purposes. We believe these funding sources combined with cash on hand at September 30, 2006, cash provided from operations and financing activities will allow us to continue investing activities for six to nine months.

Off Balance Sheet Arrangements

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies will not be reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2006, we had unfunded commitments of approximately $95.7 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2006:

		Payments due by period			
Contractual Obligations[1]	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
		(dollars in thousands)			
Borrowings[2][3]	$ 91,000	$ 91,000	$	$	$
Operating Lease Obligations	3,973	634	1,646	1,098	595
Total	$ 94,973	$ 91,634	$ 1,646	$ 1,098	$ 595

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

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

(3) We also have a warrant participation agreement with Citigroup as discussed below.

Borrowings

In April 2005, we entered into a bridge loan credit facility with Alcmene, a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of Hercules, which we refer to as the Bridge Loan Credit Facility. The Bridge Loan Credit Facility was a $25 million secured term loan, which provided for $25 million of available borrowings, all of which was drawn down on April 12, 2005. The Bridge Loan Credit Facility allows for up to an additional $25 million of discretionary supplemental senior secured loans. All amounts outstanding under this credit facility were initially due and payable on October 12, 2005.

On August 1, 2005, we amended our Bridge Loan Credit Facility with Alcmene Funding, LLC. The amended agreement extended the term of the loan to April 12, 2006, eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. At December 31, 2005, the interest rate under the Bridge Loan Credit Facility was 9.76% per year. We had $25.0 million of outstanding borrowings under the Bridge Loan Credit Facility at December 31, 2005. On March 6, 2006, we repaid $10 million of the Bridge Loan Credit Facility, and the interest rate was reduced to 10.86%. On May 10, 2006, we repaid the remaining $15.0 million of the Bridge Loan Credit Facility and paid a $500,000 loan fee due on maturity and all accrued and unpaid interest through the date of repayment. At September 30, 2006, the Bridge Loan Credit Facility is no longer outstanding.

On August 1, 2005, we, through Hercules Funding Trust I, our affiliated statutory trust, executed a $100 million securitized credit facility with Citigroup Global Markets Realty Corp., which we refer to as the Citigroup Facility. Our ability to make draws on the Citigroup Facility expires on July 31, 2007 as the result of an extension for an additional one year period under the existing terms and conditions. The Citigroup Facility is collateralized by loans and warrants from our portfolio companies, and includes an advance rate of approximately 55% of eligible loans. Interest on borrowings under the Citigroup Facility will be paid monthly and will be charged at one-month LIBOR plus a spread of 1.65%. We also paid a loan origination fee equal to 0.25% of the Citigroup Facility and will be subject to an unused commitment fee of 0.25%. The Citigroup Facility contains covenants that, among other things, require us to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2006, we reduced our realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security and recorded an additional liability and reduced unrealized gain by approximately $248,000 for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by us at September 30, 2006. Since inception of the agreement, we have paid Citigroup approximately $195,000 under the warrant participation agreement thereby reducing its realized gains. There was $91.0 million of outstanding borrowings under the Citigroup Facility at September 30, 2006.

In addition, we expect to pursue additional debt financing from the Small Business Administration under its Small Business Investment Company program. We may also seek to enter into an additional securitization facility.

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
			$	0.925

On October 16, 2006, we declared a dividend of $0.30 per common share for holders of record as of November 6, 2006. This dividend will total approximately $4.9 million and will be distributed on December 1, 2006.

RIC Election

During the second quarter ended June 30, 2006, we determined that it was more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. At March 31, 2006, we had a deferred tax asset of approximately $181,000. During the second quarter, a full valuation reserve was recorded against this asset in anticipation that we would not have a future federal tax expense to offset the deferred tax asset. In addition, during the first quarter of 2006, we recorded a tax expense in the amount of approximately $1.8 million that was reversed in the second quarter as we would not be subject to federal income or excise taxes in 2006. As a result, we recorded a tax benefit of approximately $800,000 in the second quarter. Upon completion of the 2005 tax returns during the third quarter, the Company recorded an additional tax benefit of approximately $345,000.

As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income and gains are distributed to stockholders on a timely basis. We may be required, however, to pay federal income taxes on any unrealized net built-in gains in the assets held by us during the period in which we were not (or in which we failed to qualify as) a RIC that are recognized within the following 10 years, unless we make a special election to pay corporate-level tax on such built-in gains at the time of our RIC election or an exception applies. Annual tax distributions generally will differ from net income for the fiscal year due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation, which are not included in taxable income.

In order to qualify as a RIC under Subchapter M of the Code, and to avoid corporate level tax on any distributed income, we must, in general, for each taxable year: (1) have in effect at all times during the taxable year an election to be treated as a business development company, (2) derive at least 90% of our gross income from dividends, interest, gains from the sale of securities and other specified types of income, (3) meet asset diversification requirements as defined in the Code, and (4) distribute to stockholders at least 90% of our investment company taxable income as set forth in the Code. In addition, prior to the end of our first taxable year as a RIC, we must distribute to our stockholders all earnings and profits from periods prior to our qualification as a RIC.

If we qualify and elect for tax treatment as a RIC, we intend to take the steps necessary to qualify for the federal tax benefits allowable to RICs, including distributing annually to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses.

Unless a stockholder elects otherwise, these distributions will be reinvested in additional shares of our common stock through our dividend reinvestment plan. While we are a RIC, we generally intend to retain any realized net long-term capital gains in excess of realized net short-term capital losses and to elect to treat such net capital gain as deemed distributions to our stockholders. We may, in the future, make actual distributions to our stockholders of some or all of such net capital gains. There can be no assurance that we will qualify for treatment as a RIC in 2006 or in any future years.

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, we may be limited in our ability to make distributions due to (i) the asset coverage test for borrowings applicable to us as a business development company under the 1940 Act and (ii) provisions in our future credit facilities, if any. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of the federal income tax benefits allowable to a RIC. We cannot assure stockholders that they will receive any distributions or distributions at any particular level.

Critical Accounting Policies

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

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

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

At September 30, 2006, approximately 97% of our total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our Board pursuant to a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

With respect to private debt and equity securities, each investment is valued using industry valuation benchmarks, and, where appropriate, the value is assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation.

Interest Income. Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. Loan facility fees, original issue discount, commitment fees, and market premium or discount are deferred and amortized into interest income as adjustments to the related loan s yield over the contractual life of the loan. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible.

Fee Income. Fee income includes 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. These fees are generally recognized as income when the services are rendered.

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

Interim Consolidated Financial Statements

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Investments, at value		
Non-affiliate investments (cost of $230,371,469 and $176,004,865, respectively)	$ 234,259,608	$ 176,673,226
Affiliate investments (cost of $3,218,204 and $0, respectively)	3,214,704	
Total investments (cost of $233,589,673 and $176,004,865, respectively)	237,474,312	176,673,226
Deferred loan origination revenue	(3,567,304)	(2,729,982)
Cash and cash equivalents	7,127,982	15,362,447
Interest receivable	2,216,976	1,479,375
Prepaid expenses	762,740	1,310,594
Deferred Tax Asset		1,454,000
Property and equipment, net	360,050	77,673
Other assets	1,280,182	20,546
Total assets	245,654,938	193,647,879
LIABILITIES		
Accounts payable	377,962	150,081
Income tax payable		1,709,000
Accrued liabilities	2,982,157	1,436,468
Short-term loan payable	91,000,000	76,000,000
Total liabilities	94,360,119	79,295,549
Net assets	$ 151,294,819	$ 114,352,330
Net assets consist of:		
Par value	$ 13,676	$ 9,802
Capital in excess of par value	154,124,549	114,524,833
Unrealized appreciation on investments	3,380,344	353,093
Accumulated realized gains (losses) on investments	(2,089,011)	481,694
Distributions in excess of investment income	(4,134,739)	(1,017,092)
Total net assets	$ 151,294,819	$ 114,352,330

Shares of common stock outstanding ($0.001 par value, 30,000,000 authorized)		13,676,318		9,801,965
Net asset value per share	$	11.06	$	11.67

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
Acceleron Pharmaceuticals, Inc. (2.23%)*[(4)]	Biopharmaceuticals	Senior Debt Matures June 2009 Interest rate 10.25%	$ 3,000,000	$ 2,947,348	$ 2,947,348
		Preferred Stock Warrants		69,106	423,960
Acceleron Pharmaceuticals, Inc. (0.73%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				4,016,454	4,482,420
Aveo Pharmaceuticals, Inc. (9.92%)[(4)]	Biopharmaceuticals	Senior Debt Matures September 2009 Interest rate 10.75%	$ 15,000,000	14,834,952	14,834,952
		Preferred Stock Warrants		144,056	128,804
		Preferred Stock Warrants		46,288	48,491
Total Aveo Pharmaceuticals, Inc.				15,025,296	15,012,247
EpiCept Corporation (6.51%)	Biopharmaceuticals	Senior Debt Matures August 2009 Interest rate 11.70%	$ 10,000,000	9,248,320	9,248,320
		Common Stock Warrants		794,633	597,258
Total EpiCept Corporation				10,042,953	9,845,578
Guava Technologies, Inc. (2.98%)[(4)]	Biopharmaceuticals	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 4,500,000	4,419,696	4,419,696
				105,399	94,384

		Preferred Stock Warrants			
Total Guava Technologies, Inc.				4,525,095	4,514,080
Labopharm USA, Inc. (4.98%)(4)(6)	Biopharmaceuticals	Senior Debt Matures July 2008 Interest rate 11.95%	$ 7,618,798	7,528,743	7,528,743
Total Labopharm USA, Inc.				7,528,743	7,528,743
Merrimack Pharmaceuticals, Inc. (4.92%)(4)	Biopharmaceuticals	Convertible Senior Debt Matures October 2008 Interest rate 11.15%	$ 6,812,285	6,725,078	7,012,078
		Preferred Stock Warrants		155,456	424,715
Total Merrimack Pharmaceuticals, Inc.				6,880,534	7,436,793
Omrix Biopharmaceuticals, Inc. (0.32%)	Biopharmaceuticals	Common Stock Warrants		11,370	484,751
Total Omrix Biopharmaceuticals, Inc.				11,370	484,751
Paratek Pharmaceuticals, Inc. (5.06%)(4)	Biopharmaceuticals	Senior Debt Matures June 2008 Interest rate 11.10%	$ 7,599,089	7,522,758	7,522,758
		Preferred Stock Warrants		137,396	125,596
Total Paratek Pharmaceuticals, Inc.				7,660,154	7,648,354
Portola Pharmaceuticals, Inc. (3.72%)	Biopharmaceuticals	Senior Debt Matures September 2010 Interest rate Prime + 1.75%	$ 5,625,000	$ 5,513,700	$ 5,513,700
		Preferred Stock Warrants		113,668	119,078
Total Portola Pharmaceuticals, Inc.				5,627,368	5,632,778
Quatrx Pharmaceuticals	Biopharmaceuticals	Senior Debt Matures January 2010			

Company (3.98%)(4)					
		Interest rate Prime + 3.00%	$ 6,000,000	5,820,962	5,820,962
		Preferred Stock Warrants		220,354	201,655
Total Quatrx Pharmaceuticals Company				6,041,316	6,022,617
Sirtris Pharmaceuticals, Inc. (6.61%)(4)	Biopharmaceuticals	Senior Debt Matures April 2011			
		Interest rate 10.60%	$ 10,000,000	9,920,054	9,920,054
		Preferred Stock Warrants		88,829	79,266
Total Sirtris Pharmaceuticals, Inc.				10,008,883	9,999,320

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
TransOral Pharmaceuticals, Inc. (2.64%)[(4)]	Biopharmaceuticals	Senior Debt Matures October 2009 Interest rate 10.69%	$ 4,000,000	3,968,824	3,968,824
		Preferred Stock Warrants		35,630	31,572
Total TransOral Pharmaceuticals, Inc.				4,004,454	4,000,396
Total Biopharmaceuticals (54.60%)				81,372,620	82,608,077
Atrenta, Inc. (3.43%)[(4)]	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,916,357	4,916,357
		Preferred Stock Warrants		102,396	210,615
		Preferred Stock Warrants		33,760	69,109
Atrenta, Inc. (0.17%)		Preferred Stock		250,000	250,000
Total Atrenta, Inc.				5,302,513	5,446,081
Compete, Inc. (2.65%)[(4)]	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.50%	$ 4,000,000	3,949,675	3,949,675
		Preferred Stock Warrants		62,067	55,122
Total Compete, Inc.				4,011,742	4,004,797
Concuity, Inc. (2.12%)[(5)]	Software	Senior Debt Matures March 2008 Interest rate 9.95%	$ 3,216,454	3,214,704	3,214,704
		Preferred Stock Warrants		3,500	
		Preferred Stock			

Total Concuity, Inc.				3,218,204	3,214,704
Forescout Technologies, Inc. (0.66%)	Software	Senior Debt Matures August 2009 Interest rate 11.15%	$ 1,000,000	$ 945,951	$ 945,951
		Preferred Stock Warrants		55,593	56,346
Total Forescout Technologies, Inc.				1,001,544	1,002,297
GameLogic, Inc. (1.98%)(4)	Software	Senior Debt Matures December 2009 Interest rate Prime + 4.125%	$ 3,000,000	2,953,658	2,953,658
		Preferred Stock Warrants		52,604	46,692
Total GameLogic, Inc.				3,006,262	3,000,350
Gomez, Inc. (0.98%)(4)	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 1,470,357	1,456,746	1,456,746
		Preferred Stock Warrants		35,000	23,752
Total Gomez, Inc.				1,491,746	1,480,498
HighRoads, Inc. (1.43%)(4)	Software	Senior Debt Matures February 2009 Interest rate 11.65%	$ 2,151,949	2,117,364	2,117,364
		Preferred Stock Warrants		44,466	39,772
Total HighRoads, Inc.				2,161,830	2,157,136
Intelliden, Inc. (1.98%)	Software	Senior Debt Matures February 2010 Interest rate 13.20%	$ 3,000,000	2,982,886	2,982,886
		Preferred Stock Warrants		17,542	18,489
Total Intelliden, Inc.				3,000,428	3,001,375
Inxight Software, Inc. (2.91%)(4)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 4,391,196	4,363,214	4,363,214
		Preferred Stock Warrants		55,963	36,189
				4,419,177	4,399,403

Total Inxight
Software, Inc.

