

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

November 09, 2009

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

**For The Quarterly Period Ended September 30, 2009**

**OR**

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

**Commission File Number: 814-00702**

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

*(Exact Name of Registrant as Specified in its Charter)*

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**Maryland**  
(State or Jurisdiction of

**743113410**  
(IRS Employer

**Incorporation or Organization)**

**Identification No.)**

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

**94301**  
(Zip Code)

**(650) 289-3060**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

On November 6, 2009, there were 35,544,561 shares outstanding of the Registrant's common stock, \$0.001 par value.

**Table of Contents**

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**FORM 10-Q TABLE OF CONTENTS**

|                                                                                                                                 |    |
|---------------------------------------------------------------------------------------------------------------------------------|----|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                                                     | 3  |
| Item 1. <u>Consolidated Financial Statements</u>                                                                                | 3  |
| <u>Consolidated Statement of Assets and Liabilities as of September 30, 2009 (unaudited) and December 31, 2008</u>              | 3  |
| <u>Consolidated Schedule of Investments as of September 30, 2009 (unaudited)</u>                                                | 4  |
| <u>Consolidated Schedule of Investments as of December 31, 2008</u>                                                             | 15 |
| <u>Consolidated Statement of Operations for the three and nine-month periods ended September, 2009 and 2008 (unaudited)</u>     | 29 |
| <u>Consolidated Statement of Changes in Net Assets for the nine-month periods ended September 30, 2009 and 2008 (unaudited)</u> | 30 |
| <u>Consolidated Statement of Cash Flows for the nine-month periods ended September 30, 2009 and 2008 (unaudited)</u>            | 31 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>                                                                   | 32 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | 45 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                       | 60 |
| Item 4. <u>Controls and Procedures</u>                                                                                          | 60 |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                                                        | 61 |
| Item 1. <u>Legal Proceedings</u>                                                                                                | 61 |
| Item 1A. <u>Risk Factors</u>                                                                                                    | 61 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                      | 63 |
| Item 3. <u>Defaults Upon Senior Securities</u>                                                                                  | 63 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>                                                              | 63 |
| Item 5. <u>Other Information</u>                                                                                                | 63 |
| Item 6. <u>Exhibits</u>                                                                                                         | 64 |
| <b><u>SIGNATURES</u></b>                                                                                                        | 65 |

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

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

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

(dollars in thousands, except per share data)

|                                                                                  | September 30,<br>2009<br>(unaudited) | December 31,<br>2008 |
|----------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                    |                                      |                      |
| Investments:                                                                     |                                      |                      |
| Non-affiliate investments (cost of \$431,497 and \$583,592)                      | \$ 410,567                           | \$ 579,079           |
| Affiliate investments (cost of \$3,466 and \$8,756)                              | 4,280                                | 2,222                |
| Total investments, at value (cost of \$434,963 and \$592,348 respectively)       | 414,847                              | 581,301              |
| Deferred loan origination revenue                                                | (3,207)                              | (6,871)              |
| Cash and cash equivalents                                                        | 77,247                               | 17,242               |
| Interest receivable                                                              | 10,382                               | 8,803                |
| Other assets                                                                     | 5,851                                | 8,197                |
| Total assets                                                                     | 505,120                              | 608,672              |
| <b>Liabilities</b>                                                               |                                      |                      |
| Accounts payable and accrued liabilities                                         | 5,798                                | 9,432                |
| Short-term credit facility                                                       |                                      | 89,582               |
| Long-term SBA Debentures                                                         | 130,600                              | 127,200              |
| Total liabilities                                                                | 136,398                              | 226,214              |
| <b>Net assets</b>                                                                | \$ 368,722                           | \$ 382,458           |
| <b>Net assets consist of:</b>                                                    |                                      |                      |
| Common stock, par value                                                          | \$ 35                                | \$ 33                |
| Capital in excess of par value                                                   | 408,733                              | 395,760              |
| Unrealized depreciation on investments                                           | (20,405)                             | (11,297)             |
| Accumulated realized gain(loss) on investments                                   | (15,600)                             | 3,906                |
| Distributions in excess of investment income                                     | (4,041)                              | (5,944)              |
| <b>Total net assets</b>                                                          | \$ 368,722                           | \$ 382,458           |
| <b>Shares of common stock outstanding (\$0.001 par value, 60,000 authorized)</b> | 35,546                               | 33,096               |
| <b>Net asset value per share</b>                                                 | \$ 10.37                             | \$ 11.56             |

See Notes to consolidated financial statements (unaudited)



**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>              | <b>Industry</b> | <b>Type of Investment <sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost <sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|---------------------------------------|-----------------|------------------------------------------|-------------------------|----------------------------|----------------------------|
| Accelaron Pharmaceuticals, Inc.       | Drug Discovery  | Preferred Stock Warrants                 |                         | \$ 69                      | \$ 909                     |
|                                       |                 | Preferred Stock Warrants                 |                         | 35                         | 154                        |
| Accelaron Pharmaceuticals, Inc.       |                 | Preferred Stock                          |                         | 1,243                      | 2,131                      |
| Total Accelaron Pharmaceuticals, Inc. |                 |                                          |                         | 1,347                      | 3,194                      |
| Aveo Pharmaceuticals, Inc.            | Drug Discovery  | Senior Debt                              |                         |                            |                            |
|                                       |                 | Matures May 2012                         |                         |                            |                            |
|                                       |                 | Interest rate 11.13%                     | \$ 15,000               | 14,933                     | 14,933                     |
|                                       |                 | Preferred Stock Warrants                 |                         | 190                        | 195                        |
|                                       |                 | Preferred Stock Warrants                 |                         | 104                        | 53                         |
|                                       |                 | Preferred Stock Warrants                 |                         | 24                         | 19                         |
| Total Aveo Pharmaceuticals, Inc.      |                 |                                          |                         | 15,251                     | 15,200                     |
| Dicerna Pharmaceuticals, Inc.         | Drug Discovery  | Senior Debt                              |                         |                            |                            |
|                                       |                 | Matures April 2012                       |                         |                            |                            |
|                                       |                 | Interest rate Prime + 9.20% or           |                         |                            |                            |
|                                       |                 | Floor rate of 12.95%                     | \$ 7,000                | 6,807                      | 6,807                      |
|                                       |                 | Preferred Stock Warrants                 |                         | 206                        | 162                        |
|                                       |                 | Preferred Stock Warrants                 |                         | 31                         | 28                         |
| Total Dicerna Pharmaceuticals, Inc.   |                 |                                          |                         | 7,044                      | 6,997                      |
| Elixir Pharmaceuticals, Inc.          | Drug Discovery  | Senior Debt                              |                         |                            |                            |
|                                       |                 | Matures October 2011                     |                         |                            |                            |
|                                       |                 | Interest rate Prime + 9.25% or           |                         |                            |                            |
|                                       |                 | Floor rate of 12.5%                      | \$ 9,167                | 9,167                      | 9,167                      |
|                                       |                 | Preferred Stock Warrants                 |                         | 217                        | 61                         |
| Total Elixir Pharmaceuticals, Inc.    |                 |                                          |                         | 9,384                      | 9,228                      |
| EpiCept Corporation                   | Drug Discovery  | Common Stock Warrants                    |                         | 8                          | 64                         |
|                                       |                 | Common Stock Warrants                    |                         | 40                         | 335                        |
| Epicept Corporation                   |                 | Common Stock                             |                         |                            |                            |
| Total EpiCept Corporation             |                 |                                          |                         | 48                         | 399                        |

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|                                       |                |                             |          |               |               |
|---------------------------------------|----------------|-----------------------------|----------|---------------|---------------|
| Horizon Therapeutics, Inc.            | Drug Discovery | Senior Debt                 |          |               |               |
|                                       |                | Matures July 2011           |          |               |               |
|                                       |                | Interest rate Prime + 1.50% | \$ 5,397 | 5,316         | 5,316         |
|                                       |                | Preferred Stock Warrants    |          | 230           | 191           |
| Total Horizon Therapeutics, Inc.      |                |                             |          | 5,546         | 5,507         |
| Inotek Pharmaceuticals Corp.          | Drug Discovery | Preferred Stock             |          | 1,500         | 475           |
| Total Inotek Pharmaceuticals Corp.    |                |                             |          | 1,500         | 475           |
| Merrimack Pharmaceuticals, Inc.       | Drug Discovery | Preferred Stock Warrants    |          | 155           | 816           |
| Merrimack Pharmaceuticals, Inc.       |                | Preferred Stock             |          | 2,000         | 3,158         |
| Total Merrimack Pharmaceuticals, Inc. |                |                             |          | 2,155         | 3,974         |
| Paratek Pharmaceuticals, Inc.         | Drug Discovery | Preferred Stock Warrants    |          | 137           | 68            |
| Paratek Pharmaceuticals, Inc.         |                | Preferred Stock             |          | 1,000         | 1,000         |
| Total Paratek Pharmaceuticals, Inc.   |                |                             |          | 1,137         | 1,068         |
| Portola Pharmaceuticals, Inc.         | Drug Discovery | Senior Debt                 |          |               |               |
|                                       |                | Matures April 2011          |          |               |               |
|                                       |                | Interest rate Prime + 2.16% | \$ 7,916 | 7,917         | 7,917         |
|                                       |                | Preferred Stock Warrants    |          | 152           | 256           |
| Total Portola Pharmaceuticals, Inc.   |                |                             |          | 8,069         | 8,173         |
| Recoly, N.V. <sup>(5)</sup>           | Drug Discovery | Senior Debt                 |          |               |               |
|                                       |                | Matures June 2012           |          |               |               |
|                                       |                | Interest rate Prime + 4.25% | \$ 2,792 | 2,792         | 2,792         |
| Total Recoly, N.V.                    |                |                             |          | 2,792         | 2,792         |
| <b>Total Drug Discovery (15.46%)</b>  |                |                             |          | <b>54,273</b> | <b>57,007</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                   | <b>Industry</b>             | <b>Type of Investment <sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|--------------------------------------------|-----------------------------|------------------------------------------|-------------------------|---------------------------|----------------------------|
| Affinity Videonet, Inc. <sup>(4)</sup>     | Communications & Networking | Senior Debt                              |                         |                           |                            |
|                                            |                             | Matures June 2012                        |                         |                           |                            |
|                                            |                             | Interest rate Prime + 8.75% or           |                         |                           |                            |
|                                            |                             | Floor rate of 12.00%                     | \$ 2,318                | \$ 2,308                  | \$ 2,308                   |
|                                            |                             | Senior Debt                              |                         |                           |                            |
|                                            |                             | Matures June 2012                        |                         |                           |                            |
|                                            |                             | Interest rate Prime + 14.75% or          |                         |                           |                            |
|                                            |                             | Floor rate of 18.00%                     | \$ 2,000                | 2,041                     | 2,042                      |
|                                            |                             | Revolving Line of Credit                 |                         |                           |                            |
|                                            |                             | Matures June 2012                        |                         |                           |                            |
|                                            |                             | Interest rate Prime + 9.75% or           |                         |                           |                            |
|                                            |                             | Floor rate of 13.00%                     | \$ 500                  | 500                       | 500                        |
|                                            |                             | Preferred Stock Warrants                 |                         | 102                       | 143                        |
| Total Affinity Videonet, Inc.              |                             |                                          |                         | 4,951                     | 4,993                      |
| E-band Communications, Inc. <sup>(6)</sup> | Communications & Networking | Preferred Stock                          |                         | 2,372                     | 3,300                      |
| Total E-Band Communications, Inc.          |                             |                                          |                         | 2,372                     | 3,300                      |
| IKANO Communications, Inc.                 | Communications & Networking | Senior Debt                              |                         |                           |                            |
|                                            |                             | Matures August 2011                      |                         |                           |                            |
|                                            |                             | Interest rate 12.00%                     | \$ 7,804                | 7,804                     | 7,804                      |
|                                            |                             | Preferred Stock Warrants                 |                         | 45                        | 147                        |
|                                            |                             | Preferred Stock Warrants                 |                         | 72                        | 230                        |
| Total IKANO Communications, Inc.           |                             |                                          |                         | 7,921                     | 8,181                      |
| Neonova Holding Company                    |                             | Preferred Stock Warrants                 |                         | 94                        | 46                         |
|                                            |                             | Preferred Stock                          |                         | 250                       | 247                        |
| Total Neonova Holding Company              |                             |                                          |                         | 344                       | 293                        |
| Peerless Network, Inc. <sup>(6)</sup>      | Communications & Networking | Preferred Stock Warrants                 |                         | 95                        |                            |
| Peerless Network, Inc.                     |                             | Preferred Stock                          |                         | 1,000                     | 980                        |

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|                                             |                                |                                |          |       |
|---------------------------------------------|--------------------------------|--------------------------------|----------|-------|
| Total Peerless Network, Inc.                |                                |                                | 1,095    | 980   |
| Ping Identity Corporation                   | Communications<br>& Networking | Preferred Stock Warrants       | 52       | 169   |
| Total Ping Identity Corporation             |                                |                                | 52       | 169   |
| Purcell Systems, Inc.                       | Communications<br>& Networking | Preferred Stock Warrants       | 123      | 359   |
| Total Purcell Systems, Inc.                 |                                |                                | 123      | 359   |
| Rivulet Communications, Inc. <sup>(4)</sup> | Communications<br>& Networking | Senior Debt                    |          |       |
|                                             |                                | Matures March 2010             |          |       |
|                                             |                                | Interest rate Prime + 8.00% or |          |       |
|                                             |                                | Floor rate of 12%              | \$ 1,469 | 1,445 |
|                                             |                                | Preferred Stock Warrants       | 146      | 83    |
| Rivulet Communications, Inc.                |                                | Preferred Stock                | 250      | 58    |
| Total Rivulet Communications, Inc.          |                                |                                | 1,841    | 1,586 |
| Seven Networks, Inc.                        | Communications<br>& Networking | Preferred Stock Warrants       | 174      | 17    |
| Total Seven Networks, Inc.                  |                                |                                | 174      | 17    |
| Stoke, Inc.                                 |                                | Preferred Stock Warrants       | 53       | 88    |
| Total Stoke, Inc.                           |                                |                                | 53       | 88    |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| Portfolio Company                         | Industry                    | Type of Investment <sup>(1)</sup> | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(4)</sup> |
|-------------------------------------------|-----------------------------|-----------------------------------|------------------|---------------------|----------------------|
| Tectura Corporation                       | Communications & Networking | Senior Debt                       |                  |                     |                      |
|                                           |                             | Matures September 2010            |                  |                     |                      |
|                                           |                             | Interest rate Prime + 10.75% or   |                  |                     |                      |
|                                           |                             | Floor rate of 14.00%              | \$ 2,500         | \$ 2,500            | \$ 2,500             |
|                                           |                             | Revolving Line of Credit          |                  |                     |                      |
|                                           |                             | Matures July 2011                 |                  |                     |                      |
|                                           |                             | Interest rate Prime + 10.75% or   |                  |                     |                      |
|                                           |                             | Floor rate of 14.00%              | \$ 9,908         | 10,107              | 10,107               |
|                                           |                             | Revolving Line of Credit          |                  |                     |                      |
|                                           |                             | Matures July 2011                 |                  |                     |                      |
|                                           |                             | Interest rate Prime + 10.75% or   |                  |                     |                      |
|                                           |                             | Floor rate of 14.00%              | \$ 5,000         | 5,092               | 5,092                |
|                                           |                             | Preferred Stock Warrants          |                  | 51                  | 42                   |
|                                           |                             |                                   |                  |                     |                      |
| Total Tectura Corporation                 |                             |                                   |                  | 17,750              | 17,741               |
| Wireless Channels, Inc. <sup>(4)(7)</sup> | Communications & Networking | Senior Debt                       |                  |                     |                      |
|                                           |                             | Matures March 2011                |                  |                     |                      |
|                                           |                             | Interest rate 6.72%               | \$ 9,647         | 10,158              |                      |
|                                           |                             | Senior Debt                       |                  |                     |                      |
|                                           |                             | Matures April 2010                |                  |                     |                      |
|                                           |                             | Interest rate Prime + 3.00%       | \$ 343           | 343                 |                      |
|                                           |                             | Preferred Stock Warrants          |                  | 155                 |                      |
| Total Wireless Channels, Inc.             |                             |                                   |                  | 10,656              |                      |
| Zayo Bandwidth, Inc.                      | Communications & Networking | Senior Debt                       |                  |                     |                      |
|                                           |                             | Matures November 2013             |                  |                     |                      |
|                                           |                             | Interest rate Libor + 5.25%       | \$ 24,812        | 24,812              | 24,378               |

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|                                                             |          |                             |          |        |
|-------------------------------------------------------------|----------|-----------------------------|----------|--------|
| Total Zayo Bandwith, Inc.                                   |          |                             | 24,812   | 24,378 |
| Total Communications & Networking (16.84%)                  |          |                             | 72,144   | 62,085 |
| Atrenta, Inc. <sup>(4)</sup>                                | Software | Preferred Stock Warrants    | 102      | 266    |
|                                                             |          | Preferred Stock Warrants    | 34       | 87     |
|                                                             |          | Preferred Stock Warrants    | 95       | 224    |
| Atrenta, Inc.                                               |          | Preferred Stock             | 250      | 375    |
| Total Atrenta, Inc.                                         |          |                             | 481      | 952    |
| Blurb, Inc.                                                 | Software | Senior Debt                 |          |        |
|                                                             |          | Matures December 2009       |          |        |
|                                                             |          | Interest rate Prime + 1.30% | \$ 451   | 449    |
|                                                             |          | Senior Debt                 |          |        |
|                                                             |          | Matures June 2011           |          |        |
|                                                             |          | Interest rate Prime + 3.50% |          |        |
|                                                             |          | or Floor rate of 8.5%       | \$ 3,843 | 3,716  |
|                                                             |          | Preferred Stock Warrants    | 25       | 125    |
|                                                             |          | Preferred Stock Warrants    | 299      | 65     |
| Total Blurb, Inc.                                           |          |                             | 4,489    | 4,355  |
| Braxton Technologies, LLC. <sup>(4)</sup>                   | Software | Senior Debt                 |          |        |
|                                                             |          | Matures July 2012           |          |        |
|                                                             |          | Interest rate 13.00%        | \$ 6,683 | 6,744  |
|                                                             |          | Preferred Stock Warrants    | 189      | 148    |
| Total Braxton Technologies, LLC.                            |          |                             | 6,933    | 6,892  |
| Bullhorn, Inc.                                              | Software | Preferred Stock Warrants    | 43       | 255    |
| Total Bullhorn, Inc.                                        |          |                             | 43       | 255    |
| See notes to consolidated financial statements (unaudited). |          |                             |          |        |

**Table of Contents**

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

**September 30, 2009**

**(unaudited)**

**(dollars in thousands)**

| Portfolio Company                  | Industry | Type of Investment <sup>(1)</sup> | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(4)</sup> |
|------------------------------------|----------|-----------------------------------|------------------|---------------------|----------------------|
| Clickfox, Inc.                     | Software | Senior Debt                       |                  |                     |                      |
|                                    |          | Matures September 2011            |                  |                     |                      |
|                                    |          | Interest rate Prime + 5.00% or    |                  |                     |                      |
|                                    |          | Floor rate of 10.25%              | \$ 4,235         | \$ 4,146            | \$ 4,146             |
|                                    |          | Revolving Line of Credit          |                  |                     |                      |
|                                    |          | Matures July 2010                 |                  |                     |                      |
|                                    |          | Interest rate Prime + 8.50% or    |                  |                     |                      |
|                                    |          | Floor rate of 13.5%               | \$ 2,000         | 2,000               | 2,000                |
|                                    |          | Preferred Stock Warrants          |                  | 177                 | 219                  |
| Total Clickfox, Inc.               |          |                                   |                  | 6,323               | 6,365                |
| Forescout Technologies, Inc.       | Software | Preferred Stock Warrants          |                  | 99                  | 106                  |
| Total Forescout Technologies, Inc. |          |                                   |                  | 99                  | 106                  |
| GameLogic, Inc.                    | Software | Preferred Stock Warrants          |                  | 92                  |                      |
| Total GameLogic, Inc.              |          |                                   |                  | 92                  |                      |
| Gomez, Inc. <sup>(8)</sup>         | Software | Preferred Stock Warrants          |                  | 35                  | 770                  |
| Total Gomez, Inc.                  |          |                                   |                  | 35                  | 770                  |
| HighJump Acquisition, LLC.         | Software | Senior Debt                       |                  |                     |                      |
|                                    |          | Matures May 2013                  |                  |                     |                      |
|                                    |          | Interest rate Libor + 8.75% or    |                  |                     |                      |
|                                    |          | Floor rate of 12.00%              | \$ 15,000        | 15,000              | 15,000               |
| Total HighJump Acquisition, LLC.   |          |                                   |                  | 15,000              | 15,000               |
| HighRoads, Inc.                    | Software | Preferred Stock Warrants          |                  | 44                  | 36                   |
| Total HighRoads, Inc.              |          |                                   |                  | 44                  | 36                   |
| Infologix, Inc. <sup>(4)</sup>     | Software | Senior Debt                       | \$ 11,400        | 11,623              | 11,623               |

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|                                                             |          |                                                                               |          |        |        |
|-------------------------------------------------------------|----------|-------------------------------------------------------------------------------|----------|--------|--------|
|                                                             |          | Matures May 2012                                                              |          |        |        |
|                                                             |          | Interest rate Prime + 10.75% or Floor rate of 15.75% Revolving Line of Credit |          |        |        |
|                                                             |          | Matures January 2010                                                          |          |        |        |
|                                                             |          | Interest rate Prime + 9.75% or Floor rate of 14.25%                           | \$ 9,000 | 9,035  | 9,035  |
|                                                             |          | Preferred Stock Warrants                                                      |          | 36     | 56     |
| Total Infologix, Inc.                                       |          |                                                                               |          | 20,694 | 20,714 |
| Intelliden, Inc.                                            | Software | Preferred Stock Warrants                                                      |          | 18     |        |
| Total Intelliden, Inc.                                      |          |                                                                               |          | 18     |        |
| PSS Systems, Inc.                                           | Software | Preferred Stock Warrants                                                      |          | 52     | 108    |
| Total PSS Systems, Inc.                                     |          |                                                                               |          | 52     | 108    |
| Rockyou, Inc.                                               | Software | Senior Debt                                                                   |          |        |        |
|                                                             |          | Matures May 2011                                                              |          |        |        |
|                                                             |          | Interest rate Prime + 2.50%                                                   | \$ 1,969 | 1,932  | 1,932  |
|                                                             |          | Preferred Stock Warrants                                                      |          | 117    | 115    |
| Total Rockyou, Inc.                                         |          |                                                                               |          | 2,049  | 2,047  |
| Savvion, Inc. <sup>(4)</sup>                                | Software | Senior Debt                                                                   |          |        |        |
|                                                             |          | Matures February 2011                                                         |          |        |        |
|                                                             |          | Interest rate Prime + 7.75% or Floor rate of 11.00% Revolving Line of Credit  | \$ 2,539 | 2,487  | 2,487  |
|                                                             |          | Matures May 2010                                                              |          |        |        |
|                                                             |          | Interest rate Prime + 6.75% or Floor rate of 10.00%                           | \$ 1,500 | 1,500  | 1,500  |
|                                                             |          | Preferred Stock Warrants                                                      |          | 52     | 169    |
| Total Savvion, Inc.                                         |          |                                                                               |          | 4,039  | 4,156  |
| See notes to consolidated financial statements (unaudited). |          |                                                                               |          |        |        |

**Table of Contents**

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

**September 30, 2009**

**(unaudited)**

**(dollars in thousands)**

| <b>Portfolio Company</b>       | <b>Industry</b>                 | <b>Type of Investment <sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost <sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|--------------------------------|---------------------------------|------------------------------------------|-------------------------|----------------------------|----------------------------|
| Sportvision, Inc.              | Software                        | Preferred Stock Warrants                 |                         | \$ 39                      | \$ 79                      |
| Total Sportvision, Inc.        |                                 |                                          |                         | 39                         | 79                         |
| WildTangent, Inc.              | Software                        | Preferred Stock Warrants                 |                         | 238                        | 60                         |
| Total WildTangent, Inc.        |                                 |                                          |                         | 238                        | 60                         |
| <b>Total Software (16.79%)</b> |                                 |                                          |                         | <b>60,668</b>              | <b>61,895</b>              |
| Luminus Devices, Inc.          | Electronics & Computer Hardware | Senior Debt                              |                         |                            |                            |
|                                |                                 | Matures December 2011                    |                         |                            |                            |
|                                |                                 | Interest rate 12.875%                    | \$ 11,796               | 11,796                     | 11,796                     |
|                                |                                 | Preferred Stock Warrants                 |                         | 183                        |                            |
|                                |                                 | Preferred Stock Warrants                 |                         | 84                         | 1                          |
|                                |                                 | Preferred Stock Warrants                 |                         | 334                        | 11                         |
| Total Luminus Devices, Inc.    |                                 |                                          |                         | 12,397                     | 11,808                     |
| Maxvision Holding, LLC.        | Electronics & Computer Hardware | Senior Debt                              |                         |                            |                            |
|                                |                                 | Matures October 2012                     |                         |                            |                            |
|                                |                                 | Interest rate Prime + 5.50%              | \$ 5,000                | 5,193                      | 5,193                      |
|                                |                                 | Senior Debt Matures April 2012           |                         |                            |                            |
|                                |                                 | Interest rate Prime + 2.25%              | \$ 4,617                | 4,617                      | 4,617                      |
|                                |                                 | Revolving Line of Credit                 |                         |                            |                            |
|                                |                                 | Matures April 2012                       |                         |                            |                            |
|                                |                                 | Interest rate Prime + 2.25%              | \$ 1,600                | 1,680                      | 1,680                      |
| Maxvision Holding, LLC.        |                                 | Common Stock                             |                         | 81                         | 284                        |
| Total Maxvision Holding, LLC   |                                 |                                          |                         | 11,571                     | 11,774                     |
| Shocking Technologies, Inc.    | Electronics & Computer Hardware | Senior Debt                              |                         |                            |                            |
|                                |                                 | Matures December 2010                    |                         |                            |                            |
|                                |                                 | Interest rate Prime + 2.50%              | \$ 146                  | 133                        | 133                        |
|                                |                                 | Senior Debt                              | \$ 2,164                | 2,164                      | 2,164                      |
|                                |                                 | Matures December 2010                    |                         |                            |                            |

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|                                                             |                                 |                             |    |       |       |
|-------------------------------------------------------------|---------------------------------|-----------------------------|----|-------|-------|
|                                                             |                                 | Interest rate Prime + 2.50% |    |       |       |
|                                                             |                                 | Preferred Stock Warrants    |    | 63    | 50    |
| Total Shocking Technologies, Inc.                           |                                 |                             |    | 2,360 | 2,347 |
| Spatial Photonics, Inc.                                     | Electronics & Computer Hardware | Senior Debt                 |    |       |       |
|                                                             |                                 | Matures April 2011          |    |       |       |
|                                                             |                                 | Interest rate 10.066%       | \$ | 2,301 | 2,268 |
|                                                             |                                 | Senior Debt                 |    |       | 2,268 |
|                                                             |                                 | Mature April 2011           |    |       |       |
|                                                             |                                 | Interest rate 9.217%        | \$ | 229   | 229   |
|                                                             |                                 | Preferred Stock Warrants    |    | 130   |       |
| Spatial Photonics, Inc.                                     |                                 | Preferred Stock             |    | 500   | 465   |
| Total Spatial Photonics Inc.                                |                                 |                             |    | 3,127 | 2,962 |
| See notes to consolidated financial statements (unaudited). |                                 |                             |    |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                                 | <b>Industry</b>                 | <b>Type of Investment <sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost <sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|----------------------------------------------------------|---------------------------------|------------------------------------------|-------------------------|----------------------------|----------------------------|
| VeriWave, Inc.                                           | Electronics & Computer Hardware | Senior Debt                              |                         |                            |                            |
|                                                          |                                 | Matures May 2010                         |                         |                            |                            |
|                                                          |                                 | Interest rate Prime + 2.5%               | \$ 1,249                | \$ 1,240                   | \$ 1,240                   |
|                                                          |                                 | Preferred Stock Warrants                 |                         | 55                         | 81                         |
|                                                          |                                 | Preferred Stock Warrants                 |                         | 46                         | 28                         |
| Total VeriWave, Inc.                                     |                                 |                                          |                         | 1,341                      | 1,349                      |
| <b>Total Electronics &amp; Computer Hardware (8.20%)</b> |                                 |                                          |                         | <b>30,796</b>              | <b>30,240</b>              |
| Aegerion Pharmaceuticals, Inc. <sup>(4)</sup>            | Specialty Pharmaceuticals       | Senior Debt                              |                         |                            |                            |
|                                                          |                                 | Matures September 2011                   |                         |                            |                            |
|                                                          |                                 | Interest rate Prime + 2.50% or           |                         |                            |                            |
|                                                          |                                 | Floor rate of 11.00%                     | \$ 6,179                | 6,179                      | 6,179                      |
|                                                          |                                 | Convertible Senior Debt                  |                         |                            |                            |
|                                                          |                                 | Matures December 2010                    | \$ 279                  | 279                        | 279                        |
|                                                          |                                 | Preferred Stock Warrants                 |                         | 70                         | 604                        |
| Aegerion Pharmaceuticals, Inc. <sup>(4)</sup>            |                                 | Preferred Stock                          |                         | 1,000                      | 1,294                      |
| Total Aegerion Pharmaceuticals, Inc.                     |                                 |                                          |                         | 7,528                      | 8,356                      |
| QuatRx Pharmaceuticals Company                           | Specialty Pharmaceuticals       | Senior Debt                              |                         |                            |                            |
|                                                          |                                 | Matures October 2011                     |                         |                            |                            |
|                                                          |                                 | Interest rate Prime + 8.90% or           |                         |                            |                            |
|                                                          |                                 | Floor rate of 12.15%                     | \$ 15,972               | 15,838                     | 15,838                     |
|                                                          |                                 | Convertible Senior Debt                  |                         |                            |                            |
|                                                          |                                 | Matures March 2010                       | \$ 82                   | 82                         | 155                        |
|                                                          |                                 | Convertible Senior Debt                  |                         |                            |                            |
|                                                          |                                 | Matures March 2010                       | \$ 1,250                | 1,250                      | 2,356                      |
|                                                          |                                 | Preferred Stock Warrants                 |                         | 220                        |                            |
|                                                          |                                 | Preferred Stock Warrants                 |                         | 307                        |                            |
| Quatrx Pharmaceuticals Company                           |                                 | Preferred Stock                          |                         | 750                        |                            |
| Total Quatrx Pharmaceuticals Company                     |                                 |                                          |                         | 18,447                     | 18,349                     |

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|                                                             |                              |                                 |          |        |
|-------------------------------------------------------------|------------------------------|---------------------------------|----------|--------|
| <b>Total Specialty Pharmaceuticals (7.24%)</b>              |                              |                                 | 25,975   | 26,705 |
| Annie's, Inc.                                               | Consumer & Business Products | Senior Debt - Second Lien       |          |        |
|                                                             |                              | Matures April 2011              |          |        |
|                                                             |                              | Interest rate LIBOR + 6.50% or  |          |        |
|                                                             |                              | Floor rate of 10.00%            | \$ 6,000 | 6,002  |
|                                                             |                              | Preferred Stock Warrants        |          | 321    |
|                                                             |                              |                                 |          | 132    |
| Total Annie's, Inc.                                         |                              |                                 | 6,323    | 6,134  |
| IPA Holdings, LLC. <sup>(4)</sup>                           | Consumer & Business Products | Senior Debt                     |          |        |
|                                                             |                              | Matures November 2012           |          |        |
|                                                             |                              | Interest rate Prime + 8.25% or  |          |        |
|                                                             |                              | Floor rate of 15.5%             | \$ 9,750 | 9,822  |
|                                                             |                              | Senior Debt                     |          | 9,822  |
|                                                             |                              | Matures May 2013                |          |        |
|                                                             |                              | Interest rate Prime + 11.25% or |          |        |
|                                                             |                              | Floor rate of 8.5%              | \$ 6,500 | 6,541  |
|                                                             |                              | Revolving Line of Credit        |          | 6,541  |
|                                                             |                              | Matures November 2012           |          |        |
|                                                             |                              | Interest rate Prime + 7.75% or  |          |        |
|                                                             |                              | Floor rate of 12.00%            | \$ 1,556 | 1,556  |
|                                                             |                              | Common Units Warrants           |          | 275    |
|                                                             |                              |                                 |          | 32     |
| IPA Holding, LLC.                                           |                              | Common Units                    |          | 500    |
|                                                             |                              |                                 |          | 120    |
| Total IPA Holding, LLC.                                     |                              |                                 | 18,694   | 18,071 |
| Market Force Information, Inc.                              | Consumer & Business Products | Preferred Stock Warrants        |          | 24     |
| Market Force Information, Inc.                              |                              | Preferred Stock                 |          | 500    |
|                                                             |                              |                                 |          | 440    |
| Total Market Force Information, Inc.                        |                              |                                 | 524      | 440    |
| See notes to consolidated financial statements (unaudited). |                              |                                 |          |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>              | <b>Type of Investment <sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost <sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|-------------------------------------------------------|------------------------------|------------------------------------------|-------------------------|----------------------------|----------------------------|
| OnTech Operations, Inc.                               | Consumer & Business Products | Senior Debt                              |                         |                            |                            |
|                                                       |                              | Matures December 2009                    |                         |                            |                            |
|                                                       |                              | Interest rate 16.00%                     | \$ 106                  | \$ 106                     | \$                         |
|                                                       |                              | Preferred Stock Warrants                 |                         | 453                        |                            |
|                                                       |                              | Preferred Stock Warrants                 |                         | 218                        |                            |
| OnTech Operations, Inc.                               |                              | Preferred Stock                          |                         | 1,000                      |                            |
| Total OnTech Operations, Inc.                         |                              |                                          |                         | 1,777                      |                            |
| Wageworks, Inc.                                       | Consumer & Business Products | Preferred Stock Warrants                 |                         | 252                        | 1,392                      |
| Wageworks, Inc.                                       |                              | Preferred Stock                          |                         | 250                        | 368                        |
| Total Wageworks, Inc.                                 |                              |                                          |                         | 502                        | 1,760                      |
| <b>Total Consumer &amp; Business Products (7.16%)</b> |                              |                                          |                         | <b>27,820</b>              | <b>26,405</b>              |
| Custom One Design, Inc.                               | Semiconductors               | Senior Debt                              |                         |                            |                            |
|                                                       |                              | Matures September 2010                   |                         |                            |                            |
|                                                       |                              | Interest rate 11.50%                     | \$ 466                  | 461                        | 461                        |
|                                                       |                              | Common Stock Warrants                    |                         | 18                         |                            |
| Total Custom One Design, Inc.                         |                              |                                          |                         | 479                        | 461                        |
| Enpirion, Inc.                                        | Semiconductors               | Senior Debt                              |                         |                            |                            |
|                                                       |                              | Matures August 2011                      |                         |                            |                            |
|                                                       |                              | Interest rate Prime + 2.00% or           |                         |                            |                            |
|                                                       |                              | Floor rate of 9.5%                       | \$ 5,831                | 5,779                      | 5,779                      |
|                                                       |                              | Preferred Stock Warrants                 |                         | 157                        | 6                          |
| Total Enpirion, Inc.                                  |                              |                                          |                         | 5,936                      | 5,785                      |
| iWatt Inc.                                            | Semiconductors               | Preferred Stock Warrants                 |                         | 46                         |                            |
|                                                       |                              | Preferred Stock Warrants                 |                         | 51                         |                            |
|                                                       |                              | Preferred Stock Warrants                 |                         | 73                         |                            |
|                                                       |                              | Preferred Stock Warrants                 |                         | 458                        |                            |

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|                                       |                |                                                     |               |               |
|---------------------------------------|----------------|-----------------------------------------------------|---------------|---------------|
| iWatt Inc.                            |                | Preferred Stock                                     | 490           | 950           |
| Total iWatt Inc.                      |                |                                                     | 1,118         | 950           |
| NEXX Systems, Inc. <sup>(4)</sup>     | Semiconductors | Senior Debt                                         |               |               |
|                                       |                | Matures March 2010                                  |               |               |
|                                       |                | Interest rate Prime + 3.50% or Floor rate of 11.25% | \$ 1,111      | 1,088         |
|                                       |                | Revolving Line of Credit                            |               | 1,088         |
|                                       |                | Matures June 2010                                   |               |               |
|                                       |                | Interest rate Prime + 8.00% or Floor rate of 13.25% | \$ 3,000      | 3,000         |
|                                       |                | Revolving Line of Credit                            |               | 3,000         |
|                                       |                | Matures December 2009                               |               |               |
|                                       |                | Interest rate Prime + 5.00% or Floor rate of 14.00% | \$ 2,000      | 2,000         |
|                                       |                | Preferred Stock Warrants                            |               | 165           |
| Total NEXX Systems, Inc.              |                |                                                     | 6,253         | 6,260         |
| Quartics, Inc.                        | Semiconductors | Senior Debt                                         |               |               |
|                                       |                | Matures May 2010                                    |               |               |
|                                       |                | Interest rate 10.00%                                | \$ 222        | 212           |
|                                       |                | Preferred Stock Warrants                            |               | 53            |
| Total Quartics, Inc.                  |                |                                                     | 265           | 212           |
| Solarflare Communications, Inc.       | Semiconductors | Senior Debt                                         |               |               |
|                                       |                | Matures August 2010                                 |               |               |
|                                       |                | Interest rate 11.75%                                | \$ 267        | 244           |
|                                       |                | Preferred Stock Warrants                            |               | 83            |
| Solarflare Communications, Inc.       |                | Common Stock                                        |               | 641           |
| Total Solarflare Communications, Inc. |                |                                                     | 968           | 247           |
| <b>Total Semiconductors (3.77%)</b>   |                |                                                     | <b>15,019</b> | <b>13,915</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>              | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|---------------------------------------|-----------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| Labopharm USA, Inc. <sup>(5)</sup>    | Drug Delivery   | Senior Debt                             |                         |                           |                            |
|                                       |                 | Matures June 2012                       |                         |                           |                            |
|                                       |                 | Interest rate 10.95%                    | \$ 20,000               | \$ 19,680                 | \$ 19,680                  |
|                                       |                 | Common Stock Warrants                   |                         | 687                       | 776                        |
| Total Labopharm USA, Inc.             |                 |                                         |                         | 20,367                    | 20,456                     |
| Transcept Pharmaceuticals, Inc.       | Drug Delivery   | Common Stock Warrants                   |                         | 36                        | 212                        |
|                                       |                 | Common Stock Warrants                   |                         | 51                        | 271                        |
| Transcept Pharmaceuticals, Inc.       |                 | Common Stock                            |                         | 500                       | 574                        |
| Total Transcept Pharmaceuticals, Inc. |                 |                                         |                         | 587                       | 1,057                      |
| <b>Total Drug Delivery (5.83%)</b>    |                 |                                         |                         | <b>20,954</b>             | <b>21,513</b>              |
| BARRX Medical, Inc.                   | Therapeutic     | Senior Debt                             |                         |                           |                            |
|                                       |                 | Mature December 2011                    |                         |                           |                            |
|                                       |                 | Interest rate 11.00%                    | \$ 6,083                | 6,073                     | 6,073                      |
|                                       |                 | Revolving Line of Credit                |                         |                           |                            |
|                                       |                 | Matures May 2010                        |                         |                           |                            |
|                                       |                 | Interest rate 10.00%                    | \$ 1,000                | 1,000                     | 1,000                      |
|                                       |                 | Preferred Stock Warrants                |                         | 76                        |                            |
| BARRX Medical, Inc.                   |                 | Preferred Stock                         |                         | 1,500                     | 1,215                      |
| Total BARRX Medical, Inc.             |                 |                                         |                         | 8,649                     | 8,288                      |
| EKOS Corporation                      | Therapeutic     | Senior Debt                             |                         |                           |                            |
|                                       |                 | Matures November 2010                   |                         |                           |                            |
|                                       |                 | Interest rate Prime + 2.00%             | \$ 3,385                | 3,315                     | 3,315                      |
|                                       |                 | Preferred Stock Warrants                |                         | 175                       | 41                         |
|                                       |                 | Preferred Stock Warrants                |                         | 152                       | 20                         |
| Total EKOS Corporation                |                 |                                         |                         | 3,642                     | 3,376                      |
| Gelesis, Inc. <sup>(7)</sup>          | Therapeutic     | Senior Debt                             |                         |                           |                            |
|                                       |                 | Matures May 2012                        |                         |                           |                            |
|                                       |                 | Interest rate Prime + 5.65% or          |                         |                           |                            |
|                                       |                 | Floor rate of 10.75%                    | \$ 2,849                | 2,811                     |                            |

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Preferred Stock Warrants 58

|                                      |             |                          |               |               |
|--------------------------------------|-------------|--------------------------|---------------|---------------|
| Total Gelesis, Inc.                  |             |                          | 2,869         |               |
| Gynesonics, Inc.                     | Therapeutic | Preferred Stock Warrants | 18            | 396           |
| Gynesonics, Inc.                     |             | Preferred Stock          | 250           | 871           |
| Total Gynesonics, Inc.               |             |                          | 268           | 1,267         |
| Light Science Oncology, Inc.         | Therapeutic | Preferred Stock Warrants | 99            | 28            |
| Total Light Science Oncology, Inc.   |             |                          | 99            | 28            |
| Novasys Medical, Inc. <sup>(4)</sup> | Therapeutic | Senior Debt              |               |               |
|                                      |             | Matures February 2010    |               |               |
|                                      |             | Interest rate 9.70%      | \$ 1,153      | 1,151 1,151   |
|                                      |             | Preferred Stock Warrants | 71            | 5             |
|                                      |             | Preferred Stock Warrants | 54            | 7             |
| Novasys Medical, Inc.                |             | Preferred Stock          | 1,000         | 1,606         |
| Total Novasys Medical, Inc.          |             |                          | 2,276         | 2,769         |
| <b>Total Therapeutic (4.27%)</b>     |             |                          | <b>17,803</b> | <b>15,728</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                          | <b>Industry</b>              | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|---------------------------------------------------|------------------------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| Cozi Group, Inc.                                  | Internet                     | Preferred Stock Warrants                |                         |                           |                            |
|                                                   | Consumer & Business Services |                                         |                         | \$ 148                    | \$                         |
| Cozi Group, Inc.                                  |                              | Preferred Stock                         |                         | 177                       | 7                          |
| Total Cozi Group, Inc.                            |                              |                                         |                         | 325                       | 7                          |
| Invoke Solutions, Inc.                            |                              | Preferred Stock Warrants                |                         | 56                        | 153                        |
|                                                   |                              | Preferred Stock Warrants                |                         | 26                        | 34                         |
| Total Invoke Solutions, Inc.                      |                              |                                         |                         | 82                        | 187                        |
| Prism Education Group Inc.                        | Internet                     |                                         |                         |                           |                            |
|                                                   | Consumer & Business Services | Senior Debt                             |                         |                           |                            |
|                                                   |                              | Matures December 2010                   |                         |                           |                            |
|                                                   |                              | Interest rate 11.25%                    | \$ 987                  | 973                       | 973                        |
|                                                   |                              | Preferred Stock Warrants                |                         | 43                        | 115                        |
| Total Prism Education Group Inc.                  |                              |                                         |                         | 1,016                     | 1,088                      |
| RazorGator Interactive Group, Inc. <sup>(4)</sup> | Internet                     |                                         |                         |                           |                            |
|                                                   | Consumer & Business Services | Revolving Line of Credit                |                         |                           |                            |
|                                                   |                              | Matures May 2010                        |                         |                           |                            |
|                                                   |                              | Interest rate Prime + 6.00% or          |                         |                           |                            |
|                                                   |                              | Floor rate of 12.00%                    | \$ 3,000                | 3,000                     | 3,000                      |
|                                                   |                              | Preferred Stock Warrants                |                         | 13                        | 194                        |
|                                                   |                              | Preferred Stock Warrants                |                         | 28                        | 30                         |
| RazorGator Interactive Group, Inc.                |                              | Preferred Stock                         |                         | 1,000                     | 1,033                      |
| Total RazorGator Interactive Group, Inc.          |                              |                                         |                         | 4,041                     | 4,257                      |
| Serious USA, Inc. <sup>(7)</sup>                  | Internet                     |                                         |                         |                           |                            |
|                                                   | Consumer & Business Services | Senior Debt                             |                         |                           |                            |
|                                                   |                              | Matures February 2011                   |                         |                           |                            |
|                                                   |                              | Interest rate 14%                       | \$ 2,212                | 2,179                     |                            |
|                                                   |                              | Preferred Stock Warrants                |                         | 93                        |                            |
| Total Serious USA, Inc.                           |                              |                                         |                         | 2,272                     |                            |
| Spa Chakra, Inc.                                  |                              | Senior Debt                             |                         |                           |                            |

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|                                                                |  |                             |                          |        |
|----------------------------------------------------------------|--|-----------------------------|--------------------------|--------|
| Internet<br>Consumer &<br>Business Services                    |  | Matures October 2011        |                          |        |
|                                                                |  | Interest rate 16.45%        | \$ 10,000                | 10,234 |
|                                                                |  | Senior Debt                 |                          | 10,234 |
|                                                                |  | Matures April 2010          |                          |        |
|                                                                |  | Interest rate 16.45%        | \$ 850                   | 850    |
|                                                                |  | Preferred Stock Warrants    |                          | 1      |
| Total Spa Chakra, Inc.                                         |  |                             | 11,085                   | 11,085 |
| <b>Total Internet Consumer &amp; Business Services (4.51%)</b> |  |                             | 18,821                   | 16,624 |
| Lilliputian Systems, Inc.                                      |  | Energy                      | Preferred Stock Warrants | 106    |
|                                                                |  |                             | Common Stock Warrants    | 49     |
| Total Lilliputian Systems, Inc.                                |  |                             | 155                      | 127    |
| <b>Total Energy (0.03%)</b>                                    |  |                             | 155                      | 127    |
| Box.net, Inc.                                                  |  | Information<br>Services     | Senior Debt              |        |
|                                                                |  |                             | Matures May 2011         |        |
|                                                                |  | Interest rate Prime + 1.50% | \$ 786                   | 762    |
|                                                                |  | Senior Debt                 |                          | 762    |
|                                                                |  | Matures September 2011      |                          |        |
|                                                                |  | Interest rate Prime + 0.50% | \$ 325                   | 325    |
|                                                                |  | Preferred Stock Warrants    |                          | 73     |
| Total Box.net, Inc.                                            |  |                             | 1,160                    | 1,133  |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                          | <b>Industry</b>      | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|---------------------------------------------------|----------------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| Buzznet, Inc.                                     | Information Services | Preferred Stock Warrants                |                         | \$ 9                      | \$                         |
| Buzznet, Inc.                                     |                      | Preferred Stock                         |                         | 250                       | 74                         |
| Total Buzznet, Inc.                               |                      |                                         |                         | 259                       | 74                         |
| Caivis Acquisition, Inc.                          | Information Services | Common Stock                            |                         | 880                       | 880                        |
| Total Caivis Acquisition, Inc.                    |                      |                                         |                         | 880                       | 880                        |
| hi5 Networkss, Inc.                               | Information Services | Senior Debt                             |                         |                           |                            |
|                                                   |                      | Matures December 2010                   |                         |                           |                            |
|                                                   |                      | Interest rate Prime + 2.5%              | \$ 1,698                | 1,698                     | 1,698                      |
|                                                   |                      | Senior Debt                             |                         |                           |                            |
|                                                   |                      | Matures June 2011                       |                         |                           |                            |
|                                                   |                      | Interest rate Prime + 0.5%              | \$ 4,170                | 4,112                     | 4,112                      |
|                                                   |                      | Preferred Stock Warrants                |                         | 213                       | 47                         |
| Total hi5 Networks, Inc.                          |                      |                                         |                         | 6,023                     | 5,857                      |
| Jab Wireless, Inc.                                | Information Services | Senior Debt                             |                         |                           |                            |
|                                                   |                      | Matures November 2012                   |                         |                           |                            |
|                                                   |                      | Interest rate Prime + 3.50% or          |                         |                           |                            |
|                                                   |                      | Floor rate of 9.5%                      | \$ 15,000               | 15,052                    | 15,052                     |
|                                                   |                      | Preferred Stock Warrants                |                         | 265                       | 188                        |
| Total Jab Wireless, Inc.                          |                      |                                         |                         | 15,317                    | 15,240                     |
| Solutionary, Inc.                                 |                      | Preferred Stock Warrants                |                         | 94                        | 100                        |
|                                                   |                      | Preferred Stock Warrants                |                         | 2                         | 3                          |
| Solutionary, Inc.                                 |                      | Preferred Stock                         |                         | 250                       | 236                        |
| Total Solutionary, Inc.                           |                      |                                         |                         | 346                       | 339                        |
| Ancestry.com, Inc.(The Generation Networks, Inc.) |                      | Common Stock                            |                         | 500                       | 937                        |
| Total The Generation Networks, Inc.               |                      |                                         |                         | 500                       | 937                        |
| Good Technologies, Inc. (Visto Corporation)       |                      | Common Stock                            |                         | 603                       | 603                        |

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|                                            |                      |                          |               |               |
|--------------------------------------------|----------------------|--------------------------|---------------|---------------|
| Total Visto Corporation                    |                      |                          | 603           | 603           |
| Coveroo, Inc.                              |                      | Preferred Stock Warrants | 7             |               |
| Total Coveroo, Inc.                        |                      |                          | 7             |               |
| Zeta Interactive Corporation               | Information Services | Senior Debt              |               |               |
|                                            |                      | Matures November 2012    |               |               |
|                                            |                      | Interest rate 9.50%      | \$ 5,090      | 5,059         |
|                                            |                      | Senior Debt              |               |               |
|                                            |                      | Matures November 2012    |               |               |
|                                            |                      | Interest rate 10.50%     | \$ 6,946      | 7,111         |
|                                            |                      | Preferred Stock Warrants | 172           |               |
| Zeta Interactive Corporation               |                      | Preferred Stock          | 500           | 405           |
| Total Zeta Interactive Corporation         |                      |                          | 12,842        | 12,575        |
| <b>Total Information Services (10.21%)</b> |                      |                          | <b>37,937</b> | <b>37,638</b> |
| Novadaq Technologies, Inc.                 | Diagnostic           | Common Stock             | 1,605         | 422           |
| Total Novadaq Technologies, Inc.           |                      |                          | 1,605         | 422           |
| Optiscan Biomedical, Corp.                 | Diagnostic           | Senior Debt              |               |               |
|                                            |                      | Matures June 2011        |               |               |
|                                            |                      | Interest rate 10.25%     | \$ 8,864      | 8,618         |
|                                            |                      | Preferred Stock Warrants | 760           | 365           |
| Optiscan Biomedical, Corp.                 |                      | Preferred Stock          | 3,000         | 3,000         |
| Total Optiscan Biomedical, Corp.           |                      |                          | 12,378        | 11,983        |
| <b>Total Diagnostic (3.36%)</b>            |                      |                          | <b>13,983</b> | <b>12,405</b> |