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Oatsystems, Inc. (3.97%)[4]	Software	Senior Debt Matures September 2009 Interest rate 11.00%	$ 6,000,000	5,970,476	5,970,476
		Preferred Stock Warrants		33,742	29,995
Total Oatsystems, Inc.				6,004,218	6,000,471
Proficiency, Inc. (2.01%)[6]	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,943,312	3,035,191
		Preferred Stock Warrants		96,370	
Total Proficiency, Inc.				4,039,682	3,035,191
Savvion, Inc. (1.34%)[4]	Software	Revolving Line of Credit Matures March 2007 Interest rate Prime + 2.00%	$ 2,000,000	$ 1,978,277	$ 1,978,277
		Preferred Stock Warrants		52,135	46,671
Total Savvion, Inc.				2,030,412	2,024,948
Sportvision, Inc. (0.02%)	Software	Preferred Stock Warrants		39,339	33,832
Total Sportvision, Inc.				39,339	33,832
Talisma Corp. (1.51%)[4]	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 2,274,339	2,255,284	2,255,284
		Preferred Stock Warrants		49,000	31,823

Total Talisma Corp.				2,304,284	2,287,107
Total Software (27.16%)				42,031,381	41,088,190
BabyUniverse, Inc. (3.25%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 5,000,000	4,701,878	4,701,878
		Commmon Stock Warrants		325,224	214,057
Total BabyUniverse, Inc.				5,027,102	4,915,935
Market Force Information, Inc. (1.25%)(4)	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,890,274	1,870,839	1,870,839
		Preferred Stock Warrants		23,823	21,479
Total Market Force Information, Inc.				1,894,662	1,892,318
Wageworks, Inc. (10.73%)(4)	Consumer & Business Products	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 15,221,265	15,071,286	15,071,286
		Preferred Stock Warrants		251,964	1,167,833
Wageworks, Inc. (0.17%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				15,573,245	16,489,114
Total Consumer & Business Products (15.40%)				22,495,009	23,297,367
IKANO Communications, Inc. (0.07%)	Communications & Networking	Preferred Stock Warrants		45,460	38,190
		Preferred Stock Warrants		72,344	63,006
Total IKANO Communications, Inc.				117,804	101,196
	Communications & Networking				

Interwise, Inc. (1.51%)(4)		Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,285,864	2,028,199	2,028,199
		Preferred Stock Warrants		268,401	257,524
Total Interwise, Inc.				2,296,600	2,285,723
Pathfire, Inc. (3.12%)(4)	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 4,713,221	$ 4,667,522	$ 4,667,522
		Preferred Stock Warrants		63,276	58,353
Total Pathfire, Inc.				4,730,798	4,725,875

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Ping Identity Corporation (1.93%)(4)	Communications & Networking	Senior Debt Matures June 2009 Interest rate 11.50%	$ 2,787,816	2,745,557	2,745,557
		Preferred Stock Warrants		51,801	165,396
Total Ping Identity Corporation				2,797,358	2,910,953
Rivulet Communications, Inc. (2.31%)(4)	Communications & Networking	Senior Debt Matures September 2009 Interest rate 10.60%	$ 3,500,000	3,455,962	3,455,962
		Preferred Stock Warrants		50,710	45,010
Rivulet Communications, Inc. (0.17%)		Preferred Stock		250,000	250,000
Total Rivulet Communications, Inc.				3,756,672	3,750,972
Simpler Networks Corp. (3.72%)(4)	Communications & Networking	Senior Debt Matures July 2009 Interest rate 11.75%	$ 5,000,000	4,874,934	4,874,934
		Preferred Stock Warrants		160,241	758,808
Simpler Networks Corp. (0.33%)		Preferred Stock		500,000	500,000
Total Simpler Networks Corp.				5,535,175	6,133,742
Total Communications & Networking (13.16%)				19,234,407	19,908,461

Adiana, Inc. (1.03%)(4)	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 1,532,580	1,493,365	1,493,365
		Preferred Stock Warrants		67,225	59,298
Adiana, Inc. (0.33%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				2,060,590	2,052,663
BARRX Medical, Inc. (0.99%)	Medical Devices & Equipment	Preferred Stock		1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
Gynesonics, Inc. (1.32%)	Medical Devices & Equipment	Senior Debt Matures October 2009 Interest rate 9.50%	$ 2,000,000	1,984,955	1,984,955
		Preferred Stock Warrants		17,552	15,643
Total Gynesonics, Inc.				2,002,507	2,000,598
Novasys Medical, Inc. (3.97%)(4)	Medical Devices & Equipment	Senior Debt Matures January 2010 Interest rate 9.70%	$ 6,000,000	6,000,000	6,000,000
Total Novasys Medical, Inc.				6,000,000	6,000,000
Optiscan Biomedical, Corp. (0.80%)(4)	Medical Devices & Equipment	Senior Debt Matures March 2008 Interest rate 15.00%	$ 1,189,322	$ 1,142,588	$ 1,142,588
		Preferred Stock Warrants		80,486	72,786
Optiscan Biomedical, Corp. (0.66%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,223,074	2,215,374
Power Medical Interventions, Inc. (1.95%)	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate 10.71%	$ 2,909,831	2,889,145	2,889,145
		Common Stock Warrants		39,195	61,375
Total Power Medical Interventions, Inc.				2,928,340	2,950,520
Xillix Technologies Corp. (2.56%)(4)(6)	Medical Devices & Equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 3,975,834	3,749,400	3,749,400

	Common Stock Warrants	313,108	125,804
Total Xillix Technologies Corp.		4,062,508	3,875,204
Total Medical Devices & Equipment (13.61%)		20,777,019	20,594,359

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Affinity Express, Inc. (1.12%)[4]	Internet Consumer & Business Services	Senior Debt Matures November 2007 Interest rate 13.50%	$ 1,180,670	1,165,557	1,165,557
		Senior Debt Matures April 2009 Interest rate 13.75%	296,298	279,627	279,627
		Common Stock Warrants		17,000	182,933
		Common Stock Warrants		15,000	54,636
		Preferred Stock Warrants		17,782	17,152
Affinity Express, Inc. (0.17%)		Preferred Stock		250,000	250,000
Total Affinity Express, Inc.				1,744,966	1,949,905
Hedgestreet, Inc. (3.11%)[4]	Internet Consumer & Business Services	Senior Debt Matures March 2009 Interest rate 11.30%	$ 4,709,457	4,667,869	4,667,869
		Preferred Stock Warrants		54,956	50,302
Total Hedgestreet, Inc.				4,722,825	4,718,171
Invoke Solutions, Inc. (1.82%)[4]	Internet Consumer & Business Services	Senior Debt Matures December 2008 Interest rate 11.25%	$ 2,737,496	2,705,844	2,705,844
		Preferred Stock Warrants		43,826	40,180
Total Total Invoke Solutions, Inc.				2,749,670	2,746,024

RazorGator Interactive Group, Inc. (2.36%)(4)	Internet Consumer & Business Services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 2,992,941	$ 2,984,504	$ 2,984,504
		Preferred Stock Warrants		13,050	579,516
RazorGator Interactive Group, Inc. (1.13%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,997,554	5,272,198
Total Internet Consumer & Business Services (9.71%)				13,215,015	14,686,298
Agami Systems, Inc. (4.63%)(4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%	$ 7,000,000	6,941,305	6,941,305
		Preferred Stock Warrants		60,416	60,621
Total Agami Systems, Inc.				7,001,721	7,001,926
Cornice, Inc. (3.12%)(4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 3,902,092	3,828,716	3,828,716
		Revolving Line of Credit Matures November 2006 Interest rate Prime + 3.00%	679,627	651,168	651,168
		Preferred Stock Warrants		101,597	90,188
		Preferred Stock Warrants		35,353	31,025
		Preferred Stock Warrants		135,403	120,199
Total Cornice, Inc.				4,752,237	4,721,296
Luminus Devices, Inc. (6.61%)(4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 10,000,000	9,839,002	9,839,002
		Preferred Stock Warrants		183,290	166,850

Total Luminus Devices, Inc.			10,022,292	10,005,852
Sling Media, Inc. (0.95%)	Electronics & Computer Hardware	Preferred Stock Warrants	38,968	940,751
		Preferred Stock	500,000	500,000
Total Sling Media, Inc.			538,968	1,440,751

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
ViDeOnline Communications, Inc. (0.33%)(4)	Electronics & Computer Hardware	Senior Debt Matures May 2009 Interest rate 15.00%	$ 500,000	500,000	500,000
		Preferred Stock Warrants			
Total ViDeOnline Communications, Inc.				500,000	500,000
Total Electronics & Computer Hardware (15.64%)				22,815,218	23,669,825
Ageia Technologies, Inc. (4.99%)(4)	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 7,521,252	7,460,636	7,460,636
		Preferred Stock Warrants		99,190	83,329
Ageia Technologies, Inc. (0.33%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				8,059,826	8,043,965
Cradle Technologies (0.05%)	Semiconductors	Preferred Stock Warrants		79,150	71,570
Total Cradle Technologies				79,150	71,570
iWatt Inc. (1.32%)(4)	Semiconductors	Senior Debt Matures September 2009 Interest rate Prime + 2.75%	$ 2,000,000	$ 1,955,621	$ 1,955,621
		Preferred Stock Warrants		45,684	45,909

Total iWatt Inc.				2,001,305	2,001,530
Total Semiconductors (6.69%)				10,140,281	10,117,065
Lilliputian Systems, Inc. (0.99%)(4)	Energy	Senior Debt Matures March 2010 Interest rate 9.75%	$ 1,500,000	1,460,263	1,460,263
		Preferred Stock Warrants		48,460	44,407
Total Lilliputian Systems, Inc.				1,508,723	1,504,670
Total Energy (0.99%)				1,508,723	1,504,670
Total Investments (156.96%)				$ 233,589,673	$ 237,474,312

* Value as a percent of net assets

(1) All debt investments are income producing. Preferred and common stock and all warrants are non-income producing.

(2) Tax cost at September 30, 2006 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled $5,678,291, $1,793,652 and $3,884,639, respectively.

(3) Except for warrants in four publicly traded companies, all investments are restricted at September 30, 2006 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.

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
September 30, 2006
(unaudited)

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup facility. (See Note 5) Citigroup has an equity participation right on loans collateralized under the Citigroup facility. The value of their participation right on unrealized gains in the related equity investments was approximately $454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2006.

(5) Except for Concuity, Inc. all other investments are less than 5% owned. Concuity, Inc. is an affiliate investment, which is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.