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009****(unaudited)****(dollars in thousands)**

| <b>Portfolio Company</b>                    | <b>Industry</b>     | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(4)</sup></b> |
|---------------------------------------------|---------------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| Kamada, LTD. <sup>(5)</sup>                 | Biotechnology Tools | Senior Debt<br>Matures February 2012    |                         |                           |                            |
|                                             |                     | Interest rate 10.60%                    | \$ 19,500               | \$ 19,115                 | \$ 19,115                  |
|                                             |                     | Common Stock Warrants                   |                         | 159                       | 278                        |
| Kamada, LTD.                                |                     | Common Stock                            |                         | 794                       | 1,586                      |
| Total Kamada, LTD.                          |                     |                                         |                         | 20,068                    | 20,979                     |
| NuGEN Technologies, Inc.                    | Biotechnology Tools | Senior Debt<br>Matures November 2010    |                         |                           |                            |
|                                             |                     | Interest rate Prime + 3.45%             | \$ 984                  | 976                       | 976                        |
|                                             |                     | Senior Debt<br>Matures November 2010    |                         |                           |                            |
|                                             |                     | Interest rate Prime + 1.70%             | \$ 558                  | 558                       | 558                        |
|                                             |                     | Preferred Stock Warrants                |                         | 45                        |                            |
|                                             |                     | Preferred Stock Warrants                |                         | 33                        |                            |
| NuGEN Technologies, Inc.                    |                     | Preferred Stock                         |                         | 500                       | 500                        |
| Total NuGEN Technologies, Inc.              |                     |                                         |                         | 2,112                     | 2,034                      |
| Solace Pharmaceuticals, Inc. <sup>(4)</sup> | Biotechnology Tools | Senior Debt<br>Matures August 2012      |                         |                           |                            |
|                                             |                     | Interest rate Prime + 4.25% or          |                         |                           |                            |
|                                             |                     | Floor rate of 9.85%                     | \$ 5,000                | 4,923                     | 4,923                      |
|                                             |                     | Preferred Stock Warrants                |                         | 42                        | 41                         |
|                                             |                     | Preferred Stock Warrants                |                         | 54                        | 43                         |
| Total Solace Pharmaceuticals, Inc.          |                     |                                         |                         | 5,019                     | 5,007                      |
| <b>Total Biotechnology Tools (7.60%)</b>    |                     |                                         |                         | <b>27,199</b>             | <b>28,020</b>              |
| Crux Biomedical, Inc.                       | Surgical Devices    | Preferred Stock Warrants                |                         | 37                        |                            |
| Crux Biomedical, Inc.                       |                     | Preferred Stock                         |                         | 250                       | 26                         |
| Total Crux Biomedical, Inc.                 |                     |                                         |                         | 287                       | 26                         |
| Transmedics, Inc. <sup>(4) (7)</sup>        | Surgical Devices    | Senior Debt                             |                         |                           |                            |

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Matures December 2011

|                                         |                             |                          |              |              |
|-----------------------------------------|-----------------------------|--------------------------|--------------|--------------|
|                                         | Interest rate Prime + 5.25% | \$ 9,475                 | 9,362        | 2,362        |
|                                         | Preferred Stock Warrants    |                          | 225          |              |
| Total Transmedics, Inc.                 |                             |                          | 9,587        | 2,362        |
| <b>Total Surgical Devices (0.65%)</b>   |                             |                          | <b>9,874</b> | <b>2,388</b> |
| Glam Media, Inc.                        | Media/Content/<br>Info      | Preferred Stock Warrants | 482          | 283          |
| <b>Total Glam Media, Inc.</b>           |                             |                          | <b>482</b>   | <b>283</b>   |
| Waterfront Media Inc.                   |                             | Preferred Stock Warrants | 60           | 369          |
|                                         |                             | Preferred Stock          | 1,000        | 1,500        |
| Total Waterfront Media Inc.             |                             |                          | 1,060        | 1,869        |
| <b>Total Media/Content/Info (0.58%)</b> |                             |                          | <b>1,542</b> | <b>2,152</b> |
| Total Investments (112.51%)             |                             |                          | \$ 434,963   | \$ 414,847   |

\* Value as a percent of net assets

- (1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
- (2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$12,932, \$35,436 and \$22,504, respectively. The tax cost of investments is \$435,171.
- (3) Except for warrants in five publicly traded companies and common stock in three publicly traded companies, all investments are restricted at September 30, 2009 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (5) Non-U.S. company or the company's principal place of business is outside the United States.
- (6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company. All other investments are less than 5% owned.
- (7) Debt is on non-accrual status at September 30, 2009, and is therefore considered non-income producing.
- (8) On October 7, 2009 Compuware Corporation (NASDAQ: CPWR) announced the signing of a definitive agreement to acquire privately-held Gomez, Inc. The \$295.0 million cash acquisition is expected to close in the fourth quarter of 2009. The Company's financial statements do not reflect any potential unrealized gains related to the transaction as of September 30, 2009.

See notes to consolidated financial statements (unaudited).

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                     | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                             | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|----------------------------------------------|-----------------|---------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Accelaron Pharmaceuticals, Inc. (0.64%)*(4)  | Drug Discovery  | Senior Debt<br>Matures January 2010<br>Interest rate 10.25%         | \$ 1,753                | \$ 1,728                  | \$ 1,728                   |
|                                              |                 | Preferred Stock Warrants                                            |                         | 69                        | 596                        |
|                                              |                 | Preferred Stock Warrants                                            |                         | 35                        | 116                        |
| Accelaron Pharmaceuticals, Inc. (0.35%)      |                 | Preferred Stock                                                     |                         | 1,243                     | 1,354                      |
| <b>Total Accelaron Pharmaceuticals, Inc.</b> |                 |                                                                     |                         | <b>3,075</b>              | <b>3,794</b>               |
| Aveo Pharmaceuticals, Inc. (3.99%)(4)        | Drug Discovery  | Senior Debt<br>Matures November 2011<br>Interest rate 11.13%        | \$ 15,000               | 14,904                    | 14,904                     |
|                                              |                 | Preferred Stock Warrants                                            |                         | 190                       | 257                        |
|                                              |                 | Preferred Stock Warrants                                            |                         | 104                       | 83                         |
|                                              |                 | Preferred Stock Warrants                                            |                         | 24                        | 28                         |
| <b>Total Aveo Pharmaceuticals, Inc.</b>      |                 |                                                                     |                         | <b>15,222</b>             | <b>15,272</b>              |
| Elixir Pharmaceuticals, Inc. (2.91%)(4)      | Drug Discovery  | Senior Debt<br>Matures December 2010<br>Interest rate Prime + 4.50% | \$ 11,000               | 11,000                    | 11,000                     |
|                                              |                 | Preferred Stock Warrants                                            |                         | 217                       | 116                        |
| <b>Total Elixir Pharmaceuticals, Inc.</b>    |                 |                                                                     |                         | <b>11,217</b>             | <b>11,116</b>              |
| EpiCept Corporation (0.33%)(4)               | Drug Discovery  | Senior Debt<br>Matures April 2009<br>Interest rate 15.00%           | \$ 8                    | 8                         | 8                          |
|                                              |                 | Common Stock Warrants                                               |                         | 161                       | 992                        |
|                                              |                 | Common Stock Warrants                                               |                         | 40                        | 250                        |
| <b>Total EpiCept Corporation</b>             |                 |                                                                     |                         | <b>209</b>                | <b>1,250</b>               |
| Horizon Therapeutics, Inc. (1.92%)(4)        | Drug Discovery  | Senior Debt<br>Matures July 2011<br>Interest rate Prime + 1.50%     | \$ 7,200                | 7,042                     | 7,042                      |
|                                              |                 | Preferred Stock Warrants                                            |                         | 231                       | 281                        |
| <b>Total Horizon Therapeutics, Inc.</b>      |                 |                                                                     |                         | <b>7,273</b>              | <b>7,323</b>               |
| Inotek Pharmaceuticals Corp. (0.30%)         | Drug Discovery  | Preferred Stock                                                     |                         | 1,500                     | 1,144                      |
| <b>Total Inotek Pharmaceuticals Corp.</b>    |                 |                                                                     |                         | <b>1,500</b>              | <b>1,144</b>               |
| Memory Pharmaceuticals Corp. (2.87%)(4)      | Drug Discovery  | Senior Debt<br>Matures December 2010<br>Interest rate 11.45%        | \$ 11,879               | 10,979                    | 10,979                     |
|                                              |                 | Common Stock Warrants                                               |                         | 1,751                     |                            |
| <b>Total Memory Pharmaceuticals Corp.</b>    |                 |                                                                     |                         | <b>12,730</b>             | <b>10,979</b>              |

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|                                                         |                |                                       |           |        |
|---------------------------------------------------------|----------------|---------------------------------------|-----------|--------|
| Merrimack Pharmaceuticals, Inc. (0.19%)( <sup>4</sup> ) | Drug Discovery | Preferred Stock Warrants              | 155       | 743    |
| Merrimack Pharmaceuticals, Inc. (0.68%)                 |                | Preferred Stock                       | 2,000     | 2,610  |
| Total Merrimack Pharmaceuticals, Inc.                   |                |                                       | 2,155     | 3,353  |
| Paratek Pharmaceuticals, Inc. (0.04%)( <sup>4</sup> )   | Drug Discovery | Preferred Stock Warrants              | 137       | 164    |
| Paratek Pharmaceuticals, Inc. (0.24%)                   |                | Preferred Stock                       | 1,000     | 926    |
| Total Paratek Pharmaceuticals, Inc.                     |                |                                       | 1,137     | 1,090  |
| Portola Pharmaceuticals, Inc. (3.14%)( <sup>4</sup> )   | Drug Discovery | Senior Debt<br>Matures September 2011 |           |        |
|                                                         |                | Interest rate Prime + 2.16%           | \$ 11,668 | 11,600 |
|                                                         |                | Preferred Stock Warrants              |           | 11,600 |
|                                                         |                |                                       |           | 152    |
| Total Portola Pharmaceuticals, Inc.                     |                |                                       | 11,752    | 11,999 |
| See notes to consolidated financial statements.         |                |                                       |           |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                            | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                      | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-----------------------------------------------------|-----------------------------|------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Recoly, N.V. (0.79%)( <sup>6</sup> )                | Drug Discovery              | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 4.25%               | \$ 3,000                | \$ 3,000                  | \$ 3,000                   |
| Total Recoly, N.V.                                  |                             |                                                                              |                         | 3,000                     | 3,000                      |
| <b>Total Drug Discovery (18.39%)</b>                |                             |                                                                              |                         | <b>69,270</b>             | <b>70,320</b>              |
| Affinity Videonet, Inc. (1.70%)( <sup>4</sup> )     | Communications & Networking | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 4.50%              | \$ 4,000                | 3,942                     | 3,942                      |
|                                                     |                             | Senior Debt<br>Matures June 2012<br>Interest rate Prime + 5.50%              | \$ 2,000                | 2,000                     | 2,000                      |
|                                                     |                             | Revolving Line of Credit<br>Matures June 2012<br>Interest rate Prime + 3.50% | \$ 500                  | 500                       | 500                        |
|                                                     |                             | Preferred Stock Warrants                                                     |                         | 75                        | 57                         |
| Total Affinity Videonet, Inc.                       |                             |                                                                              |                         | 6,517                     | 6,499                      |
| E-Band Communications, Inc. (0.24%)( <sup>7</sup> ) | Communications & Networking | Preferred Stock                                                              |                         | 2,000                     | 904                        |
| Total E-Band Communications, Inc.                   |                             |                                                                              |                         | 2,000                     | 904                        |
| IKANO Communications, Inc. (3.22%)( <sup>4</sup> )  | Communications & Networking | Senior Debt<br>Matures April 2011<br>Interest rate 11.00%                    | \$ 11,946               | 11,946                    | 11,946                     |
|                                                     |                             | Preferred Stock Warrants                                                     |                         | 45                        | 147                        |
|                                                     |                             | Preferred Stock Warrants                                                     |                         | 73                        | 221                        |
| Total IKANO Communications, Inc.                    |                             |                                                                              |                         | 12,064                    | 12,314                     |
| Kadoink, Inc. (0.50%)( <sup>4</sup> )               | Communications & Networking | Senior Debt<br>Matures April 2011<br>Interest rate Prime + 2.00%             | \$ 1,879                | 1,832                     | 1,832                      |
|                                                     |                             | Preferred Stock Warrants                                                     |                         | 73                        | 72                         |
| Kadoink, Inc. (0.07%)                               |                             | Preferred Stock                                                              |                         | 250                       | 250                        |
| Total Kadoink, Inc.                                 |                             |                                                                              |                         | 2,155                     | 2,154                      |
| Neonova Holding Company (2.35%)                     | Communications & Networking | Senior Debt<br>Matures September 2012<br>Interest rate Prime + 3.25%         | \$ 9,000                | 8,931                     | 8,931                      |
|                                                     |                             | Preferred Stock Warrants                                                     |                         | 94                        | 66                         |
| Neonova Holding Company (0.06%)                     |                             | Preferred Stock                                                              |                         | 250                       | 224                        |
| Total Neonova Holding Company                       |                             |                                                                              |                         | 9,275                     | 9,221                      |

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|                                                 |                                |                                  |          |       |       |
|-------------------------------------------------|--------------------------------|----------------------------------|----------|-------|-------|
| Peerless Network, Inc. (0.34%)(5)(7)            | Communications<br>& Networking | Senior Debt<br>Matures June 2011 |          |       |       |
|                                                 |                                | Interest rate Prime + 3.25%      | \$ 1,378 | 1,318 | 1,318 |
|                                                 |                                | Preferred Stock Warrants         |          | 95    |       |
| Peerless Network, Inc. (0.00%)                  |                                | Preferred Stock                  |          | 1,000 |       |
| Total Peerless Network, Inc.                    |                                |                                  |          | 2,413 | 1,318 |
| Ping Identity Corporation (0.00%)(4)            | Communications<br>& Networking | Preferred Stock Warrants         |          | 52    | 2     |
| Total Ping Identity Corporation                 |                                |                                  |          | 52    | 2     |
| See notes to consolidated financial statements. |                                |                                  |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                            | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                           | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-----------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Purcell Systems, Inc. (2.55%)                       | Communications & Networking | Senior Debt<br>Matures June 2010<br>Interest rate Prime + 3.50%                   | \$ 1,659                | \$ 1,601                  | \$ 1,601                   |
|                                                     |                             | Revolving Line of Credit<br>Matures July 2009<br>Interest rate Prime + 2.75%      | \$ 6,000                | 6,000                     | 6,000                      |
|                                                     |                             | Senior Debt<br>Matures July 2011<br>Interest rate Prime + 3.50%                   | \$ 1,600                | 1,600                     | 1,600                      |
|                                                     |                             | Preferred Stock Warrants                                                          |                         | 123                       | 538                        |
| Total Purcell Systems, Inc.                         |                             |                                                                                   |                         | 9,324                     | 9,739                      |
| Rivulet Communications, Inc. (0.51%) <sup>(5)</sup> | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate 10.50%                         | \$ 1,982                | 1,960                     | 1,960                      |
|                                                     |                             | Preferred Stock Warrants                                                          |                         | 50                        |                            |
| Rivulet Communications, Inc. (0.00%)                |                             | Preferred Stock                                                                   |                         | 250                       | 4                          |
| Total Rivulet Communications, Inc.                  |                             |                                                                                   |                         | 2,260                     | 1,964                      |
| Seven Networks, Inc. (2.64%) <sup>(4)</sup>         | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate Prime + 6.00%                  | \$ 6,941                | 6,875                     | 6,875                      |
|                                                     |                             | Revolving Line of Credit<br>Matures September 2009<br>Interest rate Prime + 5.00% | \$ 3,000                | 3,000                     | 3,000                      |
|                                                     |                             | Preferred Stock Warrants                                                          |                         | 174                       | 208                        |
| Total Seven Networks, Inc.                          |                             |                                                                                   |                         | 10,049                    | 10,083                     |
| Stoke, Inc. (0.71%)                                 | Communications & Networking | Senior Debt<br>Matures August 2010<br>Interest rate 10.55%                        | \$ 574                  | 545                       | 545                        |
|                                                     |                             | Senior Debt<br>Matures August 2010<br>Interest rate 10.05%                        | \$ 1,144                | 1,144                     | 1,144                      |
|                                                     |                             | Senior Debt<br>Matures August 2010<br>Interest rate 7.30%                         | \$ 946                  | 946                       | 946                        |
|                                                     |                             | Preferred Stock Warrants                                                          |                         | 53                        | 91                         |
| Total Stoke, Inc.                                   |                             |                                                                                   |                         | 2,688                     | 2,726                      |
| Tectura Corporation (6.54%) <sup>(4)</sup>          | Communications & Networking | Senior Debt<br>Matures April 2012<br>Interest rate LIBOR + 6.90%                  | \$ 7,232                | 7,439                     | 7,439                      |
|                                                     |                             | Revolving Line of Credit<br>Matures April 2009<br>Interest rate LIBOR + 6.35%     | \$ 12,000               | 12,000                    | 12,000                     |
|                                                     |                             |                                                                                   | \$ 5,507                | 5,507                     | 5,507                      |

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|                                                 |  |                             |        |        |
|-------------------------------------------------|--|-----------------------------|--------|--------|
|                                                 |  | Revolving Line of Credit    |        |        |
|                                                 |  | Matures March 2009          |        |        |
|                                                 |  | Interest rate LIBOR + 7.50% |        |        |
|                                                 |  | Preferred Stock Warrants    | 51     | 77     |
| Total Tectura Corporation                       |  |                             | 24,997 | 25,023 |
| See notes to consolidated financial statements. |  |                             |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                              | <b>Industry</b>             | <b>Type of Investment<sup>(1)</sup></b>                                         | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Wireless Channels, Inc. (3.04%)(4)                    | Communications & Networking | Senior Debt<br>Matures April 2010<br>Interest rate Prime + 4.25%                | \$ 10,000               | \$ 10,384                 | \$ 10,384                  |
|                                                       |                             | Senior Debt<br>Matures August 2010<br>Interest rate Prime + 0.50%               | \$ 895                  | 895                       | 895                        |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 155                       | 344                        |
| Total Wireless Channels, Inc.                         |                             |                                                                                 |                         | 11,434                    | 11,623                     |
| Zayo Bandwidth, Inc. (6.42%)                          | Communications & Networking | Senior Debt<br>Matures November 2013<br>Interest rate Libor + 5.25%             | \$ 25,000               | 25,000                    | 24,563                     |
| Total Zayo Bandwidth, Inc.                            |                             |                                                                                 |                         | 25,000                    | 24,563                     |
| <b>Total Communications &amp; Networking (30.89%)</b> |                             |                                                                                 |                         | <b>120,228</b>            | <b>118,133</b>             |
| Atrenta, Inc. (2.36%)(5)                              | Software                    | Senior Debt<br>Matures January 2010<br>Interest rate 11.50%                     | \$ 2,789                | 2,742                     | 2,742                      |
|                                                       |                             | Revolving Line of Credit<br>Matures October 2009<br>Interest rate Prime + 2.00% | \$ 6,000                | 6,000                     | 6,000                      |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 103                       | 176                        |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 34                        | 58                         |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 71                        | 43                         |
| Atrenta, Inc. (0.05%)                                 |                             | Preferred Stock                                                                 |                         | 250                       | 197                        |
| Total Atrenta, Inc.                                   |                             |                                                                                 |                         | 9,200                     | 9,216                      |
| Blurb, Inc. (1.76%)                                   | Software                    | Senior Debt<br>Matures December 2009<br>Interest rate 9.55%                     | \$ 1,414                | 1,405                     | 1,405                      |
|                                                       |                             | Senior Debt<br>Matures June 2011<br>Interest rate Prime + 3.50%                 | \$ 5,000                | 4,701                     | 4,701                      |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 25                        | 350                        |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 299                       | 276                        |
| Total Blurb, Inc.                                     |                             |                                                                                 |                         | 6,430                     | 6,732                      |
| Braxton Technologies, LLC. (2.64%)(5)                 | Software                    | Senior Debt<br>Matures July 2012<br>Interest rate Libor + 7.25%                 | \$ 10,000               | 9,916                     | 9,916                      |
|                                                       |                             | Preferred Stock Warrants                                                        |                         | 188                       | 172                        |
| Total Braxton Technologies, LLC.                      |                             |                                                                                 |                         | 10,104                    | 10,088                     |
| Bullhorn, Inc. (0.26%)                                | Software                    |                                                                                 | \$ 782                  | 760                       | 760                        |

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|                      |                                                 |                             |        |     |     |
|----------------------|-------------------------------------------------|-----------------------------|--------|-----|-----|
|                      |                                                 | Senior Debt                 |        |     |     |
|                      |                                                 | Matures November 2010       |        |     |     |
|                      |                                                 | Interest rate Prime + 3.75% |        |     |     |
|                      |                                                 | Preferred Stock Warrants    |        | 43  | 222 |
| Total Bullhorn, Inc. |                                                 |                             |        | 803 | 982 |
| Cittio, Inc. (0.19%) | Software                                        | Senior Debt                 |        |     |     |
|                      |                                                 | Matures May 2010            |        |     |     |
|                      |                                                 | Interest rate 11.00%        | \$ 731 | 720 | 720 |
|                      |                                                 | Preferred Stock Warrants    |        | 53  |     |
| Total Cittio, Inc.   |                                                 |                             |        | 773 | 720 |
|                      | See notes to consolidated financial statements. |                             |        |     |     |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                  | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                                          | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-------------------------------------------|-----------------|----------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Clickfox, Inc. (0.65%)                    | Software        | Senior Debt<br>Matures September 2011<br>Interest rate 10.25%                    | \$ 2,500                | \$ 2,357                  | \$ 2,357                   |
|                                           |                 | Preferred Stock Warrants                                                         |                         | 163                       | 131                        |
| <b>Total Clickfox, Inc.</b>               |                 |                                                                                  |                         | <b>2,520</b>              | <b>2,488</b>               |
| Forescout Technologies, Inc. (0.40%)(4)   | Software        | Senior Debt<br>Matures August 2009<br>Interest rate 11.15%                       | \$ 906                  | 892                       | 892                        |
|                                           |                 | Revolving Line of Credit<br>Matures March 2009<br>Interest rate Prime + 2.25%    | \$ 500                  | 500                       | 500                        |
|                                           |                 | Preferred Stock Warrants                                                         |                         | 99                        | 130                        |
| <b>Total Forescout Technologies, Inc.</b> |                 |                                                                                  |                         | <b>1,491</b>              | <b>1,522</b>               |
| GameLogic, Inc. (0.00%)(4)                | Software        | Preferred Stock Warrants                                                         |                         | 92                        | 3                          |
| <b>Total GameLogic, Inc.</b>              |                 |                                                                                  |                         | <b>92</b>                 | <b>3</b>                   |
| Gomez, Inc. (0.22%)(4)                    | Software        | Preferred Stock Warrants                                                         |                         | 35                        | 833                        |
| <b>Total Gomez, Inc.</b>                  |                 |                                                                                  |                         | <b>35</b>                 | <b>833</b>                 |
| HighJump Acquisition, LLC. (3.92%)(4)     | Software        | Senior Debt<br>Matures May 2013<br>Interest rate Prime + 7.50%                   | \$ 15,000               | 15,000                    | 15,000                     |
| <b>Total HighJump Acquisition, LLC.</b>   |                 |                                                                                  |                         | <b>15,000</b>             | <b>15,000</b>              |
| HighRoads, Inc. (0.02%)(4)                | Software        | Preferred Stock Warrants                                                         |                         | 44                        | 59                         |
| <b>Total HighRoads, Inc.</b>              |                 |                                                                                  |                         | <b>44</b>                 | <b>59</b>                  |
| Infologix, Inc. (5.49%)(4)                | Software        | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 8.75%                   | \$ 12,000               | 12,007                    | 12,007                     |
|                                           |                 | Revolving Line of Credit<br>Matures November 2009<br>Interest rate Prime + 6.75% | \$ 9,000                | 9,000                     | 9,000                      |
| <b>Total Infologix, Inc.</b>              |                 |                                                                                  |                         | <b>21,007</b>             | <b>21,007</b>              |
| Intelliden, Inc. (0.37%)                  | Software        | Senior Debt<br>Matures February 2010<br>Interest rate 13.20%                     | \$ 1,399                | 1,394                     | 1,394                      |
|                                           |                 | Preferred Stock Warrants                                                         |                         | 18                        | 38                         |
| <b>Total Intelliden, Inc.</b>             |                 |                                                                                  |                         | <b>1,412</b>              | <b>1,432</b>               |