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

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2005

Portfolio Company	Industry	Type of Investment(1)(5)	Principal Amount	Cost(2)	Value(3)(4)
Acceleron Pharmaceuticals, Inc. (3.50%)*	Biopharmaceuticals	Senior Debt Matures June 2009 Interest rate 10.25%	$ 4,000,000	$ 3,932,539	$ 3,932,539
		Preferred Stock Warrants		69,106	68,054
Total Acceleron Pharmaceuticals, Inc.				4,001,645	4,000,593
Guava Technologies, Inc. (3.94%)	Biopharmaceuticals	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 4,500,000	4,397,111	4,397,111
		Preferred Stock Warrants		105,399	103,837
Total Guava Technologies, Inc.				4,502,510	4,500,948
Labopharm USA, Inc. (8.63%)(4)(6)	Biopharmaceuticals	Senior Debt Matures July 2008 Interest rate 11.95%	$ 9,837,901	9,869,420	9,869,420
Labopharm USA, Inc. (1.20%)		Common Stock		112,335	1,367,268
Total Labopharm USA, Inc.				9,981,755	11,236,688
Merrimack Pharmaceuticals, Inc. (7.89%)(4)	Biopharmaceuticals	Senior Debt Matures October 2008 Interest rate 11.15%	$ 9,000,000	8,878,668	8,878,668
		Preferred Stock Warrants		155,456	140,675
				9,034,124	9,019,343

Total Merrimack Pharmaceuticals, Inc.					
Omrix Biopharmaceuticals, Inc. (4.16%)	Biopharmaceuticals	Senior Debt Matures March 2008 Interest rate 11.45%	$ 4,709,994	4,701,782	4,701,782
		Common Stock Warrants		11,370	58,399
Total Omrix Biopharmaceuticals, Inc.				4,713,152	4,760,181
Paratek Pharmaceuticals, Inc. (8.76%)(4)	Biopharmaceuticals	Senior Debt Matures June 2008 Interest rate 10.6%	$ 10,000,000	9,889,320	9,889,320
		Preferred Stock Warrants		137,396	141,881
Total Paratek Pharmaceuticals, Inc.				10,026,716	10,031,201
Total Biopharmaceuticals (38.08%)				42,259,902	43,548,954
Atrenta, Inc. (4.38%)	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,869,095	4,869,095
		Preferred Stock Warrants		102,396	102,886
		Preferred Stock Warrants		33,760	33,760
Total Atrenta, Inc.				5,005,251	5,005,741
Concuity, Inc. (3.99%)	Software	Senior Debt Matures March 2008 Interest rate 9.95%	$ 4,570,498	4,567,873	4,567,873
		Preferred Stock Warrants		3,500	
Total Concuity, Inc.				4,571,373	4,567,873
Gomez, Inc. (1.93%)(4)	Software	Senior Debt Matures December 2007			

		Interest rate 12.25%	$ 2,197,436	2,175,075	2,175,075
		Preferred Stock Warrants		35,000	32,467
Total Gomez, Inc.				2,210,075	2,207,542
Inxight Software, Inc. (4.38%)(4)	Software	Senior Debt Matures February 2008			
		Interest rate 10.00%	$ 5,000,000	4,956,279	4,956,279
		Preferred Stock Warrants		55,963	46,735
Total Inxight Software, Inc.				5,012,242	5,003,014
Metreo, Inc. (1.11%)	Software	Senior Debt Matures November 2007			
		Interest rate 12.95%	$ 500,000	$ 4,525,714	$ 1,266,000
		Preferred Stock Warrants		50,000	
Total Metreo, Inc.				4,575,714	1,266,000

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2005

Portfolio Company	Industry	Type of Investment[(1)(5)]	Principal Amount	Cost[(2)]	Value[(3)(4)]
Proficiency, Inc. (3.51%)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,917,802	3,917,802
		Preferred Stock Warrants		96,370	94,105
Total Proficiency, Inc.				4,014,172	4,011,907
Sportvision, Inc. (3.08%)[(4)]	Software	Senior Debt Matures June 2008 Interest rate 9.95%	$ 3,518,716	3,488,119	3,488,119
		Preferred Stock Warrants		39,339	38,523
Total Sportvision, Inc.				3,527,458	3,526,642
Talisma Corp. (2.99%)[(4)]	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 3,410,120	3,378,814	3,378,814
		Preferred Stock Warrants		49,000	43,428
Total Talisma Corp.				3,427,814	3,422,242
Total Software (25.37%)				32,344,099	29,010,961
Wageworks, Inc. (17.12%)[(4)]	Consumer & Business Products	Senior Debt Matures November 2008	$ 18,583,966	18,379,995	18,379,995

		Interest rate Prime + 4.00%			
		Preferred Stock Warrants		251,964	1,197,735
Wageworks, Inc. (0.22%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				18,881,954	19,827,725
Total Consumer & Business Products (17.34%)				18,881,954	19,827,725
IKANO Communications, Inc. (14.44%)(4)	Communications & Networking	Senior Debt Matures December 2008 Interest rate 9.25%	$ 16,454,540	16,402,789	16,402,789
		Preferred Stock Warrants		45,460	43,710
		Preferred Stock Warrants		72,344	71,000
Total IKANO Communications, Inc.				16,520,593	16,517,499
Interwise, Inc. (2.46%)(4)	Communications & Networking	Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,809,653	2,809,653	2,809,653
Total Interwise, Inc.				2,809,653	2,809,653
Occam Networks, Inc. (2.79%)	Communications & Networking	Senior Debt Matures December 2007 Interest rate 11.95%	$ 2,559,827	2,540,021	2,540,021
		Preferred Stock Warrants		14,000	286,364
		Common Stock Warrants		17,000	368,935
Total Occam Networks, Inc.				2,571,021	3,195,320
Optovia Corporation (4.37%)	Communications & Networking	Senior Debt Matures September 2006 Interest rate Prime + 7.25%	$ 5,000,000	5,000,000	5,000,000

Total Optovia Corporation					5,000,000	5,000,000
Pathfire, Inc. (4.38%)	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$	5,000,000	$ 4,938,482	$ 4,938,482
		Preferred Stock Warrants			63,276	64,144
Total Pathfire, Inc.					5,001,758	5,002,626
Total Communications & Networking (28.44%)					31,903,025	32,525,098

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2005

Portfolio Company	Industry	Type of Investment(1)(5)	Principal Amount	Cost(2)	Value(3)(4)
Adiana, Inc. (1.76%)(4)	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 2,000,000	1,943,979	1,943,979
		Preferred Stock Warrants		67,225	66,404
Adiana, Inc. (0.44%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				2,511,204	2,510,383
Optiscan Biomedical, Corp. (1.54%)(4)	Medical Devices & Equipment	Senior Convertible Term Loan Matures March 2008 Interest rate 15.00%	$ 1,753,164	1,683,063	1,683,063
		Preferred Stock Warrants		80,486	81,185
Optiscan Biomedical, Corp. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,763,549	2,764,248
Power Medical Interventions, Inc. (3.52%)	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate 10.71%	$ 4,000,000	3,969,515	3,969,515
		Common Stock Warrants		39,195	56,490
Total Power Medical Interventions, Inc.				4,008,710	4,026,005
Xillix Technologies Corp. (4.83%)(6)	Medical Devices & Equipment	Senior Debt Matures December 2008	$ 5,500,000	5,195,589	5,195,589

		Interest rate 12.40%			
		Preferred Stock Warrants		313,108	325,601
Total Xillix Technologies Corp.				5,508,697	5,521,190
Total Medical Devices & Equipment (12.96%)				14,792,160	14,821,826
Affinity Express, Inc. (1.54%)(4)	Internet Consumer & Business Services	Senior Debt Matures November 2007			
		Interest rate 13.50%	$ 1,583,531	1,560,450	1,560,450
		Common Stock Warrants		17,000	187,922
		Common Stock Warrants		15,000	12,995
Affinity Express, Inc. (0.22%)		Preferred Stock		250,000	250,000
Total Affinity Express, Inc.				1,842,450	2,011,367
Invoke Solutions, Inc. (1.31%)	Internet Consumer & Business Services	Senior Debt Matures December 2008			
		Interest rate 11.25%	$ 1,500,000	1,457,391	1,457,391
		Preferred Stock Warrants		43,826	44,155
Total Invoke Solutions, Inc.				1,501,217	1,501,546
RazorGator Interactive Group, Inc. (3.64%)(4)	Internet Consumer & Business Services	Senior Debt Matures January 2008			
		Interest rate 9.95%	$ 4,104,553	4,095,853	4,095,853
		Preferred Stock Warrants		13,050	64,833
RazorGator Interactive Group, Inc. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total RazorGator Interactive Group, Inc.				5,108,903	5,160,686
Total Internet Consumer & Business					

Service (7.58%)				8,452,570	8,673,599
Cornice Inc. (11.24%)(4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 5,000,000	$ 4,915,455	$ 4,915,455
		Revolving Line of Credit Matures November 2006 Interest rate Prime + 3.00%	$ 7,834,131	7,663,375	7,663,375
		Preferred Stock Warrants		101,597	99,336
		Preferred Stock Warrants		35,353	34,230
		Preferred Stock Warrants		135,403	132,390
Total Cornice, Inc.				12,851,183	12,844,786

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2005

Portfolio Company	Industry	Type of Investment(1)(5)	Principal Amount	Cost(2)	Value(3)(4)
Sling Media, Inc. (4.29%)(4)	Electronics & Computer Hardware	Senior Debt Matures January 2009 Interest rate 10.25%	$ 4,000,000	3,965,029	3,965,029
		Preferred Stock Warrants		38,968	945,365
Total Sling Media, Inc.				4,003,997	4,910,394
Total Electronics & Computer Hardware (15.53%)				16,855,180	17,755,180
Ageia Technologies (7.00%)(4)	Semiconductor	Senior Debt Matures August 2008 Interest rate 10.25%	$ 8,000,000	7,914,586	7,914,586
		Preferred Stock Warrants		99,190	93,518
Ageia Technologies		Preferred Stock		500,000	500,000
Total Ageia Technologies				8,513,776	8,508,104
Cradle Technologies (1.75%)	Semiconductors	Senior Debt Matures December 2008 Interest rate Prime + 4.70%	$ 2,000,000	1,923,049	1,923,049
		Preferred Stock Warrants		79,150	78,730
Total Cradle Technologies				2,002,199	2,001,779

Total Semiconductors (9.20%)	10,515,975	10,509,883
Total Investments (154.50%)	$ 176,004,865	$ 176,673,226

* Value as a percent of net assets

(1) All debt investments are income producing. Preferred and common stock and all warrants are non-income producing.

(2) Tax cost at December 31, 2005 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled $4,035,789, $3,367,428 and $668,361, respectively, at December 31, 2005.

(3) Except for common stock held in Labopharm Biopharmaceuticals, all investments are restricted at December 31, 2005 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Citigroup facility. (see Note 5) Citigroup has an equity participation right on warrants collateralized under the Citigroup facility. The value of their participation right on unrealized gains in the related equity investments was approximately $342,000 at December 31, 2005 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2005.

(5) All investments are less than 5% owned.

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

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Investment income:				
Interest				
Non-affiliate investments (less than 5% owned)	$ 6,611,239	$ 3,419,119	$ 18,421,609	$ 5,815,004
Affiliate investments (5% to 25% owned)	86,052		86,052	
Total interest income	6,697,291	3,419,119	18,507,661	5,815,004
Fees				
Non-affiliate investments (less than 5% owned)	840,908	235,046	2,293,915	498,180
Affiliate investments (5% to 25% owned)	5,833	5,833	17,500	13,611
Total fee income	846,741	240,879	2,311,415	511,791
Total investment income	7,544,032	3,659,998	20,819,076	6,326,795
Operating expenses:				
Interest	1,420,140	585,773	4,455,015	1,030,217
Loan fees	149,677	253,333	687,158	686,666
Compensation and benefits	1,244,993	987,096	3,577,313	2,351,924
General and administrative	1,436,467	833,962	4,040,445	1,479,381
Stock-based compensation	175,600	115,000	428,600	195,000
Total operating expenses	4,426,877	2,775,164	13,188,531	5,743,188
Net investment income before provision for income tax and investment gains and losses	3,117,155	884,834	7,630,545	583,607
Income tax (benefit) expense	(345,089)		643,088	
Net investment income (loss)	3,462,244	884,834	6,987,457	583,607
Net realized loss on investments	(2,482,465)		(2,570,705)	
Net increase in unrealized appreciation on investments	592,860	677,090	3,027,251	1,720,482
Net realized and unrealized gain (loss)	(1,889,605)	677,090	456,546	1,720,482
Net increase in net assets resulting from operations	$ 1,572,639	$ 1,561,924	$ 7,444,003	$ 2,304,089
Net investment income before provision for income tax and investment gains and losses:				
Basic	$ 0.23	$ 0.09	$ 0.63	$ 0.10