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|                                                 |          |                          |          |       |
|-------------------------------------------------|----------|--------------------------|----------|-------|
| Oatsystems, Inc. (0.00%)(4)                     | Software | Preferred Stock Warrants |          | 67    |
| Total Oatsystems, Inc.                          |          |                          |          | 67    |
| Proficiency, Inc. (0.00%)(6)(7)(8)              | Software | Senior Debt              |          |       |
|                                                 |          | Matures August 2012      |          |       |
|                                                 |          | Interest rate 8.00%      | \$ 1,500 | 1,497 |
|                                                 |          | Preferred Stock Warrants |          | 97    |
| Proficiency, Inc. (0.00%)                       |          | Preferred Stock          |          | 2,750 |
| Total Proficiency, Inc.                         |          |                          |          | 4,344 |
| See notes to consolidated financial statements. |          |                          |          |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>         | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                                       | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|----------------------------------|-----------------|-------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| PSS Systems, Inc. (0.65%)(4)     | Software        | Senior Debt<br>Matures May 2010<br>Interest rate 11.48%                       | \$ 2,423                | \$ 2,403                  | \$ 2,403                   |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 51                        | 96                         |
| Total PSS Systems, Inc.          |                 |                                                                               |                         | 2,454                     | 2,499                      |
| Rockyou, Inc. (0.72%)(4)         | Software        | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 2.50%                | \$ 2,750                | 2,674                     | 2,674                      |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 117                       | 66                         |
| Total Rockyou, Inc.              |                 |                                                                               |                         | 2,791                     | 2,740                      |
| Savvion, Inc. (1.42%)(4)         | Software        | Senior Debt<br>Matures April 2009<br>Interest rate Prime + 3.45%              | \$ 331                  | 279                       | 279                        |
|                                  |                 | Revolving Line of Credit<br>Matures March 2009<br>Interest rate Prime + 4.45% | \$ 3,366                | 3,366                     | 3,366                      |
|                                  |                 | Revolving Line of Credit<br>Matures March 2009<br>Interest rate Prime + 3.00% | \$ 1,619                | 1,619                     | 1,619                      |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 53                        | 168                        |
| Total Savvion, Inc.              |                 |                                                                               |                         | 5,317                     | 5,432                      |
| Sportvision, Inc. (0.02%)(4)     | Software        | Preferred Stock Warrants                                                      |                         | 39                        | 91                         |
| Total Sportvision, Inc.          |                 |                                                                               |                         | 39                        | 91                         |
| WildTangent, Inc. (0.01%)        | Software        | Preferred Stock Warrants                                                      |                         | 238                       | 41                         |
| Total WildTangent, Inc.          |                 |                                                                               |                         | 238                       | 41                         |
| <b>Total Software (21.15%)</b>   |                 |                                                                               |                         | <b>84,161</b>             | <b>80,885</b>              |
| Luminus Devices, Inc. (3.08%)(4) | Electronics &   |                                                                               |                         |                           |                            |
|                                  | Computer        | Senior Debt<br>Matures December 2010                                          |                         |                           |                            |
|                                  | Hardware        | Interest rate 12.875%                                                         | \$ 11,792               | 11,514                    | 11,514                     |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 183                       | 50                         |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 84                        | 25                         |
|                                  |                 | Preferred Stock Warrants                                                      |                         | 334                       | 189                        |
| Total Luminus Devices, Inc.      |                 |                                                                               |                         | 12,115                    | 11,778                     |

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|                                                 |               |                             |          |        |        |
|-------------------------------------------------|---------------|-----------------------------|----------|--------|--------|
| Maxvision Holding, LLC. (2.71%)(4)              | Electronics & |                             |          |        |        |
|                                                 | Computer      | Senior Debt                 |          |        |        |
|                                                 |               | Matures October 2012        |          |        |        |
|                                                 | Hardware      | Interest rate Prime + 5.50% | \$ 5,000 | 5,000  | 5,000  |
|                                                 |               | Senior Debt                 |          |        |        |
|                                                 |               | Matures April 2012          |          |        |        |
|                                                 |               | Interest rate Prime + 2.25% | \$ 5,167 | 5,363  | 5,363  |
| Maxvision Holding, LLC. (0.07%)(4)              |               | Common Stock                |          | 81     | 268    |
| Total Maxvision Holding, LLC                    |               |                             |          | 10,444 | 10,631 |
| Shocking Technologies, Inc. (0.94%)             | Electronics & |                             |          |        |        |
|                                                 | Computer      | Senior Debt                 |          |        |        |
|                                                 |               | Matures December 2010       |          |        |        |
|                                                 | Hardware      | Interest rate 9.75%         | \$ 225   | 192    | 192    |
|                                                 |               | Senior Debt                 |          |        |        |
|                                                 |               | Matures December 2010       |          |        |        |
|                                                 |               | Interest rate 7.50%         | \$ 3,365 | 3,365  | 3,365  |
|                                                 |               | Preferred Stock Warrants    |          | 63     | 55     |
| Total Shocking Technologies, Inc.               |               |                             |          | 3,620  | 3,612  |
| See notes to consolidated financial statements. |               |                             |          |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                                  | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-----------------------------------------------------------|-----------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| SiCortex, Inc. (1.83%)                                    | Electronics &   |                                         |                         |                           |                            |
|                                                           | Computer        | Senior Debt                             |                         |                           |                            |
|                                                           |                 | Matures December 2010                   |                         |                           |                            |
|                                                           | Hardware        | Interest rate 10.95%                    | \$ 7,364                | \$ 7,274                  | \$ 6,774                   |
|                                                           |                 | Preferred Stock Warrants                |                         | 164                       | 216                        |
| Total SiCortex, Inc.                                      |                 |                                         |                         | 7,438                     | 6,990                      |
| Spatial Photonics, Inc. (0.97%) <sup>(4)</sup>            | Electronics &   |                                         |                         |                           |                            |
|                                                           | Computer        | Senior Debt                             |                         |                           |                            |
|                                                           |                 | Matures April 2011                      |                         |                           |                            |
|                                                           | Hardware        | Interest rate 10.066%                   | \$ 3,216                | 3,146                     | 3,146                      |
|                                                           |                 | Senior Debt                             |                         |                           |                            |
|                                                           |                 | Mature April 2011                       |                         |                           |                            |
|                                                           |                 | Interest rate 9.217%                    | \$ 321                  | 321                       | 321                        |
|                                                           |                 | Preferred Stock Warrants                |                         | 131                       | 251                        |
| Spatial Photonics, Inc. (0.13%)                           |                 | Preferred Stock                         |                         | 500                       | 500                        |
| Total Spatial Photonics Inc.                              |                 |                                         |                         | 4,098                     | 4,218                      |
| VeriWave, Inc. (0.85%)                                    | Electronics &   |                                         |                         |                           |                            |
|                                                           | Computer        | Senior Debt                             |                         |                           |                            |
|                                                           |                 | Matures May 2010                        |                         |                           |                            |
|                                                           | Hardware        | Interest rate 10.75%                    | \$ 2,549                | 2,507                     | 2,507                      |
|                                                           |                 | Revolving Line of Credit                |                         |                           |                            |
|                                                           |                 | Matures September 2009                  |                         |                           |                            |
|                                                           |                 | Interest rate Prime + 4.50%             | \$ 630                  | 630                       | 630                        |
|                                                           |                 | Preferred Stock Warrants                |                         | 54                        | 76                         |
|                                                           |                 | Preferred Stock Warrants                |                         | 46                        | 38                         |
| Total VeriWave, Inc.                                      |                 |                                         |                         | 3,237                     | 3,251                      |
| <b>Total Electronics &amp; Computer Hardware (10.58%)</b> |                 |                                         |                         | <b>40,952</b>             | <b>40,480</b>              |
| Aegerion Pharmaceuticals, Inc. (2.08%) <sup>(5)</sup>     | Specialty       | Senior Debt                             |                         |                           |                            |
|                                                           |                 | Matures September 2011                  |                         |                           |                            |
|                                                           | Pharmaceuticals | Interest rate Prime + 2.50%             | \$ 7,525                | 7,525                     | 7,525                      |
|                                                           |                 | Convertible Senior Debt                 |                         |                           |                            |
|                                                           |                 | Matures December 2009                   |                         |                           |                            |
|                                                           |                 | Interest rate Prime + 2.50%             | \$ 178                  | 178                       | 178                        |
|                                                           |                 | Preferred Stock Warrants                |                         | 69                        | 272                        |
| Aegerion Pharmaceuticals, Inc. (0.26%) <sup>(4)</sup>     |                 | Preferred Stock                         |                         | 1,000                     | 1,000                      |

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|                                                        |                 |                             |               |               |
|--------------------------------------------------------|-----------------|-----------------------------|---------------|---------------|
| Total Aegerion Pharmaceuticals, Inc.                   |                 |                             | 8,772         | 8,975         |
|                                                        | Specialty       |                             |               |               |
| Panacos Pharmaceuticals, Inc. (0.00%)( <sup>4</sup> )  | Pharmaceuticals | Common Stock Warrants       | 877           | 11            |
| Panacos Pharmaceuticals, Inc. (0.01%)                  |                 | Common Stock                | 410           | 28            |
| Total Panacos Pharmaceuticals, Inc.                    |                 |                             | 1,287         | 39            |
| Quatrx Pharmaceuticals Company (5.26%)( <sup>4</sup> ) | Specialty       | Senior Debt                 |               |               |
|                                                        |                 | Matures October 2011        |               |               |
|                                                        | Pharmaceuticals | Interest rate Prime +4.85%  | \$ 20,000     | 19,761        |
|                                                        |                 | Covertible Senior Debt      |               |               |
|                                                        |                 | Matures May 2009            |               |               |
|                                                        |                 | Interest rate Prime + 2.50% | \$ 82         | 82            |
|                                                        |                 | Preferred Stock Warrants    | 220           | 143           |
|                                                        |                 | Preferred Stock Warrants    | 308           | 120           |
| Quatrx Pharmaceuticals Company (0.20%)                 |                 | Preferred Stock             | 750           | 750           |
| Total Quatrx Pharmaceuticals Company                   |                 |                             | 21,121        | 20,856        |
| <b>Total Specialty Pharmaceuticals (7.81%)</b>         |                 |                             | <b>31,180</b> | <b>29,870</b> |

See notes to consolidated financial statements.

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                  | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>           | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-------------------------------------------|-----------------|---------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Annie's, Inc. (1.59%)                     | Consumer &      |                                                   |                         |                           |                            |
|                                           | Business        | Senior Debt - Second Lien<br>Matures April 2011   |                         |                           |                            |
|                                           | Products        | Interest rate LIBOR + 6.50%                       | \$ 6,000                | \$ 5,824                  | \$ 5,824                   |
|                                           |                 | Preferred Stock Warrants                          |                         | 321                       | 273                        |
| Total Annie's, Inc.                       |                 |                                                   |                         | 6,145                     | 6,097                      |
| IPA Holdings, LLC. (4.50%)(4)             | Consumer &      |                                                   |                         |                           |                            |
|                                           | Business        | Senior Debt Matures<br>November 2012              |                         |                           |                            |
|                                           | Products        | Interest rate Prime + 3.50%                       | \$ 10,000               | 10,000                    | 10,000                     |
|                                           |                 | Senior Debt<br>Matures May 2013                   |                         |                           |                            |
|                                           |                 | Interest rate Prime + 6.00%                       | \$ 6,500                | 6,590                     | 6,590                      |
|                                           |                 | Revolving Line of Credit<br>Matures November 2012 |                         |                           |                            |
|                                           |                 | Interest rate Prime + 2.50%                       | \$ 600                  | 600                       | 600                        |
| IPA Holding, LLC.(0.12%)                  |                 | Common Stock                                      |                         | 500                       | 447                        |
| Total IPA Holding, LLC.                   |                 |                                                   |                         | 17,690                    | 17,637                     |
| Market Force Information, Inc. (0.01%)(4) | Consumer &      | Preferred Stock Warrants                          |                         |                           |                            |
|                                           | Business        |                                                   |                         |                           |                            |
|                                           | Products        |                                                   |                         | 24                        | 40                         |
| Market Force Information, Inc. (0.07%)    |                 | Preferred Stock                                   |                         | 500                       | 274                        |
| Total Market Force Information, Inc.      |                 |                                                   |                         | 524                       | 314                        |
| OnTech Operations, Inc. (0.01%)(8)        | Consumer &      |                                                   |                         |                           |                            |
|                                           | Business        | Revolving Line of Credit<br>Matures June 2009     |                         |                           |                            |
|                                           | Products        | Interest rate Prime + 5.625%                      | \$ 54                   | 54                        | 54                         |
|                                           |                 | Preferred Stock Warrants                          |                         | 453                       |                            |
|                                           |                 | Preferred Stock Warrants                          |                         | 218                       |                            |
| OnTech Operations, Inc. (0.00%)           |                 | Preferred Stock                                   |                         | 1,000                     |                            |
| Total OnTech Operations, Inc.             |                 |                                                   |                         | 1,725                     | 54                         |
| Wageworks, Inc. (0.23%)(4)                | Consumer &      | Preferred Stock Warrants                          |                         | 252                       | 881                        |
|                                           | Business        |                                                   |                         |                           |                            |

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| Products                                              |                |                             |          |        |        |
|-------------------------------------------------------|----------------|-----------------------------|----------|--------|--------|
| Wageworks, Inc. (0.07%)                               |                | Preferred Stock             |          | 250    | 266    |
| Total Wageworks, Inc.                                 |                |                             |          | 502    | 1,147  |
| <b>Total Consumer &amp; Business Products (6.60%)</b> |                |                             |          | 26,586 | 25,249 |
| Custom One Design, Inc. (0.14%)(8)                    | Semiconductors | Senior Debt                 |          |        |        |
|                                                       |                | Matures September 2010      |          |        |        |
|                                                       |                | Interest rate 11.50%        | \$ 775   | 765    | 523    |
|                                                       |                | Common Stock Warrants       |          | 18     |        |
| Total Custom One Design, Inc.                         |                |                             |          | 783    | 523    |
| Enpirion, Inc. (1.97%)                                | Semiconductors | Senior Debt                 |          |        |        |
|                                                       |                | Matures August 2011         |          |        |        |
|                                                       |                | Interest rate Prime + 4.00% | \$ 7,500 | 7,389  | 7,389  |
|                                                       |                | Preferred Stock Warrants    |          | 157    | 136    |
| Total Enpirion, Inc.                                  |                |                             |          | 7,546  | 7,525  |
| iWatt Inc. (0.07%)(4)                                 | Semiconductors | Preferred Stock Warrants    |          | 46     | 28     |
|                                                       |                | Preferred Stock Warrants    |          | 51     | 13     |
|                                                       |                | Preferred Stock Warrants    |          | 73     | 13     |
|                                                       |                | Preferred Stock Warrants    |          | 458    | 222    |
| iWatt Inc. (0.25%)                                    |                | Preferred Stock             |          | 490    | 961    |
| Total iWatt Inc.                                      |                |                             |          | 1,118  | 1,237  |
| See notes to consolidated financial statements.       |                |                             |          |        |        |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                   | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b>                                          | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|--------------------------------------------|-----------------|----------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| NEXX Systems, Inc. (2.03%)(4)              | Semiconductors  | Senior Debt<br>Matures March 2010<br>Interest rate Prime + 3.50%                 | \$ 2,659                | \$ 2,593                  | \$ 2,593                   |
|                                            |                 | Revolving Line of Credit<br>Matures December 2009<br>Interest rate Prime + 3.00% | \$ 4,605                | 4,605                     | 4,605                      |
|                                            |                 | Revolving Line of Credit<br>Matures December 2009<br>Interest rate Prime + 5.00% | \$ 395                  | 395                       | 395                        |
|                                            |                 | Preferred Stock Warrants                                                         |                         | 165                       | 182                        |
| Total NEXX Systems, Inc.                   |                 |                                                                                  |                         | 7,758                     | 7,775                      |
| Quartics, Inc. (0.08%)(4)(8)               | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 8.80%                        | \$ 629                  | 601                       | 286                        |
|                                            |                 | Preferred Stock Warrants                                                         |                         | 53                        |                            |
| Total Quartics, Inc.                       |                 |                                                                                  |                         | 654                       | 286                        |
| Solarflare Communications, Inc. (0.11%)(4) | Semiconductors  | Senior Debt<br>Matures August 2010<br>Interest rate 11.75%                       | \$ 464                  | 420                       | 420                        |
|                                            |                 | Preferred Stock Warrants                                                         |                         | 83                        |                            |
| Solarflare Communications, Inc. (0.00%)    |                 | Preferred Stock                                                                  |                         | 641                       |                            |
| Total Solarflare Communications, Inc.      |                 |                                                                                  |                         | 1,144                     | 420                        |
| <b>Total Semiconductors (4.65%)</b>        |                 |                                                                                  |                         | <b>19,003</b>             | <b>17,766</b>              |
| Labopharm, Inc. (5.55%)(4)(6)              | Drug Delivery   | Senior Debt<br>Matures December 2011<br>Interest rate 10.95%                     | \$ 20,000               | 19,582                    | 19,582                     |
|                                            |                 | Common Stock Warrants                                                            |                         | 458                       | 1,206                      |
|                                            |                 | Common Stock Warrants                                                            |                         | 143                       | 422                        |
| Total Labopharm USA, Inc.                  |                 |                                                                                  |                         | 20,183                    | 21,210                     |
| Transcept Pharmaceuticals, Inc. (0.90%)(5) | Drug Delivery   | Senior Debt<br>Matures October 2009<br>Interest rate 10.69%                      | \$ 3,353                | 3,334                     | 3,334                      |
|                                            |                 | Preferred Stock Warrants                                                         |                         | 35                        | 46                         |
|                                            |                 | Preferred Stock Warrants                                                         |                         | 51                        | 75                         |
| Transcept Pharmaceuticals, Inc. (0.07%)(4) |                 | Preferred Stock                                                                  |                         | 500                       | 287                        |
| Total Transcept Pharmaceuticals, Inc.      |                 |                                                                                  |                         | 3,920                     | 3,742                      |
| <b>Total Drug Delivery (6.52%)</b>         |                 |                                                                                  |                         | <b>24,103</b>             | <b>24,952</b>              |

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|                                                 |             |                          |          |       |       |
|-------------------------------------------------|-------------|--------------------------|----------|-------|-------|
| BARRX Medical, Inc.(0.86%)(4)                   | Therapeutic | Senior Debt              |          |       |       |
|                                                 |             | Mature December 2011     |          |       |       |
|                                                 |             | Interest rate 11.00%     | \$ 3,333 | 3,270 | 3,270 |
|                                                 |             | Preferred Stock Warrants |          | 63    | 41    |
| BARRX Medical, Inc. (0.36%)                     |             | Preferred Stock          |          | 1,500 | 1,388 |
| Total BARRX Medical, Inc.                       |             |                          |          | 4,833 | 4,699 |
| See notes to consolidated financial statements. |             |                          |          |       |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                  | <b>Industry</b>                                        | <b>Type of Investment<sup>(1)</sup></b>                             | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|-------------------------------------------|--------------------------------------------------------|---------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| EKOS Corporation (1.29%)                  | Therapeutic                                            | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 2.00% | \$ 5,000                | \$ 4,846                  | \$ 4,846                   |
|                                           |                                                        | Preferred Stock Warrants                                            |                         | 175                       | 51                         |
|                                           |                                                        | Preferred Stock Warrants                                            |                         | 153                       | 25                         |
| Total EKOS Corporation                    |                                                        |                                                                     |                         | 5,174                     | 4,922                      |
| Gelesis, Inc. (0.39%)                     | Therapeutic                                            | Senior Debt<br>Matures May 2012<br>Interest rate Prime + 5.65%      | \$ 1,500                | 1,477                     | 1,477                      |
|                                           |                                                        | Preferred Stock Warrants                                            |                         | 27                        | 27                         |
| Total Gelesis, Inc.                       |                                                        |                                                                     |                         | 1,504                     | 1,504                      |
| Gynesonics, Inc. (0.02%)(4)               | Therapeutic                                            | Preferred Stock Warrants                                            |                         | 18                        | 92                         |
| Gynesonics, Inc. (0.08%)                  |                                                        | Preferred Stock                                                     |                         | 250                       | 304                        |
| Total Gynesonics, Inc.                    |                                                        |                                                                     |                         | 268                       | 396                        |
| Light Science Oncology, Inc. (0.01%)      | Therapeutic                                            | Preferred Stock Warrants                                            |                         | 98                        | 26                         |
| Total Light Science Oncology, Inc.        |                                                        |                                                                     |                         | 98                        | 26                         |
| Novasys Medical, Inc. (0.96%)(4)          | Therapeutic                                            | Senior Debt<br>Matures February 2010<br>Interest rate 9.70%         | \$ 3,607                | 3,588                     | 3,588                      |
|                                           |                                                        | Preferred Stock Warrants                                            |                         | 71                        | 56                         |
|                                           |                                                        | Preferred Stock Warrants                                            |                         | 54                        | 25                         |
| Novasys Medical, Inc.(0.12%)              |                                                        | Preferred Stock                                                     |                         | 555                       | 444                        |
| Total Novasys Medical, Inc.               |                                                        |                                                                     |                         | 4,268                     | 4,113                      |
| Power Medical Interventions, Inc. (0.00%) | Therapeutic                                            | Common Stock Warrants                                               |                         | 21                        | 1                          |
| Total Power Medical Interventions, Inc.   |                                                        |                                                                     |                         | 21                        | 1                          |
| <b>Total Therapeutic (4.09%)</b>          |                                                        |                                                                     |                         | <b>16,166</b>             | <b>15,661</b>              |
| Cozi Group, Inc. (0.04%)                  | Internet<br>Consumer<br><br>& Business<br><br>Services | Preferred Stock Warrants                                            |                         |                           |                            |
|                                           |                                                        |                                                                     |                         | 147                       | 150                        |
| Cozi Group, Inc. (0.06%)                  |                                                        | Preferred Stock                                                     |                         | 177                       | 225                        |
| Total Cozi Group, Inc.                    |                                                        |                                                                     |                         | 324                       | 375                        |

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|                                    |                      |  |                                                 |          |       |
|------------------------------------|----------------------|--|-------------------------------------------------|----------|-------|
| Invoke Solutions, Inc. (0.29%)(4)  | Internet<br>Consumer |  |                                                 |          |       |
|                                    | & Business           |  | Senior Debt                                     |          |       |
|                                    |                      |  | Matures November 2009                           |          |       |
|                                    | Services             |  | Interest rate Prime + 3.75%                     | \$ 983   | 990   |
|                                    |                      |  | Preferred Stock Warrants                        |          | 56    |
|                                    |                      |  | Preferred Stock Warrants                        |          | 26    |
| Total Invoke Solutions, Inc.       |                      |  |                                                 | 1,072    | 1,114 |
| Prism Education Group Inc. (0.42%) | Internet<br>Consumer |  |                                                 |          |       |
|                                    | & Business           |  | Senior Debt                                     |          |       |
|                                    |                      |  | Matures December 2010                           |          |       |
|                                    | Services             |  | Interest rate 11.25%                            | \$ 1,516 | 1,492 |
|                                    |                      |  | Preferred Stock Warrants                        |          | 43    |
| Total Prism Education Group Inc.   |                      |  |                                                 | 1,535    | 1,607 |
|                                    |                      |  | See notes to consolidated financial statements. |          |       |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                                       | <b>Industry</b>   | <b>Type of Investment<sup>(1)</sup></b>           | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|----------------------------------------------------------------|-------------------|---------------------------------------------------|-------------------------|---------------------------|----------------------------|
| RazorGator Interactive Group, Inc. (0.94%)( <sup>5</sup> )     | Internet Consumer |                                                   |                         |                           |                            |
|                                                                | & Business        | Revolving Line of Credit<br>Matures January 2009  |                         |                           |                            |
|                                                                | Services          | Interest rate Prime + 1.80%                       | \$ 3,000                | \$ 3,000                  | \$ 3,000                   |
|                                                                |                   | Preferred Stock Warrants                          |                         | 13                        | 562                        |
|                                                                |                   | Preferred Stock Warrants                          |                         | 29                        | 42                         |
| RazorGator Interactive Group, Inc. (0.45%)                     |                   | Preferred Stock                                   |                         | 1,000                     | 1,708                      |
| Total RazorGator Interactive Group, Inc.                       |                   |                                                   |                         | 4,042                     | 5,312                      |
| Serious USA, Inc. (0.36%)                                      | Internet Consumer |                                                   |                         |                           |                            |
|                                                                | & Business        | Senior Debt<br>Matures February 2011              |                         |                           |                            |
|                                                                | Services          | Interest rate Prime + 7.00%                       | \$ 2,906                | 2,851                     | 1,351                      |
|                                                                |                   | Preferred Stock Warrants                          |                         | 93                        |                            |
| Total Serious USA, Inc.                                        |                   |                                                   |                         | 2,944                     | 1,351                      |
| Spa Chakra, Inc. (2.61%)                                       | Internet Consumer |                                                   |                         |                           |                            |
|                                                                | & Business        | Senior Debt<br>Matures June 2010                  |                         |                           |                            |
|                                                                | Services          | Interest rate 14.45%%                             | \$ 10,000               | 10,000                    | 10,000                     |
| Total Spa Chakra, Inc.                                         |                   |                                                   |                         | 10,000                    | 10,000                     |
| <b>Total Internet Consumer &amp; Business Services (5.17%)</b> |                   |                                                   |                         | <b>19,917</b>             | <b>19,759</b>              |
| Lilliputian Systems, Inc. (1.15%)( <sup>4</sup> )              | Energy            | Senior Debt<br>Matures March 2010                 |                         |                           |                            |
|                                                                |                   | Interest rate Prime + 6.00%                       | \$ 4,324                | 4,204                     | 4,204                      |
|                                                                |                   | Preferred Stock Warrants                          |                         | 155                       | 190                        |
| Total Lilliputian Systems, Inc.                                |                   |                                                   |                         | 4,359                     | 4,394                      |
| <b>Total Energy (1.15%)</b>                                    |                   |                                                   |                         | <b>4,359</b>              | <b>4,394</b>               |
| Active Response Group, Inc. (2.58%)( <sup>4</sup> )            | Information       | Senior Debt<br>Matures March 2012                 |                         |                           |                            |
|                                                                | Services          | Interest rate LIBOR + 6.55%                       | \$ 6,905                | 6,863                     | 6,863                      |
|                                                                |                   | Revolving Line of Credit<br>Matures December 2009 |                         |                           |                            |
|                                                                |                   | Interest rate Prime + 14.00%                      | \$ 3,000                | 3,000                     | 3,000                      |

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|                                        |             |                                       |          |         |
|----------------------------------------|-------------|---------------------------------------|----------|---------|
|                                        |             | Common Stock Warrants                 | 92       | 11      |
|                                        |             | Preferred Stock Warrants              | 46       | 11      |
| Active Response Group, Inc. (0.03%)(4) |             | Common Stock                          | 105      | 105     |
| Total Active Response Group, Inc.      |             |                                       | 10,106   | 9,990   |
| Box.net, Inc. (0.37%)                  | Information | Senior Debt<br>Matures June 2011      |          |         |
|                                        | Services    | Interest rate Prime + 1.50%           | \$ 1,000 | 950 950 |
|                                        |             | Senior Debt<br>Matures September 2011 |          |         |
|                                        |             | Interest rate Prime + 0.50%           | \$ 400   | 400 400 |
|                                        |             | Preferred Stock Warrants              |          | 73 48   |
| Total Box.net, Inc.                    |             |                                       | 1,423    | 1,398   |
| Buzznet, Inc. (0.00%)                  | Information | Preferred Stock Warrants              |          |         |
|                                        | Services    |                                       |          | 9       |
| Buzznet, Inc. (0.06%)                  |             | Preferred Stock                       |          | 250 224 |
| Total Buzznet, Inc.                    |             |                                       | 259      | 224     |

See notes to consolidated financial statements.