Diluted	$ 0.23	$ 0.09	$ 0.62	$ 0.10
Change in net assets per common share:				
Basic	$ 0.12	$ 0.16	$ 0.61	$ 0.39
Diluted	$ 0.11	$ 0.16	$ 0.61	$ 0.38
Cash dividend declared per common share	$ .30	$	$ .90	$
Weighted average shares outstanding				
Basic	13,660,604	9,802,000	12,157,953	5,975,000
Diluted	13,779,192	9,917,000	12,276,541	6,084,000

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(unaudited)

	Common Stock Shares	Common Stock Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains(Losses) on Investments	Distributions in Excess of Investment Income	Net Assets
nce at December 31,	2,059,270	$ 2,059	$ 27,117,896	$	$	$ (2,041,822)	$ 25,078,
ncrease in holders equity ting from operations				1,720,482		583,607	2,304,
nce of common s, net of offering costs	268,134	268	3,870,542				3,870,
nce of shares in lieu of r warrants	298,598	299	(299)				
nce of shares on cise of 1 year warrants	1,175,963	1,176	12,428,744				12,429,
nce of common shares O, net of offering costs	6,000,000	6,000	70,885,820				70,891,
k-based compensation			195,000				195,
nce at September 30,	9,801,965	$ 9,802	$ 114,497,703	$ 1,720,482	$	$ (1,458,215)	$ 114,769,
nce at December 31,	9,801,965	$ 9,802	$ 114,524,833	$ 353,093	$ 481,694	$ (1,017,092)	$ 114,352,
ncrease in holders equity ting from operations				3,027,251	(2,570,705)	6,987,457	7,444,
nce of common shares	444,150	444	5,133,431				5,133,
nce of common shares ghts Offering, net of ing costs	3,411,992	3,412	33,825,908				33,829,
nce of common stock r dividend estment plan	18,211	18	211,777				211,
dends declared						(10,105,104)	(10,105,
k-based compensation			428,600				428,
nce at September 30,	13,676,318	$ 13,676	$ 154,124,549	$ 3,380,344	$ (2,089,011)	$ (4,134,739)	$ 151,294,

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 7,444,003	$ 2,304,089
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(133,021,298)	(114,580,000)
Principal payments received on investments	70,758,413	2,907,656
Net unrealized appreciation on investments	(3,216,279)	(1,720,482)
Net unrealized appreciation on investments due to lender	247,838	
Net realized depreciation on investments	2,579,481	
Accretion of loan discounts	(1,189,178)	(194,942)
Accretion of loan exit fees	(468,405)	(209,951)
Depreciation	32,959	
Stock-based compensation	562,475	195,000
Amortization of deferred loan origination revenue	(1,970,143)	(449,141)
Change in operating assets and liabilities:		
Interest receivable	(269,196)	(884,140)
Prepaid expenses and other current assets	(42,654)	(1,067,169)
Income tax receivable	(878,512)	
Deferred tax asset	1,454,000	
Accounts payable	227,881	320,297
Income tax payable	(1,709,000)	
Accrued liabilities	1,492,746	1,189,598
Deferred loan origination revenue	2,807,465	2,011,750
Net cash used in operating activities	(55,157,404)	(110,177,435)
Cash flows from investing activities:		
Proceeds from sale of investments	3,683,388	
Purchases of capital equipment	(315,336)	(49,104)
Other long-term assets	(381,124)	(18,046)
Net cash provided by (used in) investing activities	2,986,928	(67,150)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	38,829,320	87,192,550
Dividends paid	(9,893,309)	
Net proceeds of credit facilities	15,000,000	25,000,000
Net cash provided by financing activities	43,936,011	112,192,550
Net decrease (increase) in cash	(8,234,465)	1,947,965
Cash and cash equivalents at beginning of period	15,362,447	8,678,329

Cash and cash equivalents at end of period	$	7,127,982	$	10,626,294

See notes to consolidated financial statements (unaudited).

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

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

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). The Company intends to elect to be regulated for federal income tax purposes as a regulated investment company (RIC) for the 2006 tax year. If the Company qualifies as a RIC for the year ended December 31, 2006, the election will be effective as of January 1, 2006.

On June 11, 2005, the Company raised approximately $70.9 million, net of issuance costs, from an initial public offering (IPO) of 6,000,000 shares of its common stock. On April 21, 2006, the Company raised approximately $34.0 million, net of issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at $10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering. On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of its common stock. (See Note 14).

In January 2005, the Company formed Hercules Technology II, L.P. (HT II) and Hercules Technology SBIC Management, LLC (HTM). On May 3, 2005, HT II filed an application with the Small Business Administration (the SBA) to become licensed as a Small Business Investment Company (SBIC) and on September 27, 2006, the HT II received its license as an SBIC. HT II will be able to borrow funds from the SBA against eligible pre-approved investments and additional contributions to regulatory capital. At September 30, 2006, the Company had a net investment of $2.5 million in HT II, there is one outstanding investment in the amount of $3.0 million and the Company has not drawn any leverage. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner.

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a $125 million securitized credit facility, as amended, with Citigroup Global Markets Realty Corp. (See Note 4).

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments, apart from the reclassification described in Note 2, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period, have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2005. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Reclassifications

Certain prior period information has been reclassified to conform to current year presentation. When the Company exits an investment and realizes a gain or loss, the Company makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, that the Company previously recorded to reflect the appreciated or depreciated value of the investment. The Company recorded a reversal of $3.3 million from unrealized depreciation and recorded a realized loss of $3.3 million for the nine months ended September 30, 2006. During the fourth quarter of 2005, the Company recorded an unrealized depreciation of approximately $3.3 million in one portfolio company. As disclosed in Footnote 16 Subsequent Events; to the financial statements filed under Form 10-K for the year ended December 31, 2005, the assets of the portfolio company were sold in January 2006, and a realized loss was incurred. The difference between the unrealized depreciation as recorded in 2005 and the actual realized loss was not material. The Company did not reverse the loss from an unrealized depreciation to a realized loss in the first quarter of 2006. If the loss had been reversed, the net realized gain of approximately $1.5 million as reported in the first quarter would have resulted in a net realized loss of $1.7 million and the net unrealized appreciation of approximately $674,000 as reported in the first quarter would have resulted in an unrealized appreciation of $3.9 million. This reversal does not affect the reported Net Investment Income, Net Income, Earnings per Share, Net Asset Value or Net Asset Value per Share for the first quarter or on a year to date basis. The total realized loss for the nine-month period ended September 30, 2006 was $2.6 million and net unrealized appreciation was $3.0 million after the reversal. There were no realized gains or losses during the three and nine-months periods ended September 30, 2005.

3. Valuation of Investments

Value is defined in Section 2(a)(41) of the 1940 Act, as (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. Because the Company invests primarily in structured mezzanine debt investments (debt) and equity growth capital (equity) of privately-held technology-related and life-science companies backed by leading venture capital and private equity firms, the Company values substantially all of its investments at fair value, as determined in good faith by the Board of Directors in accordance with established valuation policies and consistently applied procedures and the recommendations of the Valuation Committee of the Board of Directors. At September 30, 2006, approximately 97% of the Company s total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors.

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Fair value is the amount for which an investment could be exchanged in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Due to the inherent uncertainty in the valuation process, fair value may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

When originating a debt instrument, the Company expects to receive 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.

At each reporting date, privately held debt and equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the debt and equity securities. An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower s ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, unrealized appreciation is recorded when the investment has appreciated in value. Securities that are traded in the over the counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer s earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors. 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.

As required by the 1940 Act, the Company classifies its investments by level of control. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-Control/Non-Affiliate Investments are those investments that are neither Control Investments nor Affiliate Investments. At September 30, 2006, the Company owned greater than 5% but less than 25% of the voting securities in one investment. At December 31, 2005, all of the Company s investments were in Non-Control/Non-Affiliate companies.

Security transactions are recorded on the trade-date basis.

A summary of the composition of the Company s investment portfolio as of September 30, 2006 and December 31, 2005 at fair value is shown as follows:

	September 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
Senior debt with warrants	$ 226.9	95.5%	$ 168.4	95.3%
Subordinated debt	2.3	1.0%	3.4	1.9%
Preferred stock	8.3	3.5%	3.5	2.0%
Common stock		0.0%	1.4	0.8%
	$ 237.5	100.0%	$ 176.7	100.0%

A Summary of the Company s investment portfolio, at value, by geographic location is as follows:

September 30, 2006	December 31, 2005

	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
United States	$ 223.1	93.9%	$ 155.9	88.2%
Canada	11.4	4.8%	16.8	9.5%
Israel	3.0	1.3%	4.0	2.3%
	$ 237.5	100.0%	$ 176.7	100.0%

The following table shows the fair value of our portfolio by industry sector at September 30, 2006 and December 31, 2005 (excluding unearned income):

	September 30, 2006			December 31, 2005		
	Investments at Fair Value		Percentage of Total Portfolio	Investments at Fair Value		Percentage of Total Portfolio
	($ in millions)					
Biopharmaceuticals	$	82.6	34.8%	$	43.6	24.7%
Software		41.1	17.3%		29.0	16.4%
Electronics & computer hardware		23.7	10.0%		17.8	10.1%
Consumer & business products		23.3	9.8%		19.8	11.2%
Medical devices & equipment		20.6	8.7%		14.8	8.4%
Communications & networking		19.9	8.4%		32.5	18.4%
Internet consumer & business services		14.7	6.2%		8.7	4.9%
Semiconductors		10.1	4.2%		10.5	5.9%
Energy		1.5	0.6%			0.0%
	$	237.5	100.0%	$	176.7	100.0%

During the three and nine-month periods ended September 30, 2006, the Company made investments in debt securities totaling $65.4 million and $130.0 million, respectively, and made investments in equity securities of approximately $1.8 million and $3.0 million, respectively. In addition, during the quarter ended September 30, 2006, the Company exercised an equity participation right with one portfolio company and converted $1.0 million of debt to equity.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. Original discount fees are reflected as adjustments to the loan yield. The Company had approximately $3.6 million and $2.7 million of unamortized fees at September 30, 2006 and December 31, 2005, respectively, and approximately $847,000 and $351,000 in exit fees receivable at September 30, 2006 and December 31, 2005, respectively.

4. Credit Facility

On April 12, 2005, the Company entered into a bridge loan credit facility (the Bridge Loan Credit Facility or the Loan) with Alcmene Funding, L.L.C. (Alcmene), a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of the Company. The Loan was subsequently amended on August 1, 2005 and March 6, 2006. The Loan was originally a $25 million senior secured term loan, allowing for up to an additional $25 million of discretionary supplemental senior secured loans. On August 1, 2005, the Company amended the Loan with an agreement extending the term of the Bridge Loan Credit Facility to April 12, 2006. The amendment eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. On March 6, 2006, the Company entered into an agreement to repay $10.0 million of the $25.0 million outstanding under its Bridge Loan Credit Facility. The Company also extended the maturity of the remaining $15.0 million to June 30, 2006 and decreased the interest rate from 13.5% to 10.86% per annum. On May 10, 2006, the Company repaid the $15.0 million outstanding under the Bridge Loan Credit Facility and paid a $500,000 loan fee due on maturity plus all accrued and unpaid interest through the date of repayment. At September 30, 2006, the Bridge Loan Credit Facility is no longer outstanding.

5. Securitization Agreement

On August 1, 2005, the Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a $100 million securitized credit facility (the Citigroup Facility) with Citigroup Global Markets Realty Corp. (Citigroup). Interest on borrowings under the Citigroup Facility are paid monthly and are charged at one-month LIBOR plus a spread of 1.65%. The Company paid a loan origination fee equal to 0.25% of the Citigroup Facility. On March 6, 2006, the Company amended the Citigroup facility with an agreement that increased the borrowing capacity under the facility to $125.0 million, increased the advance rate to 60% of eligible loans and increased the eligible capacity for loans by geographic region. The amendment allows for an interest rate of LIBOR plus 2.5% on amounts borrowed in excess of $100.0 million and an interest rate of LIBOR plus 5.0% for amounts borrowed in excess of 55% of eligible loans. The Company paid a restructuring fee of $150,000 that was expensed ratably through initial maturity on July 31, 2006.

The Company s ability to make draws on the Citigroup Facility was to expire on July 31, 2006, however, it was extended for an additional 364-day period with the lenders consent on July 28, 2006. Prior to its July 31, 2007 expiration date, the Citigroup Facility may be extended for an additional 364-day period with the lenders consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January 2008. The Company paid an extension fee equal to 0.25% of the Citigroup Facility borrowing capacity which will be expensed ratably through maturity.

The Citigroup Facility is collateralized by loans and warrants from the Company s portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citigroup facility. Pursuant to the warrant participation agreement, the Company 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2006, the Company reduced its realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security and recorded an additional liability and reduced its unrealized gains by approximately $248,000 for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2006. Since inception of the agreement, the Company has paid Citigroup approximately $195,000 under the warrant participation agreement thereby reducing its realized gains.

At September 30, 2006, the Company, through its special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately $182.1 million to Citibank and had drawn $91.0 million under the facility. Transfers of loans have not met the requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Citigroup Facility for the three and nine months ended September 30, 2006 was approximately $71.1 and $66.9 million, respectively, and the average interest rates were approximately 7.00% and

6.96%, respectively.

6. Income Taxes

During the second quarter ended June 30, 2006, the Company determined that it was more likely than not that it would be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. The Company intends to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of its 2006 tax return and would be effective as of January 1, 2006. If the Company meets the required qualification tests of a RIC, any income timely distributed to its shareholders will not be subject to corporate level federal income or excise taxes in those years that the company qualifies as a RIC. At March 31, 2006, the Company had a deferred tax asset of approximately $181,000. During the second quarter, a full valuation reserve was recorded against this asset in anticipation that the Company would not have a future federal tax expense to offset the deferred tax asset. In addition, during the first quarter of 2006, the Company recorded a tax expense in the amount of approximately $1.8 million that was reversed in the second quarter as the Company would not be subject to federal income or excise taxes in 2006. As a result, the Company recorded a tax benefit of approximately $800,000 in the second quarter. Upon completion of the 2005 tax returns during the third quarter, the Company recorded an additional tax benefit of approximately $345,000.

7. Shareholders Equity

The Company is authorized to issue 30,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

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

On January 26, 2005, the Chief Executive Officer (CEO), the President, and four employees purchased 40,000, 13,500, and 8,567 units for $1,200,000, $405,000 and $257,010, respectively. On January 26, 2005, JMP Group LLC (JMPG) also purchased 72,000 units for $2,008,800, which is net of a placement fee of $151,200 paid to an affiliate of JMPG. Each unit concisted of two shares of common stock, a 1-year warrant and a 5-year warrant.

On June 9, 2005, the Company raised approximately $70.9 million, net of offering costs, from an IPO of 6,000,000 shares of its common stock.

On September 7, 2005, the Company registered 3,801,905 shares of common stock and 673,223 5-year warrants pursuant to its obligations under a registration rights agreement between the Company and certain shareholders. The Company will not receive any proceeds from the sale of these securities.

On March 7, 2006, the Company issued 432,900 shares of common stock for approximately $5.0 million in a private placement. The shares of common stock are subject to a registration rights agreement between the Company and the purchasers. The shares were registered pursuant to a registration statement that was declared effective on June 7, 2006.

On April 21, 2006, the Company raised approximately $33.8 million, net of issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at $10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering.

On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of its common stock. (See Note 14).

A summary of activity in the 5 Year Warrants initially attached to units issued for the nine months ended September 30, 2006 is as follows:

	Five-Year Warrants
Warrants outstanding at December 31, 2005	616,672
Warrants issued	
Warrants cancelled	
Warrants exercised	
Warrants outstanding at September 30, 2006	616,672

8. Earnings per Share

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net increase in net assets resulting from operations	$ 1,572,639	$ 1,561,924	$ 7,444,003	$ 2,304,089
Weighted average common shares outstanding	13,660,604	9,802,000	12,157,953	5,975,000
Change net assets per common share basic	$ 0.12	$ 0.16	$ 0.61	$ 0.39
Net increase in net assets resulting from operations	$ 1,572,639	$ 1,561,924	$ 7,444,003	$ 2,304,089
Weighted average common shares outstanding	13,660,604	9,802,000	12,157,953	5,975,000
Dilutive effect of warrants	118,588	115,000	118,588	109,000
Weighted average common shares outstanding, assuming dilution	13,779,192	9,917,000	12,276,541	6,084,000
Change net assets per common share assuming dilution	$ 0.11	$ 0.16	$ 0.61	$ 0.38

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of warrants. The Company has excluded all outstanding stock options from the calculation of diluted net income per share because these securities are antidilutive for all periods presented. These excluded common share equivalents could be dilutive in the future. Options for approximately 1,849,000 and 1,337,000 shares of common stock have been excluded for the three months ended September 30, 2006 and 2005, respectively.

9. Related-Party Transactions

In January 2005, the CEO, the President, and four employees purchased 40,000, 13,500, and 8,567 units for $1,200,000, $405,000 and $257,010, respectively. On January 26, 2005, JMPG also purchased 72,000 units for $2,008,800, which is net of an underwriting discount of $151,200. Each unit consisted of two shares of our common stock, a 1 Year Warrant and a 5 Year Warrant.

On June 8, 2005, the Company entered into an Underwriting Agreement with JMP Securities LLC pursuant to which JMP Securities LLC served as the lead underwriter in the Company s initial public offering completed on June 9, 2006. The Company paid JMP Securities LLC a fee of approximately $3.8 million in connection with their services as the lead underwriter.

In conjunction with the Company s Rights offering completed on April 21, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $700,000 as co-manager of the offering.

10. Equity Incentive Plan

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

In 2004, each employee stock option to purchase two shares of common stock was accompanied by a warrant to purchase one share of common stock within one year and a warrant to purchase one share of common stock within five years. Both options and warrants had an exercise price of $15.00 per share on date of grant. On January 14, 2005, the Company notified all shareholders of its intent to elect to be regulated as a BDC and reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57 but did not reduce the strike price of the options (see Note 7). The unexercised one-year warrants expired and 55% of the five-year warrants were cancelled immediately prior to the Company s election to become a BDC.

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

	Common Stock Options	Five-Year Warrants
Outstanding at December 31, 2005	1,337,436	56,551
Granted	623,500	
Exercised		
Cancelled	(111,590)	
Outstanding at September 30, 2006	1,849,346	56,551

At September 30, 2006 options for approximately 522,000 shares were exercisable at a weighted average exercise price of approximately $13.60 per share with a weighted average exercise term of 4.5 years. The outstanding five year warrants have an expected life of five years.

The Company determined that the fair value of options and warrants granted during the nine month periods ended September 30, 2006 and 2005 was approximately $817,000 and $1.4 million, respectively. During the nine months ended September 30, 2006 and 2005, approximately $428,000 and $195,000 of share-based cost was expensed, respectively. The fair value of options granted in 2006 and 2005 was based upon a Black-Scholes option pricing model using the assumptions in the following table at September 30, 2006 and 2005:

	2006	2005
Expected volatility	24%	25%
Expected dividends	8%	8%
Expected term (in years)	4.5	4.5
Risk-free rate	4.53 - 5.05%	3.88 - 4.06%

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company s Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company has filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan. No shares may be issued out of the 2006 Plan until such time as relief is provided by the SEC, and, as such, no shares were issued as of September 30, 2006.

11. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Per share data:		
Net asset value at beginning of period	$ 11.67	$ 12.18
Net investment income	0.58	0.06
Net realized loss on investments	(0.21)	
Net unrealized appreciation on investments	0.25	0.17
Total from investment operations	0.62	0.23
Net decrease in net assets from capital share transactions	(0.44)	(0.72)
Dividends paid	(0.83)	
Stock-based compensation expense included in investment loss(1)	0.04	0.02
Net asset value at end of period	$ 11.06	$ 11.71
Ratios and supplemental data:		
Per share market value at end of period	$ 12.83	12.75
Total return	13.93%(2)	8.59%(3)
Shares outstanding at end of period	13,676,318	9,801,965
Weighted average number of common shares outstanding	12,157,953	5,974,769
Net assets at end of period	$ 151,294,819	$ 114,769,772
Ratio of operating expense to average net assets (annualized)	12.87%	11.41%
Ratio of net investment income before provision for income tax expense and investment gains and losses (annualized)	7.45%	1.16%
Average debt outstanding	$ 76,458,000	$ 15,717,000
Weighted average debt per common share	$ 6.29	$ 2.63
Portfolio turnover	1.23%	n/a

(1) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to Financial Accounting Standards No. 123R, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(2) The total return for the period ended September 30, 2006 equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

(3) The total return for the period ended September 30, 2005 is for a shareholder who owned common shares throughout the period, and received one additional common share for every two 5 Year Warrants cancelled. Shareholders who purchased common shares on January 26, 2005, exercised 1 Year Warrants, or purchased common shares in the initial public offering will have a different total return. The Company completed its initial public offering on June 11, 2005; prior to that date shares were issued in private placements.

12. Commitments and Contingencies

In June 2006, the Company entered into a lease agreement for new office headquarters located in Palo Alto, California. The lease commenced in October 2006 and terminates in December 2013.

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.

13. Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 will be effective as of the beginning of an entity s first fiscal year that begins after December 15, 2006. The Company will adopt this Interpretation effective January 1, 2007. The Company is currently evaluating the impact of FIN No. 48 on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157 (SFAS No. 157), Fair Value Measurements. Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective for the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on its financial position and results of operations.

14. Subsequent Events

On October 16, 2006, the Board of Directors approved a dividend of $0.30 per share to shareholders of record as of November 6, 2006 and payable on December 1, 2006.

On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of common stock delivered on October 25, 2006. The Company intends to use the net proceeds from the sale of the shares in the offering to reduce its credit borrowings, originate investments and for general corporate purposes.

Filed pursuant to Rule 497
Securities Act File No. 333-136918

8,444,150 Shares Common Stock

This prospectus relates to the offer, from time to time, of 8,000,000 shares of our common stock, par value $0.001 per share by us and the resale of up to 444,150 shares of our common stock by certain current stockholders.

We may offer, from time to time, up to 8,000,000 shares of our common stock in one or more offerings. The shares of common stock may be offered at prices and terms to be described in one or more supplements to this prospectus. The offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering.

The shares of our common stock which is offered for resale by this prospectus is offered for the accounts of the current holders of such common stock, whom we refer to as the selling holders. We will not receive any of the proceeds from the shares of common stock sold by the selling holders. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling holders.

We are a specialty finance company that provides debt and equity growth capital to technology-related and life sciences companies at all stages of development. 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 the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity.

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

Our common stock is traded on the Nasdaq Global Market under the symbol HTGC. On October 9, 2006, the last reported sale price of a share of our common stock on the Nasdaq Global Market was $13.39.

An investment in our common stock involves risks and involves 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 10 to read about risks that you should consider before investing in our common stock, including the risk of leverage.

This prospectus contains important information you should know before investing in our common stock. Please read it before making an investment decision and keep it for future reference. Shares of closed-end investment companies have in the past frequently traded at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this offering.

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.

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 525 University Avenue, Suite 700, 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.

The date of this prospectus is October 18, 2006

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Hercules Technology Growth Capital, Inc. have not changed since the date hereof.

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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. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. The following summary is qualified in its entirety by reference to the more detailed information and financial statements appearing elsewhere in this prospectus. 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 Hercules Technology II, L.P. and Hercules Technology SBIC Management, LLC.

Our Company

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

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio s 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 primary business objectives are to increase our net income, net operating income and net asset value by investing in structured mezzanine debt 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 investment. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth, and 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 their development. Our emphasis is on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. To a lesser extent, we make investments in established companies comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

Our management team, which includes Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, is currently comprised of 15 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.

From July 1, 2006 through September 29, 2006, we entered into binding agreements to invest approximately $81.5 million in structured mezzanine debt in nine new portfolio companies and one existing portfolio company and made a $250,000 equity investment in one existing portfolio company.

During this same period, we funded the following debt investments totalling $67.2 million in nine new portfolio companies and five existing portfolio companies and made two equity investments, one in a new portfolio company and one in an existing portfolio company.

Company		Principal Business		Funded Investment
Affinity Express, Inc.	Senior Debt	Consumer and Business Services	$	296,298
Agami Systems, Inc.	Senior Debt	Electronics and Computer Hardware		7,000,000
Atrenta, Inc.	Equity	Software		250,000
Aveo Pharmaceuticals	Senior Debt	Biopharmaceuticals		7,500,000
BabyUniverse, Inc.	Senior Debt	Consumer and Business Products		5,000,000
BARRX Medical, Inc.	Equity	Medical Devices and Equipment		1,500,000
EpiCept Corporation	Senior Debt	Biopharmaceuticals		10,000,000
ForeScout Technologies, Inc.	Senior Debt	Software		1,000,000
Gynesonics, Inc.	Senior Debt	Medical Devices and Equipment		2,000,000
Hedgestreet, Inc.	Senior Debt	Consumer and Business Services		3,000,000
Intelliden, Inc.	Senior Debt	Software		3,000,000
iWatt, Inc.	Senior Debt	Semiconductors		2,000,000
Luminuous Devices, Inc.	Senior Debt	Electronics and Computer Hardware		10,000,000
Novasys Medical, Inc.	Senior Debt	Medical Devices and Equipment		6,000,000
Oatsystems, Inc.	Senior Debt	Software		3,000,000
Portola Pharmaceuticals, Inc.	Senior Debt	Biopharmaceuticals		5,625,000
		Total investments	$	67,171,298

In addition, at September 29, 2006, we had unfunded commitments totaling approximately $95.7 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. In addition, we had extended non-binding term sheets to six prospective new portfolio companies representing approximately $58.5 million of structured mezzanine debt investments. These investments are subject to finalization of our due diligence and approval process as well as negotiation of definitive agreements with the prospective portfolio company and, as a result, may not result in completed investments.