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                 | <b>Industry</b> | <b>Type of Investment<sup>(1)</sup></b> | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|------------------------------------------|-----------------|-----------------------------------------|-------------------------|---------------------------|----------------------------|
| hi5 Networkss, Inc. (2.21%)              | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures December 2010                   |                         |                           |                            |
|                                          | Services        | Interest rate Prime + 2.5%              | \$ 3,000                | \$ 3,000                  | \$ 3,000                   |
|                                          |                 | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures June 2011                       |                         |                           |                            |
|                                          |                 | Interest rate Prime + 0.5%              | \$ 5,496                | 5,363                     | 5,363                      |
|                                          |                 | Preferred Stock Warrants                |                         | 213                       | 75                         |
| Total hi5 Networks, Inc.                 |                 |                                         |                         | 8,576                     | 8,438                      |
| Jab Wireless, Inc. (3.94%)(4)            | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures November 2012                   |                         |                           |                            |
|                                          | Services        | Interest rate Prime + 6.50%             | \$ 15,000               | 14,822                    | 14,822                     |
|                                          |                 | Preferred Stock Warrants                |                         | 264                       | 246                        |
| Total Jab Wireless, Inc.                 |                 |                                         |                         | 15,086                    | 15,068                     |
| Solutionary, Inc. (1.68%)(4)             | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures June 2010                       |                         |                           |                            |
|                                          | Services        | Interest rate LIBOR + 5.50%             | \$ 4,599                | 4,809                     | 4,809                      |
|                                          |                 | Revolving Line of Credit                |                         |                           |                            |
|                                          |                 | Matures June 2010                       |                         |                           |                            |
|                                          |                 | Interest rate LIBOR + 5.00%             | \$ 1,500                | 1,500                     | 1,500                      |
|                                          |                 | Preferred Stock Warrants                |                         | 94                        | 125                        |
|                                          |                 | Preferred Stock Warrants                |                         | 2                         | 3                          |
| Solutionary, Inc. (0.04%)                |                 | Preferred Stock                         |                         | 250                       | 162                        |
| Total Solutionary, Inc.                  |                 |                                         |                         | 6,655                     | 6,599                      |
| The Generation Networks, Inc. (1.52%)(4) | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures December 2012                   |                         |                           |                            |
|                                          | Services        | Interest rate 7.42%                     | \$ 5,930                | 5,930                     | 5,826                      |
| The Generation Networks, Inc. (0.12%)    |                 | Common stock                            |                         | 500                       | 471                        |
| Total The Generation Networks, Inc.      |                 |                                         |                         | 6,430                     | 6,297                      |
| Visto Corporation                        |                 | Common Stock                            |                         | 603                       | 603                        |
| Total Visto Corporation (0.16%)          |                 |                                         |                         | 603                       | 603                        |
| Wallop Technologies, Inc. (0.03%)        | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures April 2010                      |                         |                           |                            |
|                                          | Services        | Interest rate 10.00%                    | \$ 134                  | 131                       | 131                        |
|                                          |                 | Preferred Stock Warrants                |                         | 7                         |                            |
| Total Wallop Technologies, Inc.          |                 |                                         |                         | 138                       | 131                        |
| Zeta Interactive Corporation (3.74%)(4)  | Information     | Senior Debt                             |                         |                           |                            |
|                                          |                 | Matures November 2011                   |                         |                           |                            |
|                                          | Services        | Interest rate Prime +2.00%              | \$ 6,164                | 6,063                     | 6,063                      |

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|                                            |            |                            |          |        |        |
|--------------------------------------------|------------|----------------------------|----------|--------|--------|
|                                            |            | Senior Debt                |          |        |        |
|                                            |            | Matures November 2011      |          |        |        |
|                                            |            | Interest rate Prime +3.00% | \$ 8,000 | 8,000  | 8,000  |
|                                            |            | Preferred Stock Warrants   |          | 172    | 222    |
| Zeta Interactive Corporation (0.13%)       |            | Preferred Stock            |          | 500    | 500    |
| Total Zeta Interactive Corporation         |            |                            |          | 14,735 | 14,785 |
| <b>Total Information Services (16.61%)</b> |            |                            |          | 64,011 | 63,533 |
| Novadaq Technologies, Inc. (0.05%)         | Diagnostic | Common Stock               |          | 1,626  | 193    |
| Total Novadaq Technologies, Inc.           |            |                            |          | 1,626  | 193    |

See notes to consolidated financial statements.

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                 | <b>Industry</b>     | <b>Type of Investment<sup>(1)</sup></b>                                          | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|------------------------------------------|---------------------|----------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Optiscan Biomedical, Corp. (2.69%)(4)    | Diagnostic          | Senior Debt<br>Matures June 2011<br>Interest rate 10.25%                         | \$ 10,000               | \$ 9,518                  | \$ 9,518                   |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 760                       | 783                        |
| Optiscan Biomedical, Corp. (0.79%)       |                     | Preferred Stock                                                                  |                         | 3,000                     | 3,000                      |
| Total Optiscan Biomedical, Corp.         |                     |                                                                                  |                         | 13,278                    | 13,301                     |
| Total Diagnostic (3.53%)                 |                     |                                                                                  |                         | 14,904                    | 13,494                     |
| Guava Technologies, Inc. (1.28%)         | Biotechnology Tools | Senior Debt<br>Matures May 2011<br>Interest rate Prime + 10.50%                  | \$ 2,800                | 2,797                     | 2,797                      |
|                                          |                     | Convertible Debt                                                                 | \$ 250                  | 250                       | 250                        |
|                                          |                     | Revolving Line of Credit<br>Matures December 2009<br>Interest rate Prime + 9.50% | \$ 1,840                | 1,840                     | 1,840                      |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 106                       |                            |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 68                        |                            |
| Total Guava Technologies, Inc.           |                     |                                                                                  |                         | 5,061                     | 4,887                      |
| Kamada, LTD. (5.13%)(6)                  | Biotechnology Tools | Senior Debt<br>Matures February 2012<br>Interest rate 10.60%                     | \$ 20,000               | 19,572                    | 19,572                     |
|                                          |                     | Common Stock Warrants                                                            |                         | 531                       | 41                         |
|                                          |                     | Common Stock Warrants                                                            |                         | 20                        | 8                          |
| Total Kamada, LTD.                       |                     |                                                                                  |                         | 20,123                    | 19,621                     |
| NuGEN Technologies, Inc. (0.67%)         | Biotechnology Tools | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 3.45%              | \$ 1,548                | 1,520                     | 1,520                      |
|                                          |                     | Senior Debt<br>Matures November 2010<br>Interest rate Prime + 1.70%              | \$ 892                  | 892                       | 892                        |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 45                        | 161                        |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 33                        | 18                         |
| NuGEN Technologies, Inc. (0.07%)         |                     | Preferred Stock                                                                  |                         | 500                       | 265                        |
| Total NuGEN Technologies, Inc.           |                     |                                                                                  |                         | 2,990                     | 2,856                      |
| Solace Pharmaceuticals, Inc.(0.46%)(5)   | Biotechnology Tools | Senior Debt<br>Matures August 2012<br>Interest rate Prime + 4.25%                | \$ 1,750                | 1,711                     | 1,711                      |
|                                          |                     | Preferred Stock Warrants                                                         |                         | 42                        | 49                         |
| Total Solace Pharmaceuticals, Inc.       |                     |                                                                                  |                         | 1,753                     | 1,760                      |
| <b>Total Biotechnology Tools (7.61%)</b> |                     |                                                                                  |                         | <b>29,927</b>             | <b>29,124</b>              |

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|                               |                                                 |                          |     |    |
|-------------------------------|-------------------------------------------------|--------------------------|-----|----|
| Crux Biomedical, Inc. (0.00%) | Surgical Devices                                | Preferred Stock Warrants | 37  |    |
| Crux Biomedical, Inc. (0.01%) |                                                 | Preferred Stock          | 250 | 26 |
| Total Crux Biomedical, Inc.   |                                                 |                          | 287 | 26 |
|                               | See notes to consolidated financial statements. |                          |     |    |

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2008****(dollars in thousands)**

| <b>Portfolio Company</b>                     | <b>Industry</b>    | <b>Type of Investment<sup>(1)</sup></b>                                         | <b>Principal Amount</b> | <b>Cost<sup>(2)</sup></b> | <b>Value<sup>(3)</sup></b> |
|----------------------------------------------|--------------------|---------------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| Transmedics, Inc. (2.61%) <sup>(5)</sup>     | Surgical Devices   | Senior Debt<br>Matures December 2011<br>Interest rate Prime + 5.25%             | \$ 10,000               | \$ 9,814                  | \$ 9,814                   |
|                                              |                    | Preferred Stock Warrants                                                        |                         | 224                       | 173                        |
| <b>Total Transmedics, Inc.</b>               |                    |                                                                                 |                         | 10,038                    | 9,987                      |
| <b>Total Surgical Devices (2.62%)</b>        |                    |                                                                                 |                         | 10,325                    | 10,013                     |
| Glam Media, Inc. (2.18%)                     | Media/Content/Info | Revolving Line of Credit<br>Matures April 2009<br>Interest rate Prime + 1.50%   | \$ 8,285                | 8,139                     | 8,139                      |
|                                              |                    | Preferred Stock Warrants                                                        |                         | 483                       | 209                        |
| <b>Total Glam Media, Inc.</b>                |                    |                                                                                 |                         | 8,622                     | 8,348                      |
| Waterfront Media Inc. (2.08%) <sup>(5)</sup> | Media/Content/Info | Senior Debt<br>Matures September 2010<br>Interest rate Prime + 3.00%            | \$ 2,597                | 2,574                     | 2,574                      |
|                                              |                    | Revolving Line of Credit<br>Matures October 2009<br>Interest rate Prime + 1.25% | \$ 5,000                | 5,000                     | 5,000                      |
|                                              |                    | Preferred Stock Warrants                                                        |                         | 60                        | 393                        |
| <b>Waterfront Media Inc. (0.36%)</b>         |                    | <b>Preferred Stock</b>                                                          |                         | <b>1,000</b>              | <b>1,353</b>               |
| <b>Total Waterfront Media Inc.</b>           |                    |                                                                                 |                         | 8,634                     | 9,320                      |
| <b>Total Media/Content/Info (4.62%)</b>      |                    |                                                                                 |                         | 17,256                    | 17,668                     |
| <b>Total Investments (151.99%)</b>           |                    |                                                                                 |                         | \$ 592,348                | \$ 581,301                 |

\* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$7,976, \$22,551 and \$14,575, respectively. The tax cost of investments is \$595,876.

(3) Except for warrants in six publicly traded companies and common stock in three publicly traded companies, all investments are restricted at December 31, 2008 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt and warrant investments of this portfolio company have been pledged as collateral under the Credit Facility. Citigroup has an equity participation right on loans collateralized under the Credit Facility. The value of their participation right on unrealized gains in the related equity investments was approximately \$498,000 at December 31, 2008 and is included in accrued liabilities and reduced the cumulative unrealized gain recognized by the Company at December 31, 2008.

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

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

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

- (8) Debt is on non-accrual status at December 31, 2008, and is therefore considered non-income producing.  
See notes to consolidated financial statements.

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

|                                                                            | <b>Three Months Ended September 30, 2009</b> |          | <b>Nine Months Ended September 30, 2008</b> |          |
|----------------------------------------------------------------------------|----------------------------------------------|----------|---------------------------------------------|----------|
| Investment income:                                                         |                                              |          |                                             |          |
| Interest                                                                   | \$                                           | 14,613   | \$                                          | 17,348   |
| Fees                                                                       |                                              | 3,068    |                                             | 1,900    |
|                                                                            |                                              |          |                                             | 9,166    |
|                                                                            |                                              |          |                                             | 6,202    |
| Total investment income                                                    |                                              | 17,681   |                                             | 19,248   |
|                                                                            |                                              |          |                                             | 57,611   |
|                                                                            |                                              |          |                                             | 53,871   |
| Operating expenses:                                                        |                                              |          |                                             |          |
| Interest                                                                   |                                              | 2,050    |                                             | 3,929    |
| Loan fees                                                                  |                                              | 308      |                                             | 618      |
| General and administrative                                                 |                                              | 2,105    |                                             | 1,937    |
| Employee compensation:                                                     |                                              |          |                                             |          |
| Compensation and benefits                                                  |                                              | 2,401    |                                             | 2,544    |
| Stock-based compensation                                                   |                                              | 470      |                                             | 228      |
|                                                                            |                                              |          |                                             | 1,418    |
|                                                                            |                                              |          |                                             | 1,144    |
| Total employee compensation                                                |                                              | 2,871    |                                             | 2,772    |
|                                                                            |                                              |          |                                             | 9,531    |
|                                                                            |                                              |          |                                             | 9,342    |
| Total operating expenses                                                   |                                              | 7,334    |                                             | 9,256    |
|                                                                            |                                              |          |                                             | 23,884   |
|                                                                            |                                              |          |                                             | 24,907   |
| Net investment income                                                      |                                              | 10,347   |                                             | 9,992    |
| Net realized gain (loss) on investments                                    |                                              | (14,173) |                                             | 126      |
| Net increase (decrease) in unrealized appreciation on investments          |                                              | 17,516   |                                             | 2,420    |
|                                                                            |                                              |          |                                             | (9,108)  |
|                                                                            |                                              |          |                                             | (2,024)  |
| Net realized and unrealized gain (loss)                                    |                                              | 3,343    |                                             | 2,546    |
|                                                                            |                                              |          |                                             | (28,614) |
|                                                                            |                                              |          |                                             | 2,969    |
| Net increase in net assets resulting from operations                       | \$                                           | 13,690   | \$                                          | 12,538   |
|                                                                            |                                              |          |                                             | 5,113    |
|                                                                            |                                              |          |                                             | 31,933   |
| Net investment income before investment gains and losses per common share: |                                              |          |                                             |          |
| Basic                                                                      | \$                                           | 0.30     | \$                                          | 0.31     |
|                                                                            |                                              |          |                                             | 0.98     |
|                                                                            |                                              |          |                                             | 0.89     |
| Diluted                                                                    | \$                                           | 0.29     | \$                                          | 0.31     |
|                                                                            |                                              |          |                                             | 0.97     |
|                                                                            |                                              |          |                                             | 0.89     |
| Change in net assets per common share:                                     |                                              |          |                                             |          |
| Basic                                                                      | \$                                           | 0.39     | \$                                          | 0.38     |
|                                                                            |                                              |          |                                             | 0.14     |
|                                                                            |                                              |          |                                             | 0.97     |
| Diluted                                                                    | \$                                           | 0.38     | \$                                          | 0.38     |
|                                                                            |                                              |          |                                             | 0.14     |
|                                                                            |                                              |          |                                             | 0.97     |
| Weighted average shares outstanding                                        |                                              |          |                                             |          |
| Basic                                                                      |                                              | 34,981   |                                             | 32,634   |
|                                                                            |                                              |          |                                             | 34,282   |
|                                                                            |                                              |          |                                             | 32,600   |
| Diluted                                                                    |                                              | 35,576   |                                             | 32,634   |
|                                                                            |                                              |          |                                             | 34,607   |
|                                                                            |                                              |          |                                             | 32,600   |

See notes to consolidated financial statements (unaudited).



**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS****(unaudited)****(dollars in thousands)**

|                                                                 | <b>Common Stock</b> |                  | <b>Capital in</b>   | <b>Unrealized</b>     | <b>Accumulated</b>    | <b>Distributions</b> | <b>Provision for</b> | <b>Net</b>    |
|-----------------------------------------------------------------|---------------------|------------------|---------------------|-----------------------|-----------------------|----------------------|----------------------|---------------|
|                                                                 | <b>Shares</b>       | <b>Par Value</b> | <b>excess</b>       | <b>Appreciation</b>   | <b>Realized</b>       | <b>in Excess</b>     | <b>Income Taxes</b>  | <b>Assets</b> |
|                                                                 |                     |                  | <b>of par value</b> | <b>(Depreciation)</b> | <b>Gains</b>          | <b>of</b>            | <b>on Investment</b> |               |
|                                                                 |                     |                  |                     | <b>on Investments</b> | <b>(Losses)</b>       | <b>Investment</b>    | <b>Gains</b>         |               |
|                                                                 |                     |                  |                     |                       | <b>on Investments</b> | <b>Income</b>        |                      |               |
| Balance at January 1, 2008                                      | 32,541              | \$ 33            | \$ 393,452          | \$ 10,129             | \$ 819                | \$ (3,557)           | \$ (139)             | \$ 400,737    |
| Net increase (decrease) in net assets resulting from operations |                     |                  |                     | (2,024)               | 4,993                 | 28,964               |                      | 31,933        |
| Issuance of common stock                                        | 6                   |                  | 43                  |                       |                       |                      |                      | 43            |
| Issuance of common stock under dividend reinvestment plan       | 88                  |                  | 933                 |                       |                       |                      |                      | 933           |
| Issuance of common stock under restricted stock plan            | 228                 |                  |                     |                       |                       |                      |                      |               |
| Dividends declared                                              |                     |                  |                     |                       |                       | (32,100)             |                      | (32,100)      |
| Stock-based compensation                                        |                     |                  | 1,144               |                       |                       |                      |                      | 1,144         |
| Balance at September 30, 2008                                   | 32,863              | \$ 33            | \$ 395,572          | \$ 8,105              | \$ 5,812              | \$ (6,693)           | \$ (139)             | 402,690       |
| Balance at January 1, 2009                                      | 33,096              | \$ 33            | \$ 395,760          | \$ (11,297)           | \$ 3,906              | \$ (5,602)           | \$ (342)             | \$ 382,458    |
| Net increase (decrease) in net assets resulting from operations |                     |                  |                     | (9,108)               | (19,506)              | 33,727               |                      | 5,113         |
| Issuance of common stock                                        | 5                   |                  | 36                  |                       |                       |                      |                      | 36            |
| Issuance of common stock under restricted stock plan            | 307                 |                  |                     |                       |                       |                      |                      |               |
| Issuance of common stock under dividend reinvestment plan       | 2,138               | 2                | 11,449              |                       |                       |                      |                      | 11,451        |
| Dividends declared                                              |                     |                  |                     |                       |                       | (31,824)             |                      | (31,824)      |
| Stock-based compensation                                        |                     |                  | 1,488               |                       |                       |                      |                      | 1,488         |
| Balance at September 30, 2009                                   | 35,546              | \$ 35            | \$ 408,733          | \$ (20,405)           | \$ (15,600)           | \$ (3,699)           | \$ (342)             | \$ 368,722    |

See notes to consolidated financial statements (unaudited).

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

|                                                                                                                                         | <b>Nine Months Ended September 30,</b> |             |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                                                                                         | <b>2009</b>                            | <b>2008</b> |
| <b>Cash flows from operating activities:</b>                                                                                            |                                        |             |
| Net increase in net assets resulting from operations                                                                                    | \$ 5,113                               | \$ 31,933   |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities: |                                        |             |
| Purchase of investments                                                                                                                 | (77,719)                               | (290,550)   |
| Principal payments received on investments                                                                                              | 218,317                                | 184,780     |
| Proceeds from sale of investments                                                                                                       | 3,841                                  | 7,313       |
| Net unrealized depreciation on investments                                                                                              | 9,108                                  | 2,024       |
| Net realized appreciation paid to lender                                                                                                |                                        | (247)       |
| Net realized gain(loss) on investments                                                                                                  | 19,506                                 | (4,993)     |
| Accretion of paid-in-kind principal                                                                                                     | (2,066)                                | (664)       |
| Accretion of loan discounts                                                                                                             | (4,385)                                | (4,353)     |
| Accretion of loan exit fees                                                                                                             | (2,359)                                | (1,149)     |
| Depreciation                                                                                                                            | 274                                    | 218         |
| Stock-based compensation                                                                                                                | 1,488                                  | 1,144       |
| Common stock issued in lieu of Director compensation                                                                                    | 36                                     | 54          |
| Amortization of deferred loan origination revenue                                                                                       | (3,894)                                | (3,758)     |
| <b>Change in operating assets and liabilities:</b>                                                                                      |                                        |             |
| Interest receivable                                                                                                                     | 796                                    | (338)       |
| Prepaid expenses and other assets                                                                                                       | 2,311                                  | (8,718)     |
| Accounts payable                                                                                                                        | (146)                                  | 598         |
| Income tax payable                                                                                                                      | (196)                                  | (105)       |
| Accrued liabilities                                                                                                                     | (3,439)                                | (534)       |
| Deferred loan origination revenue                                                                                                       | 229                                    | 4,934       |
| Net cash provided by (used in ) operating activities                                                                                    | 166,815                                | (82,411)    |
| <b>Cash flows from investing activities:</b>                                                                                            |                                        |             |
| Purchases of capital equipment                                                                                                          | (68)                                   | (576)       |
| Other long-term assets                                                                                                                  | (41)                                   | (8)         |
| Net cash used in investing activities                                                                                                   | (109)                                  | (584)       |
| <b>Cash flows from financing activities:</b>                                                                                            |                                        |             |
| Proceeds from issuance of common stock, net                                                                                             |                                        | 933         |
| Dividends paid                                                                                                                          | (20,372)                               | (32,100)    |
| Borrowings of credit facilities                                                                                                         | 80,842                                 | 234,850     |
| Repayments of credit facilities                                                                                                         | (167,024)                              | (104,000)   |
| Fees paid for credit facilities and debentures                                                                                          | (147)                                  | (4,055)     |
| Net cash provided by (used in) financing activities                                                                                     | (106,701)                              | 95,628      |
| Net increase in cash                                                                                                                    | 60,005                                 | 12,633      |
| Cash and cash equivalents at beginning of period                                                                                        | 17,242                                 | 7,856       |
| Cash and cash equivalents at end of period                                                                                              | \$ 77,247                              | \$ 20,489   |

See notes to consolidated financial statements (unaudited).

## **Table of Contents**

### **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 companies at all stages of development from seed and emerging growth to expansion and established stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and may also finance select publicly listed companies and lower middle market companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in Boston, Massachusetts, Boulder, Colorado and Chicago, Illinois. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003. The Company commenced operations on February 2, 2004 and commenced investment activities in September 2004.

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

The Company formed Hercules Technology II, L.P. (HT II), which was licensed on September 27, 2006, to operate as a Small Business Investment Company (SBIC) under the authority of the Small Business Administration (SBA). As an SBIC, the Fund is subject to a variety of regulations concerning, among other things, the size and nature of the companies in which it may invest and the structure of those investments. The Company also formed Hercules Technology SBIC Management, LLC (HTM), a limited liability company. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner (see Note 4).

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities). We currently qualify as a RIC for federal income tax purposes, which allows us to avoid paying corporate income taxes on any income or gains that we distributed to our stock holders. The purpose of establishing these entities is to satisfy the RIC tax requirement that at least 90% of our gross income for income tax purposes is investment income. The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2008. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### **2. Valuation of Investments**

Our investments are carried at fair value in accordance of 1940 Act and Accounting Standards Codification (ASC) topic 820 (formerly SFAS No. 157, *Fair Value Measurements*). ASC 820 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 does not change existing guidance as to whether or not an instrument is carried at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



## **Table of Contents**

In October 2008, the Financial Accounting Standards Board, or the FASB, issued a new accounting standard (ASC 820-10-35, formerly known as FSP SFAS No. 157-3), which clarifies the application of ASC 820 in a market that is not active. More specifically, this standard states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. The standard also provides further guidance that the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, the standard provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer.

In April 2009, the FASB issued a new accounting standard (ASC 820-10-65, formerly known as FSP SFAS No. 157-4). Based on the standard, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with SFAS No. 157, Fair Value Measurements. The Company adopted the standard in the quarter ended June 30, 2009, and there was no material impact on the Consolidated Financial Statements.

Consistent with ASC 820, the Company determines fair value to be the amount for which an investment could be exchanged in a current sale, which assumes an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests.

In accordance with ASC 820, the Company has considered the principal market, or the market in which it exits its portfolio investments with the greatest volume and level of activity. ASC 820 requires that the portfolio investment is assumed to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. The Company believes that the market participants for its investments are primarily other technology-related companies. Such participants acquire the Company's investments in order to gain access to the underlying assets of the portfolio company. As such, the Company believes the estimated value of the collateral of the portfolio company, up to the initial cost of the investment, represents the fair value of the investment.

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

As a business development company providing debt and equity capital primarily to technology-related companies, the Company invests primarily in illiquid securities including debt and equity-related securities of private companies. The Company's investments are generally subject to some restrictions on resale and generally have no established trading market. Because of the type of investments that the Company makes and the nature of its business, its valuation process requires an analysis of various factors that might be considered in a hypothetical secondary market. The Company's valuation methodology includes the examination of criteria similar to those used in its original investment decision, including, among other things, the underlying investment performance, the current portfolio company's financial condition and market changing events that impact valuation, including estimated remaining life. If there is a significant deterioration of the credit quality of a debt investment, we may consider other factors that a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

At September 30, 2009, approximately 82% of the Company's total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Since there is typically no readily available market value for the investments in the Company's portfolio, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.



## Table of Contents

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

At each reporting date, privately held debt and equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company's operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or equity sale, the pricing indicated by that external event is utilized to corroborate the Company's valuation of the debt and equity securities. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date. The Company may consider, but is not limited to, industry valuation methods such as price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks in its evaluation of the fair value of its investment. The Company has a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date.

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

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

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

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations:

| (in thousands)          | Assets at Fair Value as of September 30, 2009                              |       |                                                           |                                                    | Assets at Fair Value as of December 31, 2008                               |       |                                                           |                                                    |
|-------------------------|----------------------------------------------------------------------------|-------|-----------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------------|-------|-----------------------------------------------------------|----------------------------------------------------|
|                         | Quoted Prices In<br>Active Markets For<br>Identical<br>Assets<br>(Level 1) |       | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Quoted Prices In<br>Active Markets For<br>Identical<br>Assets<br>(Level 1) |       | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                         |                                                                            |       |                                                           | Total                                              |                                                                            |       |                                                           | Total                                              |
|                         |                                                                            |       |                                                           |                                                    |                                                                            |       |                                                           |                                                    |
| Senior secured debt     | \$                                                                         | \$    | \$ 363,517                                                | \$ 363,517                                         | \$                                                                         | \$    | \$ 534,231                                                | \$ 534,231                                         |
| Senior debt-second lien |                                                                            |       | 6,002                                                     | 6,002                                              |                                                                            |       | 5,824                                                     | 5,824                                              |
| Preferred stock         |                                                                            |       | 25,714                                                    | 25,714                                             |                                                                            |       | 21,249                                                    | 21,249                                             |
| Common stock            | 2,582                                                                      |       | 2,827                                                     | 5,409                                              | 221                                                                        |       | 1,894                                                     | 2,115                                              |
| Warrants                |                                                                            | 1,992 | 12,213                                                    | 14,205                                             |                                                                            | 2,931 | 14,951                                                    | 17,882                                             |

|          |    |       |    |         |            |        |    |       |    |         |            |
|----------|----|-------|----|---------|------------|--------|----|-------|----|---------|------------|
| \$ 2,582 | \$ | 1,992 | \$ | 410,273 | \$ 414,847 | \$ 221 | \$ | 2,931 | \$ | 578,149 | \$ 581,301 |
|----------|----|-------|----|---------|------------|--------|----|-------|----|---------|------------|

## Table of Contents

The table below presents a reconciliation for all financial assets measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three and six months ended September 30, 2009 and September 30, 2008:

| Fair Value Measurements Using Significant Unobservable Inputs<br>(in thousands)                                                 | Three months Ended<br>September 30, |            |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------|
|                                                                                                                                 | 2009                                | 2008       |
| Balance at July 1                                                                                                               | \$ 448,313                          | \$ 599,498 |
| Total gains or losses                                                                                                           |                                     |            |
| Net realized gains/(losses) <sup>(1)</sup>                                                                                      | (13,420)                            | (300)      |
| Net change in unrealized appreciation or depreciation <sup>(2)</sup>                                                            | 15,629                              | 4,214      |
| Purchases, repayments, and exits, net                                                                                           | (40,249)                            | 31,141     |
| Transfer in and/or out of level 3                                                                                               |                                     |            |
| Balance at September 30                                                                                                         | \$ 410,273                          | \$ 634,553 |
| Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date <sup>(3)</sup> | \$ 15,629                           | \$ 4,214   |

| Fair Value Measurements Using Significant Unobservable Inputs<br>(in thousands)                                                 | Nine months Ended<br>September 30, |            |
|---------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------|
|                                                                                                                                 | 2009                               | 2008       |
| Balance at January 1                                                                                                            | \$ 578,149                         | \$ 522,740 |
| Total gains or losses                                                                                                           |                                    |            |
| Net realized gains/(losses) <sup>(1)</sup>                                                                                      | (18,416)                           | (516)      |
| Net change in unrealized appreciation or depreciation <sup>(2)</sup>                                                            | (12,906)                           | 4,590      |
| Purchases, repayments, and exits, net                                                                                           | (136,554)                          | 107,739    |
| Transfer in and/or out of level 3                                                                                               |                                    |            |
| Balance at September 30                                                                                                         | \$ 410,273                         | \$ 634,553 |
| Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date <sup>(3)</sup> | \$ (12,674)                        | \$ 4,590   |

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

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

At September 30, 2009 and December 31, 2008, the Company had investments in two portfolio companies deemed to be Affiliates. Income derived from these investments was less than \$500,000 since these investments became Affiliates.

Security transactions are recorded on the trade-date basis.



## Table of Contents

A summary of the composition of the Company's investment portfolio as of September 30, 2009 and December 31, 2008, at fair value is shown as follows:

| (in thousands)                        | September 30, 2009        |                               | December 31, 2008         |                               |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                                       | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Senior secured debt with warrants     | \$ 318,541                | 76.8%                         | \$ 445,574                | 76.6%                         |
| Senior secured debt                   | 59,049                    | 14.2                          | 106,266                   | 18.2                          |
| Preferred stock                       | 25,714                    | 6.2                           | 21,249                    | 3.8                           |
| Senior debt-second lien with warrants | 6,134                     | 1.5                           | 6,097                     | 1.0                           |
| Common Stock                          | 5,409                     | 1.3                           | 2,115                     | 0.4                           |
|                                       | \$ 414,847                | 100.0%                        | \$ 581,301                | 100.0%                        |

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

| (in thousands) | September 30, 2009        |                               | December 31, 2008         |                               |
|----------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States  | \$ 370,620                | 89.4%                         | \$ 537,470                | 92.5%                         |
| Canada         | 20,456                    | 4.9                           | 21,210                    | 3.6                           |
| Israel         | 20,979                    | 5.0                           | 19,621                    | 3.4                           |
| Netherlands    | 2,792                     | 0.7                           | 3,000                     | 0.5                           |
|                | \$ 414,847                | 100.0%                        | \$ 581,301                | 100.0%                        |

The following table shows the fair value of our portfolio by industry sector at September 30, 2009 and December 31, 2008 (excluding unearned income):

| (in thousands)                        | September 30, 2009        |                               | December 31, 2008         |                               |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                                       | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Communications & networking           | \$ 62,085                 | 15.0%                         | \$ 118,133                | 20.3%                         |
| Software                              | 61,895                    | 14.9                          | 80,885                    | 13.9                          |
| Drug discovery                        | 57,007                    | 13.7                          | 70,320                    | 12.1                          |
| Information services                  | 37,638                    | 9.1                           | 63,533                    | 10.9                          |
| Electronics & computer hardware       | 30,240                    | 7.3                           | 40,481                    | 7.0                           |
| Biotechnology tools                   | 28,020                    | 6.8                           | 29,124                    | 5.0                           |
| Specialty pharmaceuticals             | 26,705                    | 6.4                           | 29,870                    | 5.1                           |
| Consumer & business products          | 26,405                    | 6.4                           | 25,250                    | 4.3                           |
| Drug delivery                         | 21,513                    | 5.2                           | 24,952                    | 4.3                           |
| Internet consumer & business services | 16,624                    | 4.0                           | 19,759                    | 3.4                           |
| Therapeutic                           | 15,728                    | 3.8                           | 15,661                    | 2.7                           |
| Semiconductors                        | 13,915                    | 3.3                           | 17,766                    | 3.1                           |
| Diagnostic                            | 12,405                    | 3.0                           | 13,494                    | 2.3                           |
| Surgical Devices                      | 2,388                     | 0.6                           | 10,013                    | 1.7                           |
| Media/Content/Info                    | 2,152                     | 0.4                           | 17,667                    | 3.1                           |
| Energy                                | 127                       | 0.1                           | 4,393                     | 0.8                           |

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|            |        |            |        |
|------------|--------|------------|--------|
| \$ 414,847 | 100.0% | \$ 581,301 | 100.0% |
|------------|--------|------------|--------|

During the three and nine-month periods ended September 30, 2009, the Company made investments in debt securities totaling approximately \$8.2 million and \$76.4 million, respectively. The Company funded equity investments of approximately \$444,000 to one existing portfolio company and \$816,000 two existing portfolio companies in the three and nine-month periods ended September 30, 2009. In addition, during the three month period ended September 30, 2009, the Company used approximately \$200,000 to perform a cash exercise on one portfolio company warrant and converted approximately \$300,000 of interest receivable to principal. During the three and nine-month periods ended September 30, 2008, the Company made investments in debt securities totaling \$92.7 million and \$283.5 million, respectively. No equity investments were funded during the three-month period ended September 30, 2008. The Company made equity investments totaling \$7.0 million in the nine-month period ended September 30, 2008.

## **Table of Contents**

During the three and nine-month periods ended September 30, 2009, the Company recognized net realized losses of approximately \$14.2 million and \$19.5 million, respectively. The realized losses for the three and nine months ended September 30, 2009 are primarily attributed to loan, equity and warrant investment losses in three and six companies, respectively. During the same periods of 2008, the Company recognized net realized gains of approximately \$126,000 and \$5.0 million, respectively.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. These fees are reflected as adjustments to the loan yield. The Company had approximately \$3.2 million and \$6.9 million of unamortized fees at September 30, 2009 and December 31, 2008, respectively, and approximately \$5.9 million and \$3.6 million in exit fees receivable at September 30, 2009 and December 31, 2008, respectively.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately \$836,000 and \$2.1 million in PIK income in the three and nine-month periods ended September 30, 2009. The Company recorded approximately \$283,000 and \$698,000 in the same periods ended September 30, 2008, respectively.

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company's assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company's intellectual property. At September 30, 2009, approximately 71.4% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 27.0% of portfolio company loans were prohibited from pledging or encumbering their intellectual property and 1.6% of portfolio company loans had a second lien facility. See Part II Item 1A Risk Factors.

### **3. Fair Value of Financial Instruments**

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The SBIC debentures remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. As of September 30, 2009, calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of its SBIC debentures would be approximately \$141.6 million, compared to carrying amount of \$130.6 million as of September 30, 2009.

See the accompanying consolidated schedule of investments for the fair value of the Company's investments. The methodology for the determination of the fair value of the Company's investment is discussed in Note 2.

### **4. Borrowings**

#### *Credit Facility*

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. and Deutsche Bank Securities Inc. On October 31, 2008, the Company's Credit Facility expired under the normal terms. All subsequent payments secured from the portfolio companies whose debt was included in the Credit Facility collateral pool were to be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal were due and payable. During the amortization period, borrowings under the Credit Facility bore interest at a rate per annum equal to LIBOR plus 6.50%. At December 31, 2008, \$89.6 million was outstanding under the Credit Facility. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility using approximately \$10.4 million from our regular principal and interest collection, approximately \$36.7 million borrowing from Wells Facility and approximately \$42.5 million from early payoffs.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid



## **Table of Contents**

to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. During the quarter ended September 30, 2009, the Company recorded an increase of the derivative liability related to this obligation and increased its unrealized losses by approximately \$96,000 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 was approximately \$644,000 at September 30, 2009 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately \$920,000 under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached.

### *Long-term SBA Debentures*

In January 2005, the Company formed HT II and HTM. HT II is licensed as a SBIC. HT II borrows funds from the SBA against eligible investments and additional deposits to regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2009, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued to a single SBIC is \$150.0 million. The maximum statutory limit is subject to periodic adjustments by the SBA. As of September 30, 2009, HT II has regulatory capital to \$68.55 million and commitment from the SBA to issue debentures up to \$137.1 million, of which approximately \$130.6 million was outstanding as of September 30, 2009. Currently, HT II has paid commitment fees of approximately \$1.4 million. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18.0 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25% of their investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiary HT II, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II is periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the \$12.0 million of borrowings originated from March 13, 2007 to September 10, 2007 was set by the SBA on September 26, 2007 at 5.528%. The rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA on September 24, 2008 at 5.725%. The rate for the \$18.4 million of borrowings made after September 13, 2008 through March 10, 2009 was set by the SBA on March 25, 2009 at 4.62%. The rate for the \$3.4 million of borrowings made after March 10, 2009 was set on September 23, 2009 at 4.233%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee on debenture pooling date on September 23, 2009 was 0.406%. The annual fees on other debentures have been set at 0.906%. Interest is payable semi-annually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

### *Wells Facility*

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which reduces to 0.3% on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investments in our portfolio companies, and



## Table of Contents

includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. We paid a one time \$750,000 structuring fee in connection with the Wells Facility which is being amortized over a 2 year period. There was no outstanding debt under the Wells Facility at September 30, 2009.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of \$360 million. The Wells Facility was amended, effective April 30, 2009, to decrease the minimum tangible net worth covenant from \$360 million to \$250 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitments exceeding \$250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. As of September 30, 2009 combined commitments from the Wells Fargo syndicate and the SBA totaled \$187.1 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at September 30, 2009.

At September 30, 2009 and December 31, 2008, the Company had the following borrowing capacity and outstanding borrowings:

| (in thousands)  | September 30, 2009 |                    | December 31, 2008 |                    |
|-----------------|--------------------|--------------------|-------------------|--------------------|
|                 | Facility Amount    | Amount Outstanding | Facility Amount   | Amount Outstanding |
| Credit Facility | \$                 | \$                 | \$ 89,582         | \$ 89,582          |
| Wells Facility  | 50,000             |                    | 50,000            |                    |
| SBA Debentures  | 137,100            | 130,600            | 130,600           | 127,200            |
| Total           | \$ 187,100         | \$ 130,600         | \$ 270,182        | \$ 216,782         |

## 5. Income taxes

The Company intends to continue to operate so as to qualify to be taxed as a RIC under the Code and, as such, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required, among other requirements, to distribute at least 90% of its annual investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company's earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company's dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company's stockholders.

Taxable income includes the Company's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

For the quarter ended September 30, 2009, the Company declared a distribution of \$0.30 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company had determined the tax attributes of its distributions year-to-date as of September 30, 2009, approximately 100% would be from ordinary income and spill over earnings from 2008, however there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2009 distributions to shareholders will actually be.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable

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income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

**Table of Contents**

At December 31, 2008, the Company recorded a provision for excise tax of approximately \$203,000 on excess taxable income of approximately \$5.0 million available for distribution to shareholders in 2009. Excess taxable income for 2008 represents ordinary income and capital gains.

Taxable income for the nine-month period ended September 30, 2009 was approximately \$30.8 million or \$0.89 per share. Taxable net realized losses for the same period was \$17.8 million or approximately \$0.51 loss per share. Taxable income for the nine-month period ended September 30, 2008 was approximately \$30.1 million or \$0.92 per share. Taxable net realized gains for the same period was \$6.2 million or approximately \$0.19 per share.

In accordance with regulated investment company distribution rules, the Company is required to declare current year dividends to be paid from carried over excess taxable income from 2008 before the Company files its 2008 tax return in September 2009, and the Company must pay such dividends by December 31, 2009.

**6. Shareholders Equity**

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

In conjunction with a June 2004 private placement, the Company issued warrants to purchase one share of common stock within five years (the Five Year Warrants ). The exercise price of these warrants was \$10.57 and the warrants expired in June 2009.

A summary of activity in the Five Year Warrants initially attached to units issued for the nine months ended September 30, 2009 and 2008 is as follows:

|                             | 2009      | 2008     |
|-----------------------------|-----------|----------|
| Outstanding at January 1    | 283,614   | 371,937  |
| Warrants issued             |           |          |
| Warrants cancelled          | (283,614) |          |
| Warrants exercised          |           | (88,323) |
| Outstanding at September 30 |           | 283,614  |

Common stock subject to future issuance as of September 30, 2009 and 2008 is as follows:

|                              | 2009      | 2008      |
|------------------------------|-----------|-----------|
| Stock options and warrants   | 4,825,407 | 3,945,807 |
| Warrants issued in June 2004 |           | 283,614   |
| Common stock reserved        | 4,825,407 | 4,229,421 |

**7. Equity Incentive Plan**

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

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

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On June 21, 2007, the shareholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company's stock on the effective date of the Plans plus 10% of the number of shares of stock issued or

## Table of Contents

delivered by Hercules during the terms of the Plans. The proposed amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company's outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company's outstanding warrants, options and rights issued to Hercules directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

In conjunction with stock options issued in 2004, the Company issued warrants to purchase one share of common stock within five years. The warrants expired in June 2009.

A summary of common stock options and warrant activity under the Company's 2006 and 2004 Plans for the nine months ended September 30, 2009 and 2008 is as follows:

|                                                     | 2009                    |                       | 2008                    |                       |
|-----------------------------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|                                                     | Common Stock<br>Options | Five-Year<br>Warrants | Common Stock<br>Options | Five-Year<br>Warrants |
| Outstanding at January 1                            | 3,931,527               | 10,692                | 2,920,513               | 10,692                |
| Granted                                             | 1,200,500               |                       | 1,286,086               |                       |
| Exercised                                           |                         |                       |                         |                       |
| Cancelled                                           | (306,620)               | (10,692)              | (260,792)               |                       |
| Outstanding at September 30                         | 4,825,407               |                       | 3,945,807               | 10,692                |
| Weighted -average exercise price at<br>September 30 | \$ 10.75                | \$                    | \$ 13.18                | \$ 10.57              |

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At September 30, 2009, options for approximately 3.0 million shares were exercisable at a weighted average exercise price of approximately \$12.97 per share with an expected average exercise term of 4.5 years.

The Company determined that the fair value of options granted under the 2004 Plan during the nine-month periods ended September 30, 2009 and 2008 was approximately \$486,000 and \$1.2 million, respectively. During the three-month periods ended September 30, 2009 and 2008, approximately \$233,000 and \$57,000 of share-based cost was expensed, respectively. During the nine-month periods ended September 30, 2009 and 2008, approximately \$752,000 and \$741,000 of share-based cost was expensed, respectively. As of September 30, 2009, there was approximately \$1.0 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.73 years. The fair value of options granted is based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the nine-month periods ended September 30, 2009 and 2008:

|                          | 2009          | 2008          |
|--------------------------|---------------|---------------|
| Expected Volatility      | 31.5%-37.2%   | 23%           |
| Expected Dividends       | 10%           | 8% - 10%      |
| Expected term (in years) | 4.5           | 4.5           |
| Risk-free rate           | 1.77% - 2.22% | 2.27% - 3.18% |

During nine months ended September 30, 2009, the Company granted approximately 311,500 shares of restricted stock pursuant to the 2006 and 2004 Plan. No restricted stock awards were granted in the three month period ended September 30, 2009. Restricted stock granted under the 2004 Plan in Q1 2009 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. Restricted stock granted in the second quarter of 2009 is subject to the 2006 Plan and vests over three years, in equal installments on each of the first three anniversaries of the date of grant. During the three and nine months ended September 30, 2009, the Company recognized compensation expense related to restricted stock of approximately \$265,000 and \$736,000, respectively. The Company recorded approximately \$171,000 and \$403,000 in the same respective periods ended September 30, 2008.



**Table of Contents****8. Change in Net Assets per Share**

In June 2008, the FASB issued ASC 260 (formerly known FASB EITF 03-6-1). Under this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, such as our restricted stock issued under the 2004 Plan and 2006 Plan, are considered participating securities for purposes of calculating change in net assets per share. Under the two-class method, a portion of net increase in net assets resulting from operations is allocated to these participating securities and therefore is excluded from the calculation of change in net assets per share allocated to common stock, as shown in the table below. This standard requires retrospective application for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. This standard was effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this standard beginning with financial statements ended March 31, 2009. The adoption of the standard resulted one penny change to the previously reported basic change in net assets per share and diluted change in net assets per share for the nine months ended September 30, 2008.

Computation and reconciliation of change in net assets per common share are as follows:

| (in thousands, except per share data)                                        | Three Months<br>Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|------------------------------------------------------------------------------|----------------------------------------|---------------|------------------------------------|---------------|
|                                                                              | 2009                                   | 2008          | 2009                               | 2008          |
| <b>Numerator</b>                                                             |                                        |               |                                    |               |
| Net increase (decrease) in net assets resulting from operations              | \$ 13,690                              | \$ 12,538     | \$ 5,113                           | \$ 31,933     |
| Less: Dividends declared-common and restricted shares                        | 10,635                                 | 11,173        | 31,825                             | 32,101        |
| Undistributed earnings                                                       | 3,055                                  | 1,365         | (26,712)                           | (168)         |
| Undistributed earnings-common shares                                         | 3,013                                  | 1,355         | (26,712)                           | (168)         |
| Add: Dividend declared-common shares                                         | 10,486                                 | 11,099        | 31,451                             | 31,950        |
| <b>Numerator for basic and diluted change in net assets per common share</b> | <b>13,499</b>                          | <b>12,454</b> | <b>4,739</b>                       | <b>31,782</b> |
| <b>Denominator</b>                                                           |                                        |               |                                    |               |
| <b>Basic weighted average common shares outstanding</b>                      | <b>34,981</b>                          | <b>32,634</b> | <b>34,282</b>                      | <b>32,600</b> |
| Common shares issuable                                                       | 595                                    |               | 325                                |               |
| <b>Weighted average common shares outstanding assuming dilution</b>          | <b>35,576</b>                          | <b>32,634</b> | <b>34,607</b>                      | <b>32,600</b> |
| <b>Change in net assets per common share</b>                                 |                                        |               |                                    |               |
| Basic                                                                        | \$ 0.39                                | \$ 0.38       | \$ 0.14                            | \$ 0.97       |
| Diluted                                                                      | \$ 0.38                                | \$ 0.38       | \$ 0.14                            | \$ 0.97       |

Options to purchase approximately 3.8 million and 4.0 million common shares, for the three and nine month periods ended September 30, 2009 respectively, issuable under the Company's share-based compensation plans were excluded from the computation of diluted change in net assets per common share because the effect would have been antidilutive.

**9. Related-Party Transactions**

In connection with the sale of public equity investments, the Company paid JMP Securities LLC approximately \$12,000 and \$48,000, respectively, in brokerage commissions for the three and nine months ended September 30, 2009. The Company paid approximately \$23,000 and \$26,000 for the three and nine months ended September 30, 2008.