As of September 29, 2006, we had $91.0 million outstanding under our securitization credit facility.

During September 2006, we sold the assets of Optovia Corporation for approximately $2.6 million. We will record a realized loss on this investment in the third quarter which is estimated to be approximately $2.7 million, which includes approximately $380,000 of legal expenses and incentive fees paid to a third party and members of Optovia s management.

On October 16, 2006, we announced the declaration of a dividend of $0.30 per share payable on December 1, 2006 to stockholders of record as of November 6, 2006.

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 structured mezzanine investments in technology-related and life-science companies for the following reasons:

Technology-Related Companies 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, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. 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.

Unfulfilled Demand for Structured Debt Financing by Technology-Related Companies. Private debt capital from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that this demand is currently unfulfilled, in part because historically the largest capital providers to technology-related companies have exited the market, while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe we entered the structured lending market at an opportune time.

Structured Mezzanine Debt Products Complement Equity Financing from Venture Capital and Private Equity Funds. We believe that our structured mezzanine debt products will provide an additional source of growth capital for technology-related companies that may otherwise only be able to obtain equity financing through incremental investments by their existing investors. Generally, we believe emerging-growth and expansion-stage companies target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth prior to subsequent equity financing rounds or liquidity events.

Lower Valuations for Private Technology-Related Companies. During the downturn in technology-related industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. We believe that the valuations currently assigned to these companies in private financing rounds will allow us to build a portfolio of equity-related securities at attractive valuation levels.

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. We have assembled a team of senior investment professionals with extensive experience as venture capitalists, commercial lenders and originators of structured debt and equity investments in technology-related companies. 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.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments will have the potential to produce attractive risk-adjusted returns through current income as well as capital appreciation from our equity-related investments. We believe that we can mitigate the risk of loss on our debt investments through the combination of principal amortization, cash interest payments, relatively short maturities, taking security interests in the assets of our portfolio companies, 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. Our debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We believe that our debt investments will be viewed as an attractive source of capital and that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing 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, which we believe provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally choose to make investments during a particular stage in a company s 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.

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 June 30, 2006, our proprietary SQL-based database system included over 8,900 technology-related companies and over 1,900 venture capital private equity sponsor/investors, as well as various other industry contacts.

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

From incorporation through December 31, 2005, 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 currently intend to elect 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, when actually made, would be 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. We may be required, however, to pay corporate-level federal income taxes on gains built into our assets as of the effective date of our RIC election. See Certain United States Federal Income Tax Considerations Conversion to Regulated Investment Company Status. To obtain and maintain the federal income tax benefits of 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. See Distributions. There is no assurance that we will meet these tests and be eligible to make a RIC election. If we do not qualify or do not make a RIC election, we would continue to be taxed as a C corporation.

Use of Proceeds

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We will not receive any proceeds from the sale of the common stock by the selling holders.

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage as of June 30, 2006 was approximately 351%. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. As of June 30, 2006, we had outstanding $61.0 million drawn under our securitization credit facility. See Management s Discussion & Analysis of Financial Condition Borrowings. Our subsidiary received final approval to be licensed under the Small Business Investment Act of 1958 on September 27, 2006; as such, we intend to borrow money from the Small Business Administration.

Distributions

We intend to continue to distribute quarterly dividends to our stockholders, whether or not we elect to be treated as a RIC. The amount of our quarterly distributions will be determined by our Board of Directors out of assets legally available for distribution. We intend to elect to be treated as a RIC when we file our 2006 federal income tax return, and as such, to distribute with respect to 2006 (and annually thereafter) 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. In addition, prior to the end of our first tax year as a RIC, we will be required to make a distribution to our stockholders equal to the amount of any undistributed earnings and profits from the period prior to our RIC election. Currently, we intend to retain some or all of our realized net long-term capital gains in order to build our per share net asset value. As a result, we will elect as a RIC to make deemed distributions of such amounts to our stockholders. We may, in the future, make actual distributions to our stockholders of some or all of our realized net long-term capital gains. See Distributions.

Principal Risk Factors

Investing in us 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 beginning on page 9 for a discussion of factors you should carefully consider before deciding whether to invest in our common stock.

Certain Anti-Takeover Provisions

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

General Information

Our principal executive offices are located at 525 University Avenue, Suite 700, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Waltham, Massachusetts; Boston, Massachusetts; Boulder, Colorado; and the Chicago, Illinois area. We maintain a website on the Internet at www.herculestech.com. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

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

Fees and Expenses

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

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses	%(2)
Dividend reinvestment plan fees	%(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	0.1%
Annual Expenses (as a percentage of net assets attributable to common stock):(4)	
Operating expenses	7.1%(5)(6)
Interest payments on borrowed funds	3.8%(7)
Fees paid in connection with borrowed funds	0.7%(8)
Total annual expenses	11.6%(9)

(1) In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load. We will not pay any underwriting discount or commission, and we will not receive any of the proceeds from shares sold by the selling stockholders.

(2) The percentage reflects estimated offering expenses of approximately $100,000.

(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.

(4) Average net assets attributable to common stock equals estimated weighted average net assets for 2006 which is approximately $153.0 million.

(5) Operating expenses represent our estimated expenses for the year ending December 31, 2006. This percentage for the year ended December 31, 2005, was approximately 7.9%.

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

(7) Interest payments on borrowed funds represents estimated annualized interest payments on borrowed funds for 2006. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant

participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. Since inception of the agreement, we have paid Citigroup approximately $195,000 under the warrant participation agreement thereby reducing our realized gains. During 2005, we recorded a liability and reduced our unrealized gain by approximately $342,000 for unrealized gains in our warrant and equity investments due Citigroup under our warrant participation agreement. In addition, we recorded a liability and reduced our realized gain by approximately $59,000 for amounts due to Citigroup from the sale of equity securities in 2005. During the six months ended June 30, 2006, we reduced our realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized gain by approximately $172,000 for Citigroup s participation in unrealized gains in the warrant portfolio. Based on our estimated average borrowings for the year ending December 31, 2006 and the annualized amount of the reduction we recorded for our unrealized gains for the six months ended June 30, 2006, the additional cost of our borrowings as a result of the warrant participation agreement could be approximately 0.4%. There can be no assurances that the unrealized gains on the warrants will not be higher or lower at the end of the year due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $378,000 at June 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the us at June 30, 2006.

(8) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2006.

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

Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 157.03	$ 350.88	$ 520.62	$ 858.22

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

Selected Consolidated Financial Data

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations on page 29 and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2005 and 2004 presented below, and the selected income statement data for fiscal 2005 and the period from February 2, 2004 through the end of fiscal 2004, have been derived from our audited financial statements included elsewhere herein, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The selected balance sheet data as of June 30, 2006 presented below and the selected income statement data for the fiscal quarter then ended have been derived from our unaudited financial statements included elsewhere herein. In the opinion of management, the quarterly financial information derived from unaudited financial information, reflects all adjustments (consisting only of normal recurring adjustments) which are necessary to present fairly the results for the interim period. The historical data are not necessarily indicative of results to be expected for any future period.

	Six Months Ended June 30, 2006 (unaudited)	**Year Ended December 31, 2005[1]**	**Period from February 2, 2004 to December 31, 2004[1]**
Statement of Operations Data:			
Investment Income:			
Interest	$ 11,810,370	$ 9,791,214	$ 214,100
Fees	1,464,674	875,429	
Total investment income	13,275,044	10,666,643	214,100
Operating expenses:			
Interest	3,034,875	1,800,536	
Loan fees	537,481	1,098,507	
Compensation and benefits	2,332,320	3,705,784	1,164,504
General and administrative	2,603,977	2,285,038	411,418
Stock-based compensation[2]	253,000	252,000	680,000
Total operating expenses	8,761,653	9,141,865	2,255,922
Net investment income (loss) before provision for income tax expense and investment gains and losses	4,513,391	1,524,778	(2,041,822)
Income tax expense	988,177	255,000	
Net investment income (loss)	3,525,214	1,269,778	(2,041,822)
Net realized gain on equity investment	3,144,443	481,694	
Net increase (decrease) in unrealized appreciation on investments	(798,292)	353,093	
Net gain on investments	2,346,151	834,787	

Net increase (decrease) in net assets resulting from operations	$	5,871,365	$	2,104,565	$	(2,041,822)

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	June 30, 2006 (Unaudited)	As of December 31, 2005	As of December 31, 2004
Balance Sheet Data:			
Investments, at value	$ 193,571,348	$ 176,673,226	$ 16,700,000
Cash and cash equivalents	$ 23,211,755	15,362,447	8,678,329
Total assets	$ 217,239,108	193,647,879	25,232,672
Total liabilities[3]	$ 63,910,022	79,295,549	154,539
Total net assets	$ 153,329,086	$ 114,352,330	$ 25,078,133
Other Data:			
Total debt investments, at value	$ 188,113,175	$ 171,805,963	$ 16,700,000
Total equity investments, at value	$ 5,458,173	4,867,263	
Unfunded commitments	$ 85,200,000	30,200,000	5,000,000
Net asset value per share[4]	$ 11.24	$ 11.67	$ 12.18

(1) We commenced operations on February 2, 2004 but did not commence investment operations until September 2004 and as a result, there is no period with which to compare our results of operations for the year ended December 31, 2005 or the period from February 2, 2004 to December 31, 2004.

(2) Non-cash expense under FAS 123R relates to options and warrants granted to employees.

(3) See the Senior Securities information on page 62.

(4) Based on common shares outstanding at period-end.

RISK FACTORS

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

Risks Related to our Business and Structure

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

We were incorporated in December 2003 and commenced investment operations in September 2004. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we will not achieve our investment objective and that the value of our common stock could decline substantially. We have limited operating history as a business development company and have not yet been able to elect to be treated as a RIC for tax purposes. As a result, we have limited operating results under these regulatory frameworks that can demonstrate to you either their effect on the business or our ability to manage the business within these frameworks. See Regulation and Certain United States Federal Income Tax Considerations. If we fail to maintain our status as a business development company or fail to qualify as a RIC, our operating flexibility and results of operations would be significantly affected.

We are dependent upon key management personnel for 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. 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 or 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 large 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 if we are treated 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 as a RIC 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 currently intend to 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. Because we will continue to need capital to grow our loan and investment portfolio, 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. While we expect to be able to borrow and to issue additional debt and equity securities, 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. In addition, as a business development company, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval and approval of 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.

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

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

As of June 30, 2006, we had outstanding indebtedness of $61 million pursuant to our securitized credit facility with Citigroup Global Market Realty Corp., and which we refer to as the Citigroup Facility. We expect, in the future, to borrow from, and issue senior debt securities to, banks, insurance companies and other lenders, including additional borrowings pursuant to the Citigroup Facility. See Management s Discussion and Analysis of Financial Condition Borrowings. In addition, we expect to continue to pursue financing from the Small Business Administration under its Small Business Investment Company program. See Regulation Small Business Administration Regulations.

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 include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. 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.

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 in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[1]	(22.72)%	(13.23)%	(3.73)%	5.76%	15.25%

[1] Assumes $243.0 million in total assets, $61.0 million in debt outstanding, $153.3 million in stockholders equity, and an average cost of funds of 7.0%, which is the approximate cost of funds of the warehouse facility. Actual interest payments may be different.

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

At June 30, 2006, portfolio investments, 99% of which are valued at fair value by the Board of Directors were approximately 89% 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 Board of Directors Valuation Committee. The Valuation Committee utilizes 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 employing a consistently applied valuation process for the types of investments we make. 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. At June 30, 2006, our largest investment at value was in Wageworks, Inc. and represented

8.1% of our total assets and 8.0% of our total investment income for the six months ended June 30, 2006. Our financial results could be negatively affected if this portfolio company or any of our other significant portfolio companies encounter financial difficulty and fail to repay their obligations or to perform as expected.

Regulations governing our operations as a business development company 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. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. 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. 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. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy.

Our ability to invest in certain private and public companies may be limited in certain circumstances.