**Table of Contents****10. Financial Highlights**

Following is a schedule of financial highlights for the nine months ended September 30, 2009 and 2008:

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****FINANCIAL HIGHLIGHTS****(Unaudited)****(Dollar in thousands, except per share amounts)**

|                                                                                                      | <b>Nine Months Ended<br/>September 30,</b> |                       |
|------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------|
|                                                                                                      | <b>2009</b>                                | <b>2008</b>           |
| <b>Per share data:</b>                                                                               |                                            |                       |
| Net asset value at beginning of period                                                               | \$ 11.56                                   | \$ 12.31              |
| Net investment income                                                                                | 0.98                                       | 0.89                  |
| Net realized gain (loss) on investments                                                              | (0.57)                                     | 0.15                  |
| Net unrealized appreciation (depreciation) on investments                                            | (0.27)                                     | (0.06)                |
| Total from investment operations                                                                     | 0.14                                       | 0.98                  |
| Net increase/(decrease) in net assets from capital share transactions                                | (0.45)                                     | (0.09)                |
| Distributions                                                                                        | (0.92)                                     | (0.98)                |
| Stock-based compensation expense included in investment income <sup>(1)</sup>                        | 0.04                                       | 0.03                  |
| Net asset value at end of period                                                                     | \$ 10.37                                   | \$ 12.25              |
| <b>Ratios and supplemental data:</b>                                                                 |                                            |                       |
| Per share market value at end of period                                                              | \$ 9.82                                    | \$ 9.70               |
| Total return                                                                                         | 27.63% <sup>(2)</sup>                      | -9.34% <sup>(2)</sup> |
| Shares outstanding at end of period                                                                  | 35,546                                     | 32,863                |
| Weighted average number of common shares outstanding                                                 | 34,282                                     | 32,600                |
| Net assets at end of period                                                                          | \$ 368,722                                 | \$ 402,690            |
| Ratio of operating expense to average net assets (annualized)                                        | 8.34%                                      | 8.20%                 |
| Ratio of net investment income before investment gains and losses to average net assets (annualized) | 11.78%                                     | 9.54%                 |
| Average debt outstanding                                                                             | \$ 153,124                                 | \$ 180,457            |
| Weighted average debt per common share                                                               | \$ 4.42                                    | \$ 5.51               |
| Portfolio turnover                                                                                   | 0.95%                                      | 3.01%                 |

<sup>(1)</sup> Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to stock based compensation accounting guidance, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

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

**11. Commitments and Contingencies**

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans to the Company's portfolio companies. The balance of unused commitments to extend credit at September 30, 2009 totaled approximately \$16.9 million. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had no non-binding term sheets outstanding. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well

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as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately \$224,000 and \$728,000 during the three and nine-month periods ended September 30, 2009, respectively. There was approximately \$245, 000 and \$715,000 of rent expenses recorded in the same periods ended September 30, 2008.

**Table of Contents**

The following table shows our contractual obligations as of September 30, 2009:

| Contractual Obligations <sup>(1)(2)</sup>  | Payments due by period<br>(in thousands) |                  |                 |               |                   |
|--------------------------------------------|------------------------------------------|------------------|-----------------|---------------|-------------------|
|                                            | Total                                    | Less than 1 year | 1-3 years       | 3-5 years     | After 5 years     |
| Borrowings <sup>(3)</sup>                  | \$ 130,600                               | \$               | \$              | \$            | \$ 130,600        |
| Operating Lease Obligations <sup>(4)</sup> | 3,911                                    | 1,007            | 1,945           | 959           |                   |
| <b>Total</b>                               | <b>\$ 134,511</b>                        | <b>\$ 1,007</b>  | <b>\$ 1,945</b> | <b>\$ 959</b> | <b>\$ 130,600</b> |

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

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

(3) Includes borrowings under the Wells Facility and the SBA debentures.

(4) Long-term facility leases.

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

**12. Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 168 *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles*, or SFAS 168. SFAS 168 introduced a new Accounting Standard Codification, or ASC, which organized current and future accounting standards into a single codified system. SFAS 168, which is now referred to as ASC Topic 105 *Generally Accepted Accounting Principles*, or ASC 105, under the new codification, superseded, but did not significantly change, all previously existing accounting standards. ASC 105 was effective for interim periods ending after September 15, 2009.

The Company adopted ASC 105 beginning with our quarter report on Form 10Q for the quarter ended September 30, 2009. In connection with adoption of this standard, The Company's discussion about specific accounting standards must now reference the standards as set forth in the new codification. The original reference as well as the new ASC reference has been included to assist readers of the financial statements.

In April 2009, FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1 *Interim Disclosures about Fair Value of Financial Instruments*, which was subsequently incorporated into ASC Topic 825 *Financial Instruments*. The April 2009 guidance requires disclosures about financial instruments, including fair value, carrying amount, and method and significant assumptions used to estimate the fair value. This standard was adopted as of June 30, 2009. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment*, which was subsequently included in ASC 320-10-35. This guidance amends the existing guidance regarding impairments for investments in debt securities. Specifically, it changes how companies determine if an impairment is considered to be other-than-temporary and the related accounting. This standard also requires increased disclosures. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

In May 2009, FASB issued SFAS 165 *Subsequent Events*, which was subsequently included in ASC Topic 855 *Subsequent Events*, or ASC 855. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, and specifically requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted this guidance during the quarter ended June 30, 2009. For the period ended September 30, 2009, management has evaluated all subsequent events through the filing date of November 9, 2009.

**FAIR VALUE MEASUREMENTS**

FASB set forth most of the accounting guidance associated with the measurement and disclosure of fair value in ASC Topic 820 *Fair Value Measurements and Disclosures*. Prior to its adoption of the new codification, FASB issued a number of standards that either affected the

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measurement and disclosure of fair value or provided additional guidance or clarification. All such amendments have been incorporated into ASC 820, including the following:

In October 2008, FASB issued FASB Staff Position No. FAS 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which provided an illustrative example of how to determine the fair value of a financial asset in an inactive market. This standard did not change the fair value measurement principles previously set forth by FASB. We adopted this modification in January 2009. The Company's practice for determining the fair value of the Company's investment portfolio has been, and continues to be, consistent with the guidance provided in the example included in the October 2008 guidance. Therefore, the Company's adoption of this standard did not affect practices for determining the fair value of investment portfolio.

## **Table of Contents**

In April 2009, the FASB issued a new accounting standard (ASC 820-10-65, formerly known as FSP SFAS No. 157-4), which provides guidance to highlight and expand on factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset or liability. This standard also provides guidance on identifying circumstances that may indicate that a transaction is not orderly. The Company's adoption of this standard on April 1, 2009 did not have a material effect on our financial position, results of operations or stockholders' equity.

In June 2008, FASB issued FASB Staff Position EITF 03-06-1 Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities, which was subsequently incorporated into ASC Topic 260 Earnings Per Share. The June 2008 guidance requires companies to include unvested share-based payment awards that contain non-forfeitable rights to dividends in the computation of earnings per share pursuant to the two-class method. In effect, this standard requires companies to report basic and diluted earnings per share in two broad categories. First, companies must report basic and diluted earnings per share associated with the unvested share-based payments with non-forfeitable dividend rights. Second, companies must report separately basic and diluted earnings per share for their remaining common stock. This standard was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company adopted this standard beginning with our financial statements ended March 31, 2009. As required, this standard was applied retroactively to all reported periods. This standard did not have a material impact on The Company's financial statements. See Note 8 *Change in Net Assets Per Share* for additional information.

### **13. Subsequent Events**

On November 4, 2009, Ancestry.com Inc., an online resource for family history, announced the pricing of its initial public offering of 7,407,407 shares of common stock at a price of \$13.50 per share. A total of 4,074,074 shares are being offered by Ancestry.com, and a total of 3,333,333 shares are being offered by selling stockholders of which Hercules was a participant. Ancestry.com common stock commenced trading on November 5, 2009, on the NASDAQ Global Select Market under the symbol ACOM.

In October 2009, Gomez, Inc., entered into a definitive agreement to be acquired by Compuware, Inc. (NASDAQ: CPWR) in a \$295.0 million cash transaction, which is anticipated to close in November 2009. No unrealized appreciation related to this acquisition is reflected in the financial statements as of September 30, 2009. There can be no assurance that the merger will be consummated.

On October 28, 2009, the Company agreed to a term sheet with Union Bank of California for a \$20.0 million, one year revolving credit facility. Cost of debt under the facility is LIBOR+ 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. Finalization of the facility is subject to completion of the loan documents.

In October 2009, the Company submitted our final application to the SBA for a second SBIC license that would provide up to an additional \$75.0 of borrowings, subject to SBA approval and an additional capital contribution of \$37.5 million into Hercules' SBA subsidiary. The Company anticipates the license will be approved during the first half of 2010; however, there can be no assurance that the U.S. Small Business Administration will grant the Company a second license or when the license will be approved.

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

### **Forward-Looking Statements**

The information set forth in this report includes forward-looking statements. Such forward-looking statements are subject to the safe harbor created by that section. 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, predicts, potential, or continue, or the negatives of these terms, or other similar expressions generally identify forward-looking statements.

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

### **Overview**

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We are a specialty finance company that provides debt and equity growth capital to technology-related companies at all stages of development from seed and emerging growth to expansion and established stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and may also finance select publicly listed companies and lower middle market companies. Our principal office is located in the Silicon Valley and we have additional offices in Boston, Boulder and Chicago. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity

## **Table of Contents**

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

Our primary business objectives are to increase our assets from operations, net investment income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. As a business development company, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

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

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Since 2008, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies. Early in 2008, we announced our slow and steady investment strategy and the shift in our investment focus to established-stage, or lower middle market companies. These changes were made to manage our credit performance, maintain adequate liquidity and manage our operating expenses in this extremely challenging and unprecedented credit environment.

The U.S. capital and credit markets have been experiencing extreme disruption for more than 16 months, as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the broadly syndicated credit market and the failure of many major financial institutions. These events have contributed to a continuing severe economic recession that is materially and adversely impacting the broader financial and credit markets and reducing the availability of credit and equity capital for the markets as a whole and financial services firms in particular, including us.

At the same time, the venture capital market for the technology-related companies in which we invest has been active, but over the past nine months has showed signs of stress and contraction. Therefore, to the extent we have capital available; we believe this is an opportune time to invest on a limited basis in the structured lending market for technology-related companies. In particular, we are shifting our focus to expansion, established stage and late stage companies in order to maintain our portfolio credit quality despite the current adverse financial markets. While today's economy creates potentially new attractive lending opportunities, our outlook remains cautious for at least the next three to six months as the economic environment may cause additional portfolio stress.

Early in 2008, we announced our slow and steady investment strategy and the shift in our investment focus to established-stage, or lower middle market companies. These changes were made to manage our credit performance, maintain adequate liquidity and manage our operating expenses in this extremely challenging and unprecedented credit environment. Due to the continuing economic slowdown and reduced venture capital investment activity, we determined that it would be prudent to substantially curtail new investment activity during the first half of 2009 to have working capital available to support our existing portfolio companies. However, during the second quarter of 2009 we began to see an increase in investment opportunities due to an uptick in investment and merger activity and believe there are opportunities to invest in technology-related companies.

## **Portfolio and Investment Activity**

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The total value of our investment portfolio was \$414.8 million at September 30, 2009 as compared to \$581.3 million at December 31, 2008. During the three-month and nine-month periods ended September 30, 2009, we made debt commitments totaling \$15.8 million and \$150.6 million and funded approximately \$8.2 million and \$76.4 million, respectively. Debt commitments for the

## Table of Contents

nine month period ended September 30, 2009 included commitments of approximately \$7.0 million to one new portfolio company, \$39.5 million in refinancing through our SBIC, \$2.2 million to existing companies, renewals of approximately \$34.5 million of working capital lines and restructurings of approximately \$67.4 million.

During the three and nine-month periods ended September 30, 2009, we made equity investments of approximately \$444,000 in one existing portfolio companies and approximately \$816,000 in two existing portfolio companies. In addition, during the three month period ended September 30, 2009, the Company used approximately \$200,000 to perform a cash exercise on one portfolio company warrant and converted approximately \$300,000 of interest receivable to principal. During the three and nine months ended September 30, 2008, we made debt commitments totaling \$54.2 million and \$348.8 million and funded approximately by \$92.7 million and \$283.5 million, respectively. No equity investment was made in the three months ended September 30, 2008. We made equity investments of approximately \$7.0 million in the nine-month period ended September 30, 2008. At September 30, 2009, we had unfunded contractual commitments of \$16.9 million to seven portfolio companies. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, as of September 30, 2008, we executed non-binding term sheet with one prospective portfolio companies, representing approximately \$5.5 million. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements. Although we have begun to actively make new investment we don't expect to start seeing any meaningful balance sheet loan portfolio growth until the first quarter of 2010.

The fair value of the loan portfolio at September 30, 2009 was approximately \$369.5 million, compared to a fair value of approximately \$578.3 million at September 30, 2008. The fair value of the equity portfolio at September 30, 2009 and September 30, 2008 was approximately \$31.1 million and \$33.1 million, respectively. The fair value of our warrant portfolio at September 30, 2009 and September 30, 2008 was approximately \$14.2 million and \$25.4 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the nine-month period ended September 30, 2009, we received normal principal amortization repayments of \$68.7 million, and early repayments and working line of credit paydowns totaling \$149.6 million. Total portfolio investment activity (exclusive of unearned income) as of the nine-month periods ended September 30, 2009 and 2008 is as follows:

| (in millions)                                          | Nine Months Ended<br>September 30,<br>2009 | Nine Months Ended<br>September 30,<br>2008 |
|--------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Beginning Portfolio                                    | \$ 581.3                                   | \$ 530.0                                   |
| Debt investments                                       | 76.7                                       | 283.5                                      |
| Equity investments                                     | 1.0                                        | 7.0                                        |
| Sale of investments                                    | (23.3)                                     | (2.0)                                      |
| Principal payments received on investments             | (68.7)                                     | (70.0)                                     |
| Early pay-offs and working capital paydowns            | (149.6)                                    | (114.8)                                    |
| Accretion of loan discounts and paid-in-kind principal | 6.5                                        | 5.0                                        |
| Net change in unrealized depreciation in investments   | (9.1)                                      | (2.0)                                      |
| Ending Portfolio                                       | \$ 414.8                                   | \$ 636.7                                   |

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

| (in thousands)                        | September 30, 2009           |                                  | December 31, 2008            |                                  |
|---------------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
|                                       | Investments at Fair<br>Value | Percentage of Total<br>Portfolio | Investments at Fair<br>Value | Percentage of Total<br>Portfolio |
| Senior secured debt with warrants     | \$ 318,541                   | 76.8%                            | \$ 445,574                   | 76.6%                            |
| Senior secured debt                   | 59,049                       | 14.2                             | 106,266                      | 18.2                             |
| Preferred stock                       | 25,714                       | 6.2                              | 21,249                       | 3.8                              |
| Senior debt-second lien with warrants | 6,134                        | 1.5                              | 6,097                        | 1.0                              |

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|              |            |        |            |        |
|--------------|------------|--------|------------|--------|
| Common Stock | 5,409      | 1.3    | 2,115      | 0.4    |
|              | \$ 414,847 | 100.0% | \$ 581,301 | 100.0% |

47

## Table of Contents

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

| (in thousands) | September 30, 2009        |                               | December 31, 2008         |                               |
|----------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States  | \$ 370,620                | 89.4%                         | \$ 537,470                | 92.5%                         |
| Canada         | 20,456                    | 4.9                           | 21,210                    | 3.6                           |
| Israel         | 20,979                    | 5.0                           | 19,621                    | 3.4                           |
| Netherlands    | 2,792                     | 0.7                           | 3,000                     | 0.5                           |
|                | \$ 414,847                | 100.0%                        | \$ 581,301                | 100.0%                        |

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

At September 30, 2009, we had investments in two portfolio companies deemed to be affiliates. Both affiliates are non-income producing equity investments at September 30, 2009. Income derived from affiliate investments was less than \$500,000 since these investments became affiliates. There was no affiliate income derived in the quarter ended September 30, 2009. We recognized a realized loss of approximately \$4.0 million in the second quarter of 2009 in a portfolio company that was an affiliate prior to the disposal of the investment. No realized gains or losses related to affiliates were recognized during the three or nine-month periods ended September 30, 2008.

The following table shows the fair value of our portfolio by industry sector at September 30, 2009 and December 31, 2008 (excluding unearned income):

| (in thousands)                        | September 30, 2009        |                               | December 31, 2008         |                               |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                                       | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Communications & networking           | \$ 62,085                 | 15.0%                         | \$ 118,133                | 20.3%                         |
| Software                              | 61,895                    | 14.9                          | 80,885                    | 13.9                          |
| Drug discovery                        | 57,007                    | 13.7                          | 70,320                    | 12.1                          |
| Information services                  | 37,638                    | 9.1                           | 63,533                    | 10.9                          |
| Electronics & computer hardware       | 30,240                    | 7.3                           | 40,481                    | 7.0                           |
| Biotechnology tools                   | 28,020                    | 6.8                           | 29,124                    | 5.0                           |
| Specialty pharmaceuticals             | 26,705                    | 6.4                           | 29,870                    | 5.1                           |
| Consumer & business products          | 26,405                    | 6.4                           | 25,250                    | 4.3                           |
| Drug delivery                         | 21,513                    | 5.2                           | 24,952                    | 4.3                           |
| Internet consumer & business services | 16,624                    | 4.0                           | 19,759                    | 3.4                           |
| Therapeutic                           | 15,728                    | 3.8                           | 15,661                    | 2.7                           |
| Semiconductors                        | 13,915                    | 3.3                           | 17,766                    | 3.1                           |
| Diagnostic                            | 12,405                    | 3.0                           | 13,494                    | 2.3                           |
| Surgical Devices                      | 2,388                     | 0.6                           | 10,013                    | 1.7                           |
| Media/Content/Info                    | 2,152                     | 0.4                           | 17,667                    | 3.1                           |
| Energy                                | 127                       | 0.1                           | 4,393                     | 0.8                           |
|                                       | \$ 414,847                | 100.0%                        | \$ 581,301                | 100.0%                        |

**Table of Contents**

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2009 and December 31, 2008.

| (in thousands)            | September 30, 2009        |                               | December 31, 2008         |                               |
|---------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                           | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| <b>Investment Grading</b> |                           |                               |                           |                               |
| 1                         | \$ 35,814                 | 9.7%                          | \$ 22,293                 | 4.1%                          |
| 2                         | 166,140                   | 45.0                          | 326,106                   | 60.4                          |
| 3                         | 110,609                   | 29.9                          | 159,980                   | 29.6                          |
| 4                         | 54,595                    | 14.8                          | 29,460                    | 5.5                           |
| 5                         | 2,362                     | 0.6                           | 2,215                     | 0.4                           |
|                           | \$ 369,520                | 100.00%                       | \$ 540,054                | 100.00%                       |

As of September 30, 2009, our investments had a weighted average investment grading of 2.66 as compared to 2.39 at December 31, 2008. We are shifting our focus to expansion, established-stage and late stage companies in order to maintain our portfolio credit quality despite the current adverse financial markets. However, there is no guarantee that this strategy will be successful. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At September 30, 2009, 15 portfolio companies were graded 3, 8 portfolio companies were graded 4, and 5 portfolio companies were graded 5 as compared to 19 portfolio companies that were graded 3, 5 portfolio companies that were graded 4 and 5 at December 31, 2008. At September 30, 2009, there were 4 portfolio companies on non-accrual status. In general, interest is not accrued on loans and debt securities if we have doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. To the extent interest payments are received on a loan that is not accruing interest, we may use such payments to reduce our cost basis in the investment in lieu of recognizing interest income. There were 4 portfolio companies on non-accrual at December 31, 2008.

The effective yield on our debt investments for the three month periods ended September 30, 2009 and June 30, 2009 was 15.1% and 16.1%, respectively. The decrease in the effective yield is primarily attributed to the decrease in fee revenue related to early repayments compared to the prior quarter combined with an increase in non-accrual loans in the current quarter.

The overall weighted average yield to maturity of our loan obligations was approximately 13.8% at September 30, 2009 as compared to 12.87% as of December 31, 2008, attributed to higher interest rates on new loans and loans refinanced in the first nine months of 2009. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to 17% as of September 30, 2009. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In most cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property. At September 30, 2009, approximately 71.4% of portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 27.0% of the portfolio company loans were prohibited from pledging or encumbering the portfolio company's intellectual property and 1.6% of our loans are second lien facilities. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.



## **Table of Contents**

Our investments in structured debt with warrants also generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. As of September 30, 2009, we have received warrants in connection with the majority of our debt investments in each portfolio company. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. We currently hold warrants in 84 portfolio companies, with a fair value of approximately \$14.2 million included in the investment portfolio of \$414.8 million. These warrant holdings would require us to invest approximately \$48.0 million to exercise such warrants. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

## **Results of Operations**

### ***Comparison of the Three and Nine-Month Periods Ended September 30, 2009 and 2008***

#### **Operating Income**

Interest income totaled approximately \$14.6 million and \$48.4 million for the three and nine-month periods ended September 30, 2009, compared with \$17.3 million and \$47.7 million for the three and nine-month periods ended September 30, 2008, respectively. Income from commitment, facility and loan related fees totaled approximately \$3.1 million and \$9.2 million for the three and nine-month periods ended September 30, 2009, compared with \$1.9 million and \$6.2 million in the same periods ended September 30, 2008, respectively. In the three months ended September 30, 2009 and 2008, total investment income decreased \$1.6 million year over year and in the nine months ended September 30, 2009 and 2008, total investment income increased by \$3.7 million year over year, respectively, despite a decline of 14.1% in average investment assets over the same period, due to higher average yield on the debt portfolio, early debt repayment fees, restructuring charges and default interest on certain debt investments.

#### **Operating Expenses**

Operating expenses totaled approximately \$7.3 million and \$23.9 million during the three and nine months ended September 30, 2009, compared with \$9.3 million and \$24.9 million for the three and nine months ended September 30, 2008, respectively. Operating expenses for the three and nine months ended September 30, 2009 included interest expense, loan fees and unused commitment fees of approximately \$2.4 million and \$8.9 million, respectively, compared with \$4.5 million and \$10.3 million for the three and nine-month periods ended September 30, 2008. The 48% decrease in interest and loan fee expenses relates to a lower average outstanding debt balance of \$130.6 million in the third quarter of 2009 as compared to \$221.4 million in the third quarter of 2008 as well as a lower average cost of debt as the Citibank/Deutsche Bank credit facility was paid off on March 29, 2009. The lower cost of capital for the nine months ended September 30, 2009 as compared to the same period of 2008 is primarily due to the lower average debt outstanding and lower average cost of capital due to the repayment of the Citibank/Deutsche Bank credit facility.

Employee compensation and benefits were relatively consistent at approximately \$2.9 million and \$9.5 million during the three and nine months ended September 30, 2009, compared with \$2.8 million and \$9.3 million during the three and nine-month periods ended September 30, 2008, respectively. General and administrative expenses for the three and nine month periods ended September 30, 2009 which include legal, consulting and accounting fees, insurance premiums, rent and various other expenses increased to \$2.1 million and \$5.5 million, from \$1.9 million and \$5.3 million during the three and nine months ended September 30, 2008. The increase quarter over quarter is primarily attributable to higher work-out related expenses, stock-based compensation expense and consulting fees offset by lower payroll expense and recruiting expenses while the increase for the comparable nine-month periods is due primarily to higher expense for accounting and printer costs, legal and consulting expenses offset by lower recruiting and travel expenses. In addition, we incurred approximately \$498,000 and \$1.5 million of stock-based compensation expense in the three and nine months of 2009 as compared to \$228,000 and \$1.1 million in the same periods of 2008. The increase was due to additional option and restricted stock grants made in 2009, which increased the basis of the total stock based compensation expenses during the three and nine month periods of 2009.

#### **Net Investment Income Before Investment Gains and Losses**

Net investment income per share was \$0.30 for the third quarter of 2009, compared to \$0.31 per share in the third quarter of 2008. Net investment income before investment gains and losses for the three and nine months ended September 30, 2009 totaled \$10.3 million and \$33.7 million as compared to \$10.0 million and \$29.0 million in the three and nine month periods of 2008. The changes are made up of the items described above under Operating Income and Operating Expenses.