As a business development company, we must 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. We expect that substantially all of our assets will be qualifying assets, although we may decide to make other investments that are not qualifying assets to the extent permitted by the 1940 Act.

Currently, if we acquire debt or equity securities from an issuer that has outstanding marginable securities at the time that we make an investment, these acquired assets cannot be treated as qualifying assets. This result is dictated by the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding marginable securities. For a more detailed discussion of the definition of an eligible portfolio company and the marginable securities requirement, see the section entitled Regulation Qualifying Assets.

Amendments promulgated in 1998 by the Federal Reserve expanded the definition of a marginable security under the Federal Reserve s margin rules to include any non-equity security. Thus, any debt securities issued by any entity are marginable securities under the Federal Reserve s current margin rules. As a result, the staff of the SEC has raised the question to the business development company industry as to whether a private company that has outstanding debt securities would qualify as an eligible portfolio company under the 1940 Act.

In November 2004, the SEC issued proposed rules to correct the unintended consequence of the Federal Reserve s 1998 margin rule amendments of apparently limiting the investment opportunities of business development companies.

In general, the SEC s proposed rules would define an eligible portfolio company as any company that does not have securities listed on a national securities exchange or association. We are currently in the process of reviewing the SEC s proposed rules and assessing their impact, to the extent that such proposed rules are subsequently approved by the SEC, on our investment activities.

Until the SEC or its staff has taken a final public position with respect to the issue discussed above, we will continue to monitor this issue closely, and we may be required to adjust our investment focus to comply with any future administrative position or action taken by the SEC.

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

In accordance with generally accepted accounting principles and tax requirements, we include in income certain amounts that we have not yet received in cash, such as contracted payment-in-kind interest, which represents contractual interest added to a loan balance and due at the end of such loan s term. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees or prepayment fees. The increases in loan balances as a result of contracted payment-in-kind arrangements are included in income for the period in which such payment-in-kind interest was received, 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 that we will not receive in 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 would 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 to satisfy such distribution requirements. If we are unable to obtain cash from other sources 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.

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. If we are unable to meet these distribution requirements, we will not qualify for the federal income tax benefits allowable to a RIC. Accordingly, 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. See Certain United States Federal Income Tax Considerations Taxation as a Regulated Investment Company.

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 that will allow us to make a specified level of cash 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 facility limits our ability to declare dividends if we default under certain provisions.

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

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

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

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

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

Fluctuations in interest rates may adversely affect our profitability.

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

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

If we are unable to continue to borrow money in order to leverage our equity capital, then our ability to make new investments and to execute our business plan will be impaired.

As of June 30, 2006, we had outstanding borrowings of $61.0 million pursuant to the Citigroup Facility. We expect to incur additional indebtedness under our subsidiary s small business investment company license from the Small Business Administration. 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.

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

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

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

As of June 30, 2006, the Company, through Hercules Funding Trust I, an affiliated statutory trust, has a $125 million securitized credit facility with Citigroup. We expect to enter into additional revolving credit or warehouse facilities in the future. While there can be no assurance that we will be able to borrow from banks or other financial institutions, we expect that we will, at some time in the future, obtain a long-term or revolving credit facility or a warehouse facility. The current lenders have, and any future lender or lenders will have fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets. In addition, we may grant a security interest in our assets in connection with any such borrowing. We expect such a facility to contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. An event of default under any credit facility would likely result, among other things, in termination of the availability of further funds under that facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans that we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

Our cost of borrowing is increased by the warrant participation agreement we have with one of our lenders. In addition, our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under 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 the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached.

During the six months ended June 30, 2006, we reduced our realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized gain by approximately $172,000 for Citigroup s participation in unrealized gains in the warrant portfolio. Since inception of the agreement, we have paid Citigroup approximately $195,000 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 $378,000 at June 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by us at June 30, 2006. Citigroup s rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

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 intend to elect to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006, which election when actually made, would be effective as of January 1, 2006. After we make this election, and if we qualify, to be treated as a RIC, we can generally avoid corporate-level federal income taxes on income distributed to our stockholders as dividends. As a RIC, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we were not (or in which we failed to qualify as) a RIC that are recognized within the following 10 years, unless we make a special election to pay corporate-level tax on such built-in gain at the time of our RIC election or an exception applies. See Certain United States Federal Income Tax Considerations Conversion to Regulated Investment Company Status. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, 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 remain or 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. For additional information regarding our regulatory requirements, see Regulation and Certain United States Federal Income Tax Considerations. 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.

Interpretations of the staff of the Securities and Exchange Commission regarding the appropriateness of the consolidation of certain of our subsidiaries may have an impact on our financial statements.

The staff of the Securities and Exchange Commission (the Staff) is reviewing the appropriateness of the consolidation of certain types of subsidiaries on an industry-wide basis under generally accepted accounting principles (GAAP) and Rule 6-03 of Regulation S-X. In connection with such review, the Staff is in the process of reviewing the appropriateness of our consolidation of certain of our subsidiaries (the Subsidiaries). In the event that the Staff disagrees with our position with respect to the appropriateness of consolidation of any of the Subsidiaries, then we will make such additional disclosures and prospective changes in accounting methods as the Staff requires on a prospective basis which will be discussed and reviewed with us.

Although we believe that our consolidation of the Subsidiaries conforms with GAAP, there can be no assurance that the Staff will ultimately concur with our position. Such events could have a material impact on our future reported results.

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, small business investment companies, 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.

We are exposed to increased costs and risks associated with complying with regulations of corporate governance and disclosure standards.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control systems and attestations of the effectiveness of these systems by our independent auditors. We are commencing evaluation, documentation and testing of our internal control systems and procedures and considering improvements that may be necessary in order for us to comply with the requirements of Section 404 by the end of 2006. This process has required us to hire outside advisory services and will result in additional accounting and legal expenses. We may encounter problems or delays in completing the review and evaluation, the implementation of improvements and the receipt of a positive attestation by our independent auditors. While we believe that we currently have adequate internal controls over financial reporting, in the event that our chief executive officer, principal financial and accounting officer or independent auditors determine that our controls over financial reporting are not effective as defined under Section 404, investor perceptions of our company may be adversely affected and could cause a decline in the market price of our stock.

Risks Related to Our Investments

Our investments are concentrated in a limited 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 and life-science companies. As a result, a downturn in technology-related and life-science industry sectors could materially adversely affect us.

Our investments may be concentrated in emerging-growth or expansion-stage portfolio companies, which may have limited operating histories and financial resources.

We expect that our portfolio will continue to consist primarily of investments in emerging-growth and expansion-stage privately-owned businesses, which may have relatively limited operating histories. Compared to larger established or publicly-owned firms, these companies may be particularly vulnerable to economic downturns, 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, 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 and life-science companies, which are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns, and you could lose all or part of your investment.

We have invested and will continue investing primarily in technology-related and life-science 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 and life-science companies can and often do fluctuate suddenly and dramatically. In addition, technology- related markets are generally characterized by abrupt business cycles and intense competition. Beginning in mid-2000, there was substantial excess production capacity and a significant slowdown in many technology-related industries. This overcapacity, together with a cyclical economic downturn, resulted in substantial decreases in the market capitalization of many technology-related and life-science companies. While such valuations have recovered to some extent, such decreases in market capitalization may occur again, and any future decreases in technology-related and life-science 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 and life-science companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by technology-related and life-science 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.

We have invested in and may continue investing in technology-related and life-science 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.

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

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

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

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

We currently invest in businesses with significant operations located in the Middle East, including Israel, and as a result, we may encounter risks specific to one or more countries in which we operate.

We invest in businesses and may make additional investments in businesses located in or having some relationship to Israel. As a result, our investee companies are subject to political, economic and military conditions in that country. The State of Israel experiences continued civil unrest primarily in the areas that have been under its control since 1967 and has also recently been engaged in escalated conflict with Hezbollah groups near the border with Lebanon. No prediction can be made as to whether these problems will be resolved. These investments could be adversely affected if major hostilities involving Israel should occur or if trade between Israel and its current trading partners were interrupted or curtailed. In addition, in such event, if the peace process in the Middle East were interrupted or discontinued, these investments may be materially adversely affected.

In addition, we are exposed to risks that could negatively affect our future results of operations. The additional risks we are exposed to in these cases include but are not limited to:

- tariffs and trade barriers;
- tax issues, such as tax law changes and variations in tax laws as compared to the United States;
- cultural and language differences;
- foreign exchange controls;
- crime, strikes, riots, civil disturbances, terrorist attacks and wars; and
- deterioration of political relations with the United States.

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 and life-science 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.

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.

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.

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

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

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

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

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

We intend to make distributions on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. See Regulation. Also, restrictions and provisions in any future credit facilities may limit our ability to make distributions. If and when we qualify to be treated 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.

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

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

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.

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, a deterioration in a portfolio company s financial condition and prospects, including its inability to raise additional capital, may be accompanied by a deterioration in the value of the collateral for the loan. Moreover, in the case of some of our structured mezzanine debt, 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.

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

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 elects 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.

Risks Related to an Offering of Our Shares

Our common stock price may be volatile and may decrease substantially.

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs or business development companies;
- our not electing or losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;
- changes in the value of our portfolio of investments;
- realized losses in investments in our portfolio companies;
- general economic conditions and trends;

loss of a major funded source; or

departures of key personnel.

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

We may be unable to invest the net proceeds raised from an offering on acceptable terms, which would harm our financial condition and operating results.

Until we identify investments for our portfolio, we intend to invest the net proceeds from an offering in cash, cash equivalents, U.S. government securities or high-quality debt securities. We cannot assure you that we will be able to complete investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return. Moreover, because we may not have identified all investments at the time of an offering, we will have broad authority to invest the net proceeds of an offering. We will not receive any proceeds from an offering by the selling holders.

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.

We cannot assure you that the market price of our common stock will not decline.

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies have in the past frequently traded at discounts to their net asset values and our stock may also be discounted in the market. 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. The risk of loss associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of common stock purchased in this offer soon after the offer. In addition, if our common stock trades below its net asset value, 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.

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

The Maryland General Corporation Law and 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. We will be covered by the Business Combination Act of the Maryland General Corporation Law to the extent that such statute is not superseded by applicable requirements of the 1940 Act. However, our Board of Directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any person to the extent that such business combination receives the prior approval of our board, including a majority of our directors who are not interested persons as defined in the 1940 Act. Our Board of Directors has already adopted a resolution exempting from the Business Combination Act any business combination between us and certain investment funds managed by JMP Asset Management, LLC and certain investment funds managed by Farallon Capital Management, L.L.C., and we have agreed with such investment funds that we will not alter or repeal such board resolution prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds. In addition, our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. We have agreed with certain investment funds managed by JMP Asset Management, LLC and certain investment funds managed by Farallon Capital Management, L.L.C. that we will not repeal or amend such provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock. If the applicable board resolution is repealed following such period of time or if our board does not otherwise approve a business combination, the Business Combination Act and the Control Share Acquisition Act (if we amend our bylaws to be subject to that Act) may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

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.

See "Description of Capital 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.

FORWARD-LOOKING STATEMENTS; MARKET DATA

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, estim potential or continue or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus include statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company and a regulated investment company;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

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. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

This prospectus contains third-party estimates and data regarding valuations of venture capital-backed companies. These data were reported by Dow Jones, VentureOne, an independent venture capital industry research company which we refer to as VentureOne, in releases entitled 4Q 03 Venture Capital Investment Increases, dated January 26, 2004, Venture-Backed Valuations Decline in 4Q 03, dated March 1, 2004, Equity Financings for U.S. Venture-Backed Companies by Industry Group (1998-Q42004), dated January 21, 2005, Venture Capital Market Q4 04 dated March 18, 2005 and 1Q 05 Financing Preview dated April 25, 2005, along with attached data tables. VentureOne 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.

Certain industry estimates presented in this prospectus have been compiled by us from internally generated information and data, which, while believed by us to be reliable, have not been verified by any independent sources. These 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. The failure of this market to grow at projected rates could have a material adverse effect on our business and the market price of our common stock.

USE OF PROCEEDS

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which include 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. We will not receive any proceeds from the sale of the common stock by the selling holders.

We anticipate that substantially all of the net proceeds from any offering of our shares of common stock will be used as described above within twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the Nasdaq Global Market under the symbol HTGC. We completed the initial public offer of our common stock in June 2005 at a price of $13.00 per share. Prior to such date, there was no public market for our common stock.

The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Market and the dividends declared by us for each fiscal quarter since our initial public offer. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

	NAV[1]	Price Range High	Price Range Low	Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend per Share[2]
2005						
Second quarter (June 9, 2005 through June 30, 2005)	$ 11.55	$ 13.19	$ 12.45	114.2%	107.8%	
Third quarter	$ 11.71	$ 14.41	$ 11.90	123.1%	101.6%	$ 0.025
Fourth quarter	$ 11.67	$ 12.68	$ 9.71	108.7%	83.2%	$ 0.300
2006						
First quarter	$ 11.63	$ 11.99	$ 10.50	103.1%	90.3%	$ 0.300
Second quarter	$ 11.24	$ 12.53	$ 10.88	111.5%	96.8%	$ 0.300
Third quarter	*	12.90	11.11	*	*	
Fourth quarter (through October 9, 2006)	*	13.54	12.59	*	*	

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Represents the dividend declared in the specified quarter. As of the date of this prospectus, no dividend has been declared for the third quarter of 2006.

* Net asset value has not yet been calculated for this period.

The last reported price for our common stock on October 9, 2006 was $13.39 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.

Dividends

On July 19, 2006, we declared a dividend of $0.30 per common share for holders of record on July 31, 2006. This dividend totaled approximately $4.1 million and was distributed on August 28, 2006.

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
			$	0.925

During the second quarter ended June 30, 2006, we determined that it is more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. If we qualify and elect to be a RIC, we intend to distribute quarterly dividends to our stockholders following the effective date of such election. 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% 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 currently intend to retain for investment realized net long-term capital gains in excess of realized net short-term capital losses.

Once we elect to be a RIC, we generally intend as a RIC to make deemed distributions to our stockholders of any retained net capital gains. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and then reinvested the net after-tax proceeds in our common stock. You also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. Please refer to Certain United States Federal Income Tax Considerations for further information regarding the consequences of our retention of net capital gains. We may, in the future, make actual distributions to our stockholders of some or all realized net long-term capital gains in excess of realized net short-term capital losses. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See Regulation.

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

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

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

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

Overview

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies. We originate our investments through our principal office located in Silicon Valley, as well as our additional offices in the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity investments. We use the term structured mezzanine debt investment to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured mezzanine debt investments will typically be secured by some or all of the assets of the portfolio company.

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

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

Portfolio and Investment Activity

We commenced investment operations in September 2004 and entered into our first debt investment in November 2004. The total value of our investment portfolio was $193.6 million at June 30, 2006 as compared to $176.7 million at December 31, 2005. During the six months ended June 30, 2006, we made debt commitments to 17 new portfolio companies totaling $113.1 million and funded $64.6 million to 20 companies. We also made equity investments in three portfolio companies totaling $1.3 million during the six months ended June 30, 2006, bringing total equity investments at fair value to approximately $5.5 million at June 30, 2006. At June 30, 2006, we had unfunded contractual commitments of $85.2 million to 18 portfolio companies.

During the six months ended June 30, 2006, we received normal principal repayments of $15.4 million, a total of five companies made early repayments totaling $29.7 million, and we received pay downs of $3.7 million on one working line of credit. Total portfolio investment activity (exclusive of unearned income) as of and for the six month period ended June 30, 2006 was as follows:

	June 30, 2006 ($ in millions)
Beginning Portfolio	$ 176.7
Purchase of investments	64.6
Equity investments	1.3
Principal payments received on investments	(19.3)
Early pay-offs	(29.7)
Accretion of loan discounts	0.7
Net Unrealized appreciation on investments	(0.7)
Ending Portfolio	$ 193.6

The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2006 and December 31, 2005 (excluding unearned income):

	June 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
Senior debt with warrants	$ 180.4	93.2%	$ 163.4	92.4%
Subordinated debt	7.7	4.0%	8.4	4.8%
Preferred stock	5.5	2.8%	3.5	2.0%
Common stock		0.0%	1.4	0.8%
	$ 193.6	100.0%	$ 176.7	100.0%

A summary of the company s investment portfolio at value by geographic location is as follows:

	June 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
United States	$ 176.8	91.3%	$ 155.9	88.2%
Canada	13.8	7.1%	16.8	9.5%

Israel		3.0	1.6%		4.0	2.3%
	$	193.6	100.0%	$	176.7	100.0%

The following table shows the fair value of our portfolio by industry sector at June 30, 2006 and December 31, 2005 (excluding unearned income):

	June 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
Biopharmaceuticals	$ 61.2	31.6%	$ 43.6	24.7%
Software	35.3	18.2%	29.0	16.4%
Communications & networking	25.5	13.2%	32.5	18.4%
Consumer & business products	19.6	10.1%	19.8	11.2%
Electronics & computer hardware	14.1	7.3%	17.8	10.1%
Medical devices	13.3	6.9%	14.8	8.4%
Internet consumer & business services	12.6	6.5%	8.7	4.9%
Semiconductors	10.5	5.4%	10.5	5.9%
Energy	1.5	0.8%		0.0%
	$ 193.6	100.0%	$ 176.7	100.0%

We use an investment grading system, which grades each investment on a scale of 1 to 5, to characterize and monitor our expected level of returns on the debt investments in our portfolio with 1 being the highest quality. See Business Investment Process Loan and Compliance Administration. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of June 30, 2006 and December 31, 2005:

	June 30, 2006		December 31, 2005	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	($ in millions)			
Investment Grading				
1	$ 11.9	6.5%	$ 9.9	5.8%
2	132.5	73.1	150.3	87.5
3	25.2	13.9	5.8	3.4
4	11.7	6.5	4.5	2.6
5			1.3(1)	0.7
	$ 181.3	100.0%	$ 171.8	100.00%

(1) Reflects the value of the assets of this portfolio company that were sold in January 2006 for which we received approximately $1.3 million in cash distributions. We received an additional contingent payment of approximately

$469,000 in the first quarter of 2006, and approximately $361,000 in the second quarter of 2006. We may receive future distributions related to this sale but such distributions are contingent on future deliverables.

As of June 30, 2006, our investments had a weighted average investment grading of 2.21 as compared to 2.05 at December 31, 2005. Our policy is to reduce the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until the funding is complete or their operations improve. At June 30, 2006, nine portfolio companies have been graded at 3 and three portfolio companies have been graded 4 as compared to four and one portfolio companies, respectively, at December 31, 2005.

At June 30, 2006, the weighted average yield to maturity of our loan obligations was approximately 12.80% as compared to 12.87% at December 31, 2005. Yields to maturity are computed using interest rates as of June 30, 2006 and December 31, 2005 and include amortization of 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 are based on the assumption that all contractual loan commitments have been fully funded.

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 $20.0 million, with an average initial principal balance of between $3.0 million and $7.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from 8.0% to 14.0% (based on current interest rate conditions). In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, or prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In some cases, we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth and expansion-stage companies. In addition, certain loans may include an interest-only period ranging from three to six months. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date. Our mezzanine debt investments also generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation.

Results of Operations

Comparison of the Six Months Ended June 30, 2006 and 2005

Operating Income

Interest income totaled approximately $11.8 million for the six-month period ended June 30, 2006, compared with $2.4 million for the six-month period ended June 30, 2005. Income from commitment and facility fees totaled approximately $1.5 million for the six-month period ended June 30, 2006, as compared with $271,000 for the six-month period ended June 30, 2005. The increases in investment income and income from commitment and facility fees for both periods presented are the result of higher average loan balances outstanding due to origination activity and yield from the related investments. At June 30, 2006, we had approximately $3.2 million of deferred revenue related to commitment and facility fees, as compared to approximately $1.7 million as of June 30, 2005. We expect to generate additional interest income and loan fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately $8.8 million during the six-month period ended June 30, 2006, compared with $3.0 million during the six-month period ended June 30, 2005. Operating expenses for the six-month period ended June 30, 2006 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately $3.6 million compared with $878,000 for the six-month period ended June 30, 2005. The increase in interest expense and loan fees was due to the additional debt outstanding under the Citigroup Facility that was not outstanding in the first half of 2005.

Employee compensation and benefits were approximately $2.3 million for the six-month period ended June 30, 2006, compared with $1.4 million during the six-month period ended June 30, 2005. The increase in compensation expense was directly related to increasing our headcount from 13 employees at June 30, 2005 to 19 employees at June 30, 2006.

General and administrative expenses increased to $2.6 million for the six-month period ended June 30, 2006, up from $645,000 during the six-month period ended June 30, 2005. The increase was primarily due to increased Board of Director expenses, legal expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries, higher business insurance expense as a public company as well as increased business development expenses.

In addition, we incurred approximately $253,000 of stock-based compensation expense in the six-month period ended June 30, 2006, as compared to $80,000 in 2005. The increase in stock-based compensation expense was the result of the options outstanding for the entire period in 2006 as compared to a partial period in 2005.

We anticipate that operating expenses will increase over the next twelve months as we continue to incur higher interest expense on higher average outstanding debt balances, increase the number of our employees to support our growth and incur additional expenses related to being a public company, including expenses related to the implementation of the requirements under the Sarbanes-Oxley Act.

Net Investment Income (Loss) Before Income Tax Expense and Investment Gains and Losses

Net investment income before provision for income tax expense for the six-months ended June 30, 2006 totaled $4.5 million as compared with net investment loss before provision for income tax expense of approximately $301,000 for the six-months ended June 30, 2005. These changes are made up of the items described above.

Net Investment Gains

During the six-months ended June 30, 2006, we generated a net realized gain totaling approximately $3.1 million from the sale of common stock of two biopharmaceutical portfolio companies, and we recognized a gain of approximately $830,000 from additional recoveries on one portfolio company that was sold during the first quarter of 2006. There were no realized gains during the six-months period ended June 30, 2005. Our realized gains are reduced by a warrant participation agreement with Citigroup. Since inception of the agreement, we have paid Citigroup approximately $195,000 thereby reducing our realized gains. During the six-months ended June 30, 2006, we reduced our realized gain by approximately $136,000 for Citigroup s participation in the gain on sale of an equity security.

For the six-months ended June 30, 2006, the net decrease in unrealized investment appreciation totaled approximately $798,000, compared with a net increase in unrealized investment appreciation of $1.0 million for the six-month period ended June 30, 2005. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors.

At June 30, 2006, cumulative gross unrealized appreciation totaled approximately $4.5 million in 15 of our portfolio investment companies and approximately $1.3 million of gross unrealized depreciation on 26 of our portfolio investment companies. At June 30, 2005, the cumulative gross unrealized appreciation totaled approximately $1.1 million in 10 of our portfolio companies and approximately $38,000 of gross unrealized depreciation on nine of our portfolio investment companies. The net decrease in unrealized appreciation totaling approximately $798,000 for the six-months ended June 30, 2006 was the result of the conversion of an unrealized gain on a warrant in two portfolio companies to a realized gain upon the exercise and sale of the portfolio company s common stock offset by unrealized gains in our warrant and equity portfolios.

Income Taxes

During the second quarter ended June 30, 2006, we determined that it is more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a

RIC. At December 31, 2005, we had a deferred tax asset of approximately $1.5 million. During the first quarter, approximately $1.3 million of the deferred tax asset was charged to expense. During the second quarter, a full valuation reserve of approximately $181,000 was recorded against the remaining deferred tax asset in anticipation that we would not have a future federal tax expense to offset the asset. In addition, during the first quarter of 2006, we recorded a tax expense that was reversed in the second quarter as we would not be subject to federal income or excise taxes in 2006. As a result, we recorded a tax expense of approximately $988,000 in the second quarter.

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

For the six-months ended June 30, 2006, net income totaled approximately $5.9 million, compared to net income of approximately $742,000 for the six-months ended June 30, 2005. These changes are made up of the items previously described.

Basic and diluted net income per share for the six-months ended June 30, 2006 was $0.52 and $0.51, as compared to a basic and diluted income per share of $0.19 and $0.18 for the six-months ended June 30, 2005.

Comparison of periods ended December 31, 2005 and 2004

Operating Income

Interest income totaled approximately $9.8 million and $214,000 for 2005 and 2004, respectively. In 2005, interest income included approximately $351,000 of revenue from accrued exit fees. Income from commitment and facility fees totaled approximately $875,000 and $0 for 2005 and 2004, respectively. The increases are the result of origination activity and yield from investments. At December 31, 2005, we had approximately $2.7 million of deferred revenue related to commitment and facility fees. We expect to generate additional interest income and loan commitment fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately $9.1 million and $2.3 million during 2005 and 2004, respectively. Operating expenses for 2005 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately $2.9 million. There were no interest or loan fees in 2004. Employee compensation and benefits were approximately $3.7 million and $1.2 million during 2005 and 2004, respectively. The increase in employee compensation and benefits is due to increased number of employees from 11 to 19 and bonuses of approximately $1.3 million paid in 2005. General and administrative expenses increased to $2.3 million from $411,000 in 2004 primarily due to increased legal expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries as w