#### **Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation**

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

**Table of Contents**

For the three months ended September 30, 2009, we generated net realized losses totaling approximately \$14.2 million. We have recognized approximately \$559,000 of realized gains from the exercise of our warrants and the sale of common stock of two biotech companies and one drug discovery portfolio company offset by \$14.8 million realized losses on loans, equity and warrants from the investment exit from two technology portfolio companies and one specialty pharmaceuticals portfolio company. For the three months ended September 30, 2008, we generated a net realized gain totaling approximately \$126,000 due to the realized gain of \$430,000 primarily from warrant exercise and sale of one biopharmaceutical company offset by \$304,000 loss on the sale of one loan portfolio and write off two company warrants. A summary of realized gains and losses and unrealized appreciation and depreciation for the three and nine-month periods ended September 30, 2009 and 2008 is as follows:

| (in thousands)     | Three Months Ended September 30, |        | Nine Months Ended September 30, |          |
|--------------------|----------------------------------|--------|---------------------------------|----------|
|                    | 2009                             | 2008   | 2009                            | 2008     |
| Realized gains     | \$ 559                           | \$ 430 | \$ 2,103                        | \$ 5,912 |
| Realized losses    | (14,732)                         | (304)  | (21,609)                        | (919)    |
| Net realized gains | \$ (14,173)                      | \$ 126 | \$ (19,506)                     | \$ 4,993 |

During the three months ended September 30, 2009 and 2008, net unrealized appreciation totaled approximately \$17.5 million and \$2.4 million. During the nine months ended September 30, 2009 and 2008, net unrealized depreciation totaled approximately \$9.1 million and \$2.0 million, respectively. The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors. For the three month period ended September 30, 2009, we recognized net unrealized appreciation on investments of approximately \$17.5 million. Of this amount, approximately \$12.5 million is related to net changes in loan values primarily driven by the reversal of unrealized depreciation to realized losses, approximately \$4.7 million of net increases in equity values, and approximately \$352,000 of net increases in warrant values based on the accounting required under ASC 820, formerly known as FAS 157 and the increase of enterprise valuations. As of September 30, 2009, the net unrealized depreciation recognized by the Company was increased by approximately \$96,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the consolidated financial statements. The following table itemizes the change in net unrealized depreciation of investments for the three and nine-month periods ended September 30, 2009 and 2008:

| (in thousands)                                                          | Three Months Ended September 30, |          | Nine Months Ended September 30, |            |
|-------------------------------------------------------------------------|----------------------------------|----------|---------------------------------|------------|
|                                                                         | 2009                             | 2008     | 2009                            | 2008       |
| Gross unrealized appreciation on portfolio investments                  | \$ 16,387                        | \$ 5,681 | \$ 29,008                       | \$ 13,662  |
| Gross unrealized depreciation on portfolio investments                  | (13,326)                         | (3,370)  | (58,728)                        | (12,304)   |
| Reversal of prior period net unrealized appreciation upon a realization | (500)                            | 221      | (1,542)                         | (3,023)    |
| Reversal of prior period net unrealized depreciation upon a realization | 15,051                           |          | 22,300                          |            |
| Citigroup Warrant Participation                                         | (96)                             | (112)    | (146)                           | (359)      |
| Net unrealized appreciation (depreciation) on portfolio investments     | \$ 17,516                        | \$ 2,420 | \$ (9,108)                      | \$ (2,024) |

**Income and Excise Taxes**

We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which was subsequently included in ASC Topic 855 Income Taxes. ASC Topic 855 requires that deferred income taxes be determined based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances are used to reduce deferred tax assets to the amount likely to be realized.

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

distributions to stockholders.

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

## Table of Contents

At December 31, 2008, we recorded a provision for excise tax of approximately \$203,000 on excess taxable income of \$5.0 million, available for distribution to shareholders in 2009. Excess taxable income for 2008 represents ordinary income and capital gains.

In accordance with regulated investment company distribution rules, we are required to declare current year dividends to be paid from carried over excess taxable income from 2008 before we file our 2008 tax return in September, 2009, and we must pay such dividends by December 31, 2009. The Company has complied with the requirements.

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

For the three and nine months ended September 30, 2009, the net increase in net assets resulting from operations totaled approximately \$13.7 million and \$5.1 million compared to the net increase of approximately \$12.5 million and \$31.9 million for the three and nine months ended September 30, 2008. These changes are made up of the items previously described.

Basic change in net asset per share for the three and nine-month periods ended September 30, 2009 was \$0.39 and \$0.14 respectively, as compared to \$0.38 and \$0.97 for the three and nine-month periods ended September 30, 2008, respectively.

### Financial Condition, Liquidity, and Capital Resources

At September 30, 2009, we had approximately \$77.2 million in cash and cash equivalents and available borrowing capacity of approximately \$50.0 million under the Wells Facility and \$6.5 million under the SBA program, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

For the nine months ended September 30, 2009, net cash provided by operating activities totaled approximately \$166.8 million as compared to net cash used in operating activities of approximately \$82.4 million for the nine months ended September 30, 2008. This change was primarily due to \$149.6 million in early payoffs on loan investments and approximately \$68.7 million in normal principal payments offset by an approximate \$77.7 million in the purchase of investments. Cash used in investing activities for the nine months ended September 30, 2009, was approximately \$109,000 as compared to approximately \$584,300 used in investing activities in the same period of 2008. Net cash used in financing activities totaled \$106.7 million for the nine months ended September 30, 2009 and was primarily comprised of net repayments under our credit facilities of \$86.2 million and cash dividend payments of \$20.4 million. During the nine months ended September 30, 2008, we had net borrowings of approximately \$130.8 million offset by cash dividend distributions of \$32.1 million.

As of September 30, 2009, net assets totaled \$368.7 million, with a net asset value per share of \$10.37. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. Additionally, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2009 Annual Shareholder Meeting held on June 3, 2009, our shareholders granted us the authority, with the approval of our board of directors (the Board), to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. However, there can be no assurance that we will be successful in our efforts to generate additional cash and raise additional capital. 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, 2009 was significantly above the required asset coverage ratio, excluding SBA leverage.

At September 30, 2009 and December 31, 2008, we had the following borrowing capacity and outstandings:

| (in thousands)  | September 30, 2009 |                    | December 31, 2008 |                    |
|-----------------|--------------------|--------------------|-------------------|--------------------|
|                 | Facility Amount    | Amount Outstanding | Facility Amount   | Amount Outstanding |
| Credit Facility | \$                 | \$                 | \$ 89,582         | \$ 89,582          |
| Wells Facility  | 50,000             |                    | 50,000            |                    |
| SBA Debentures  | 137,100            | 130,600            | 130,600           | 127,200            |

|       |            |            |            |            |
|-------|------------|------------|------------|------------|
| Total | \$ 187,100 | \$ 130,600 | \$ 270,182 | \$ 216,782 |
|-------|------------|------------|------------|------------|

## **Table of Contents**

On September 27, 2006, HT II received a license to operate as a Small Business Investment Company under the SBIC program and is able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. At September 30, 2009, we had a commitment from the SBA permitting us to draw up to \$137.1 million from the SBA. The maximum borrowing available from the SBA could be increased to \$150.0 million based on the total regulatory capital investment at September 30, 2009, subject to SBA approval. At September 30, 2009, we had a net investment of \$68.55 million in HT II, and there are investments in 43 companies with a fair value of approximately \$148.5 million. HT II's portfolio accounted for approximately 35.8% of our total portfolio at September 30, 2009. The Company is the sole limited partner of HT II and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II is our wholly owned subsidiary.

In February 2009, the American Recovery and Reinvestment Act of 2009 included a provision increasing the current maximum SBA borrowing limit to \$150.0 million, an increase of approximately \$13.0 million from the previous \$137.1 million limit as of December 31, 2008, subject to periodic adjustments by the SBA. The limit may be increased to \$225.0 million with the approval of a second SBIC lender license and the additional investment of \$37.5 million of regulatory capital.

## **Recent Developments**

In October, 2009 we submitted our final application to the SBA for a second SBIC license that would provide up to an additional \$75.0 of borrowings, subject to SBA approval and an additional capital contribution of \$37.5 million into Hercules' SBA subsidiary. We anticipate that the license will be approved during the first half of 2010; however there can be no assurance that the SBA will grant Hercules a second license or when the license will be approved.

On November 4, 2009, Ancestry.com Inc., an online resource for family history, announced the pricing of its initial public offering of 7,407,407 shares of common stock at a price of \$13.50 per share. A total of 4,074,074 shares are being offered by Ancestry.com, and a total of 3,333,333 shares are being offered by selling stockholders of which Hercules was a participant. Ancestry.com common stock commenced trading on November 5, 2009, on the NASDAQ Global Select Market under the symbol ACOM.

In October 2009, Gomez, Inc., a leader in Web application management and one of Hercules' early portfolio companies has entered into a definitive agreement to be acquired by Compuware in a \$295 million cash transaction, which is anticipated to close in November 2009. Hercules anticipates, assuming the transaction is completed, to realize gross estimated proceeds from the sale of its warrants of approximately \$2.0 million. No unrealized appreciation related to this acquisition is reflected in the financial statements of Hercules at September 30, 2009 since it has not closed and was reported after the quarter end. There can be no assurance that the merger will be consummated.

In October 2009, we executed a term sheet with Union Bank of California for a \$20.0 million, one year revolving credit facility. Pricing of credit facility is LIBOR +2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. Finalization of the facility is subject to completion of the loan documents anticipated to be completed prior to year-end 2009.

## **Current Market Conditions**

The U.S. capital and credit markets have been experiencing extreme disruption and volatility for more than 16 months as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the broadly syndicated credit market and the failure of many major financial institutions. These events have contributed to a continuing severe economic recession that is materially and adversely impacting the broader financial and credit markets and reducing the availability of credit and equity capital for the markets as a whole and financial services firms in particular, including us.

At the same time, the venture capital market for the technology-related companies in which we invest has been active, but over the prior nine months has showed signs of stress and contraction. Therefore, to the extent we have capital available; we believe this is an opportune time to invest on a limited basis in the structured lending market for technology-related companies. While today's economy creates potentially new attractive lending opportunities, our outlook remains cautious for at least the next three and six months as the economic environment may cause additional portfolio stress.

Early in 2008, we announced our slow and steady investment strategy and the shift in our investment focus to established-stage, or lower middle market companies. These changes were made to manage our credit performance, maintain adequate liquidity and manage our operating expenses in this extremely challenging and unprecedented credit environment. Due to the continuing economic slowdown and reduced venture capital investment activity, we determined that it would be prudent to substantially curtail new investment activity during the first half of 2009 to have

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working capital available to support our existing portfolio companies. However, during the second quarter of 2009 we began to see an increase in investment opportunities due to an uptick in investment and merger activity and believe there are opportunities to invest in technology-related companies.

## Table of Contents

Like many other companies, we have continued to engage in activities to deleverage our balance sheet and strengthen cash resources available to us. As discussed herein, on March 25, 2009, we paid off all outstanding borrowings under the Credit Facility. In addition, to strengthen our liquidity position and preserve cash, in March 2009, 90% of our first quarter 2009 dividend was paid with approximately 1.9 million newly issued shares of common stock and 10% or approximately \$1.1 million, was paid in cash. To minimize disruptions in our business as a result of current market conditions, we entered into an amendment with Wells Fargo Foothill, effective April 30, 2009, to decrease the minimum tangible net worth covenant from \$360 million to \$250 million, as discussed in the Wells Facility section of Borrowings. In addition, on October 28, 2009, we signed a term sheet with Union Bank of California to provide a \$20.0 million credit facility, subject to finalization of legal documentation.

## 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, 2009, we had unfunded commitments of approximately \$16.9 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. We intend to use primarily cash flow from normal and early principal repayments and our Wells Facility to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

## Contractual Obligations

The following table shows our contractual obligations as of September 30, 2009:

| Contractual Obligations <sup>(1)(2)</sup>  | Total      | Payments due by period (in thousands) |           |           |               |
|--------------------------------------------|------------|---------------------------------------|-----------|-----------|---------------|
|                                            |            | Less than 1 year                      | 1-3 years | 3-5 years | After 5 years |
| Borrowings <sup>(3)</sup>                  | \$ 130,600 | \$                                    | \$        | \$        | \$ 130,600    |
| Operating Lease Obligations <sup>(4)</sup> | 3,911      | 1,007                                 | 1,945     | 959       |               |
| Total                                      | \$ 134,511 | \$ 1,007                              | \$ 1,945  | \$ 959    | \$ 130,600    |

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

(2) We also have warrant participation agreement with Citigroup. See Borrowings.

(3) Includes borrowings under the Wells Facility and the SBA debentures.

(4) Long-term facility leases.

## Borrowings

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. and Deutsche Bank Securities Inc. On October 31, 2008, the Company's Credit Facility expired under the normal terms. All subsequent payments secured from the portfolio companies whose debt was included in the Credit Facility collateral pool were to be applied against interest and principal outstanding under the Credit Facility until April 30, 2009, when all outstanding interest and principal were due and payable. During the amortization period, borrowings under the Credit Facility bore interest at a rate per annum equal to LIBOR plus 6.50%. At December 31, 2008, \$89.6 million was outstanding under the Credit Facility. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility using approximately \$10.4 million from our regular principal and interest collection, approximately \$36.7 million borrowing from Wells Facility and approximately \$42.5 million from early payoffs.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated.

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until the Maximum Participation Limit has been reached. During the quarter ended September 30, 2009, we recorded an increase of the derivative liability related to this obligation and increased its unrealized appreciation by approximately \$96,000 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 was approximately \$644,000 at September 30, 2009 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately \$920,000 under the warrant participation agreement thereby reducing our realized gains by this amount.

## **Table of Contents**

### *Long-term SBA Debentures*

In January 2005, the Company formed HT II and HTM. HT II is licensed as a SBIC. HT II borrows funds from the SBA against eligible investments and additional deposits to regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2009, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued to a single SBIC is \$150.0 million. The maximum statutory limit is subject to periodic adjustments by the SBA. Currently, HT II has paid commitment fees of approximately \$1.4 million and has a commitment from the SBA to issue a total of \$137.1 million of SBA guaranteed debentures, of which approximately \$130.6 million was outstanding as of September 30, 2009. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

In February 2009, the American Recovery and Reinvestment Act of 2009 included a provision increasing the current SBA borrowing limit to \$150.0 million, an increase of approximately \$13.0 million from the previous \$137.1 million limit as of December 31, 2008, subject to periodic adjustments by the SBA. The limit may be increased to \$225.0 million with the approval of a second SBIC lender license and the additional investment of \$37.5 million of regulatory capital. We intend to submit an application to increase HT II's borrowing limit to \$150.0 million. In October 2009 we submitted our final application to the SBA for a second SBIC license that would provide up to an additional \$75.0 of borrowings, subject to SBA approval and an additional capital contribution of \$37.5 million into Hercules SBA subsidiary. We anticipate that the license will be approved during the first half of 2010; however there can be no assurance that the SBA will grant Hercules a second license or when the license will be approved.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through our wholly-owned subsidiary HT II, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II is periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. As of September 30, 2009, HT II could draw up to \$137.1 million of leverage from the SBA as noted above. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the \$12 million of borrowings originated from March 13, 2007 to September 10, 2007 was set by the SBA on September 26, 2007 at 5.528%. The rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA on September 24, 2008 at 5.725%. The rate for additional \$18.4 million of borrowings made after September 13, 2008 through March 10, 2009 was set by SBA on March 25, 2009 at 4.62%. The additional \$3.4 million of borrowings made after March 10, 2009 was set by the SBA on September 23 at 4.233%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee on debenture pooling date on September 23, 2009 was 0.406%. The annual fees on other debentures have been set at 0.906%. Interest is payable semi-annually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

### *Wells Facility*

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to Libor plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which reduces to 0.3% on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. We paid a one time \$750,000 structuring fee in connection with the

Wells Facility which is being amortized over a two year period. The was no

**Table of Contents**

outstanding debt under the Wells Facility at September 30, 2009. The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios. The Wells Facility was amended, effective April 30, 2009, to decrease the minimum tangible net worth covenant from \$360 million to \$250 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitments exceed \$250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. As of September 30, 2009 combined commitments from the Wells Fargo syndicate and the SBA totaled \$187.1 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2009.

At September 30, 2009 and December 31, 2008, the Company had the following borrowing capacity and outstandings:

| (in thousands)  | September 30, 2009 |                    | December 31, 2008 |                    |
|-----------------|--------------------|--------------------|-------------------|--------------------|
|                 | Facility Amount    | Amount Outstanding | Facility Amount   | Amount Outstanding |
| Credit Facility | \$                 | \$                 | \$ 89,582         | \$ 89,582          |
| Wells Facility  | 50,000             |                    | 50,000            |                    |
| SBA Debentures  | 137,100            | 130,600            | 130,600           | 127,200            |
| Total           | \$ 187,100         | \$ 130,600         | \$ 270,182        | \$ 216,782         |

**Dividends**

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

| Date Declared     | Record Date       | Payment Date       | Amount Per Share |
|-------------------|-------------------|--------------------|------------------|
| October 27, 2005  | November 1, 2005  | November 17, 2005  | \$ 0.025         |
| December 9, 2005  | January 6, 2006   | January 27, 2006   | 0.300            |
| April 3, 2006     | April 10, 2006    | May 5, 2006        | 0.300            |
| July 19, 2006     | July 31, 2006     | August 28, 2006    | 0.300            |
| October 16, 2006  | November 6, 2006  | December 1, 2006   | 0.300            |
| February 7, 2007  | February 19, 2007 | March 19, 2007     | 0.300            |
| May 3, 2007       | May 16, 2007      | June 18, 2007      | 0.300            |
| August 2, 2007    | August 16, 2007   | September 17, 2007 | 0.300            |
| November 1, 2007  | November 16, 2007 | December 17, 2007  | 0.300            |
| February 7, 2008  | February 15, 2008 | March 17, 2008     | 0.300            |
| May 8, 2008       | May 16, 2008      | June 16, 2008      | 0.340            |
| August 7, 2008    | August 15, 2008   | September 19, 2008 | 0.340            |
| November 6, 2008  | November 14, 2008 | December 15, 2008  | 0.340            |
| February 12, 2009 | February 23, 2009 | March 30, 2009     | 0.320*           |
| May 7, 2009       | May 15, 2009      | June 15, 2009      | 0.300            |
| August 6, 2009    | August 14, 2009   | September 14, 2009 | 0.300            |
|                   |                   |                    | \$ 4.665         |

\* Dividend paid in cash & stock

Effective in 2009, our Board of Directors adopted a policy to distribute four quarterly distributions in an amount that approximates 90 to 95% of our taxable income. Because of this policy, we may pay an additional or fifth dividend in the fourth quarter in order to distribute approximately 98% of our annual taxable income in the year in which it was earned, rather than spilling over significant amounts of our excess taxable income into the following year. This policy is anticipated to be re-evaluated each year and is subject to change at anytime, pending market conditions.



## **Table of Contents**

On October 15, 2009, the Board of Directors announced a cash dividend of \$0.30 per share that will be payable on November 23, 2009 to shareholders of record as August 14, 2009. This is the Company's seventeenth consecutive dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$4.97 per share.

### **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.

Our investments are carried at fair value in accordance with the 1940 Act and the Statement of Financial Accounting Standards *Fair Value Measurements*.

The Fair Value Measurements defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 does not change existing guidance as to whether or not an instrument is carried at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In October 2008, the Financial Accounting Standards Board, or the FASB, issued a new accounting standard (ASC 820-10-35, formerly known as FSP SFAS No. 157-3), which clarifies the application of ASC 820 in a market that is not active. More specifically, this standard states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. The standard also provides further guidance that the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, the standard provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer.

In April 2009, the FASB issued a new accounting standard (ASC 820-10-65, formerly known as FSP SFAS No. 157-4). Based on the standard, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with ASC 820, *Fair Value Measurements*. This standard is to be applied prospectively and is effective for interim and annual periods ending after September 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The company adopted this standard in the quarter ended September 30, 2009, and there was no material impact on the Consolidated Financial Statements.

Consistent with ASC 820, we determine fair value to be the amount for which an investment could be exchanged in a current sale, which assumes an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Our valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests.

In accordance with ASC 820, we have considered the principal market, or the market in which it exits its portfolio investments with the greatest volume and level of activity. ASC 820 requires that the portfolio investment is assumed to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. We believe that the market participants for our investments are primarily other technology-related companies. Such participants acquire the portfolio company's investments in order to gain access to the underlying assets of the portfolio company. As such, we believe the estimated value of the collateral of the portfolio company, up to the initial cost of the investment, represents the fair value of the investment.

## **Table of Contents**

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment, although our valuation policy is intended to provide a constant basis for determining the fair value of portfolio investments. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. Instead, we must determine the fair value of each individual investment on a quarterly basis. We 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 record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value and, therefore, that our investment has also appreciated in value.

As a business development company providing debt and equity capital primarily to technology-related companies, 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 that might be considered in a hypothetical secondary market. Our valuation methodology includes the examination of criteria similar to those used in its original investment decision, including, among other things, the underlying investment performance, the current portfolio company's financial condition and market changing events that impact valuation, and estimated remaining life. If there is a significant deterioration of the credit quality of a debt investment, we may consider other factors that a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

At September 30, 2009, approximately 82% 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 pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by the Board of Directors may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

At each reporting date, privately held debt and equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company's operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate our valuation of the debt and equity securities. We periodically review the valuation of our portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date. We may consider, but are not limited to, industry valuation methods such as price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks in our evaluation of the fair value of its investment. We have a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date.

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.

## **Table of Contents**

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

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

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

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

***Income Recognition.*** Interest income is recorded on the accrual basis and is recognized as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount, *OID*, initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of September 30, 2009, we had four loans on non-accrual status with a fair value of approximately \$2.4 million. There was one loan on non-accrual status as of September 30, 2008 with fair value at approximately \$4.0 million.

***Paid-In-Kind and End of Term Income.*** Contractual paid-in-kind (*PIK*) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing *PIK* interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a *RIC*, *PIK* and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the three-month periods ended September 30, 2009 and 2008, approximately \$2.2 million and \$1.7 million in *PIK* and end of term income was recorded. There was approximately \$6.4 million and \$3.8 million in *PIK* and end of term income recorded for the nine-month periods ended September 30, 2009 and 2008 respectively.

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

***Stock-Based Compensation.*** We have issued and may, from time to time, issue additional stock options and restricted stocks to employees and non-employee directors under our 2004 and 2006 Equity Incentive Plan. We follow Statement of Financial Accounting Standards *Share-Based Payments*, to account for stock options granted and restricted shares awarded. Under the *Share-Based Payments*, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the requisite service period.

***Federal Income Taxes.*** We intend to operate so as to qualify to be taxed as a *RIC* under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a *RIC*, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98% of our capital gain net income for each 1 year period ending on October 31.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.



## **Table of Contents**

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

As of September 30, 2009, approximately 85% of our portfolio loans were at fixed rates or floating with a floor and 15% of our loans were at floating rates. Over time additional investments may be at floating rates. We may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments.

Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the \$12 million of borrowings originated from March 13, 2007 to September 10, 2007 was set by the SBA on September 26, 2007 at 5.528%. The rate for the \$58.1 million borrowings made after September 10, 2007 through March 13, 2008 was set by the SBA on March 26, 2008 at 5.471%. The rate for the \$38.8 million borrowings made after March 13, 2008 through September 10, 2008 was set by the SBA on September 24, 2008 at 5.725%. The additional \$18.4 million of borrowings made after September 13, 2008 through March 10, 2009 was set by the SBA on March 25, 2009 at 4.62% and the additional \$3.4 million of borrowings made after March 10, 2009 was set by the SBA on September 23 at 4.233%. In addition, the SBA charges an annual fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee on debentures pooled on September 23, 2009 was 0.406%. The annual fees on all other HT II LP debentures has been set at 0.906%. Interest payments are payable semi-annually and there are no principal payments required on these issues prior to maturity. Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which reduces to 0.3% on the one year anniversary of the credit facility.

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

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

#### **Changes in Internal Control Over Financial Reporting**

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



## **Table of Contents**

### **PART II: OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

At September 30, 2009, we were not a party to any legal proceedings. However, from time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

#### **ITEM 1A. RISK FACTORS**

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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

The United States has been in a recession since late 2007. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in the debt capital markets. We believe these conditions may continue for a prolonged period of time or worsen in the future. A prolonged period of market illiquidity may cause us to reduce the value of loans we originate and/or fund, which could have an adverse effect on our business, financial condition, and results of operations. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our investment originations and negatively impact our operating results.

Despite the current capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009, and we expect it to continue as the venture capital community continues to accelerate its own pace of new investments. To the extent that we are able, we intend to seek new investment opportunities; however, we remain cautious and conservative in our investment and credit management strategies and we do not expect to start seeing any meaningful balance sheet loan portfolio growth until the first quarter of 2010 and beyond.

*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.*

The United States markets and most other markets have entered into a period of recession. 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. There were four loans on non-accrual status as of September 30, 2009 with a fair value of approximately \$2.4 million. There were four loans on non-accrual status as of December 31, 2008 with a fair value of approximately \$864,000. 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.



## **Table of Contents**

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

***The collateral securing a loan may not be sufficient to protect us from a partial or complete loss if we have not properly obtained or perfected a lien on such collateral or if the loan becomes non-performing, and we are required to foreclose.***

While most of our loans are secured by collateral, there is no assurance that we have obtained or properly perfected our liens, or that the value of the collateral securing any particular loan will protect us from suffering a partial or complete loss if the loan becomes non-performing and we move to foreclose on the collateral.

***Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans.***

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. We have made direct equity investments or received warrants in connection with loans representing approximately 11 % of the aggregate outstanding balance of our portfolio as of September 30, 2009. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company's common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

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

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

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

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

## **Table of Contents**

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

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decision we make not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment.

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

At our Annual Meeting of Stockholders on June 3, 2009, stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company's net asset value per share, subject to Board approval of the offering. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

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

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during the nine months ended September 30, 2009.

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

During the three months ended September 30, 2009, one of our Directors elected to take part of his compensation in the form of common stock in lieu of cash. We issued a total of 1,667 shares of common stock to the Director with an aggregate price for the shares of common stock of approximately \$14,000.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

Not applicable.

### **ITEM 5. OTHER INFORMATION**

Not applicable.

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit**

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

**Table of Contents**

**SIGNATURES**

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

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Registrant)

Dated: November 9, 2009

/s/ MANUEL A. HENRIQUEZ

**Manuel A. Henriquez**

**Chairman, President, and Chief Executive Officer**

Dated: November 9, 2009

/s/ DAVID M. LUND

**David M. Lund**

**Chief Financial Officer**

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**Table of Contents**

**EXHIBIT INDEX**

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