

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

January 23, 2012

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Filed Pursuant to Rule 497
Registration Statement No. 333-171368

PROSPECTUS SUPPLEMENT

To the Prospectus dated May 23, 2011

5,000,000 Shares

Common Stock

We are offering 5,000,000 shares of our common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol HTGC. The last sale price, as reported on Nasdaq on January 19, 2012, was \$10.25 per share. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$9.61.

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

The underwriter has agreed to purchase our shares of common stock from us at a price of \$9.61 per share which will result in approximately \$48.05 million of proceeds, before deducting estimated offering expenses, to us, or \$55.26 million assuming full exercise of the underwriter's option to purchase additional shares described below. We expect that our expenses for this offering will be approximately \$300,000. The underwriter may offer our shares of common stock on the Nasdaq Global Select Market, in the over-the-counter market or through negotiated transactions at market prices or at negotiated prices. See Underwriting. The underwriter has an option to purchase up to an additional 750,000 shares of our common stock at a price of \$9.61 per share within 30 days from the date of this prospectus supplement to cover overallotments.

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

An investment in our common stock involves risks, including the risk of a total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 16 of the accompanying prospectus and page S-11 in this prospectus supplement to read about risks that you should consider before investing in our common stock, including the risk of leverage.

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

Delivery of the shares of common stock will be made on or about January 24, 2012.

Citigroup

The date of this prospectus supplement is January 19, 2012.

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

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

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

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

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price) ⁽¹⁾	6.25%
Offering expenses (as a percentage of offering price)	0.59% ⁽²⁾
Dividend reinvestment plan fees	0%
Total stockholder transaction expenses (as a percentage of the public offering price)	6.84%
Annual Expenses (as a percentage of net assets attributable to common stock):⁽¹⁰⁾	
Operating expenses	5.7% ⁽⁴⁾⁽⁵⁾
Interest payments on borrowed funds	3.2% ⁽⁶⁾
Fees paid in connection with borrowed funds	0.6% ⁽⁷⁾
Acquired fund fees and expenses ⁽⁸⁾	0.0%
Total annual expenses	9.5%⁽⁹⁾

- (1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering. For the purpose of calculating sales load, we assume the underwriter will sell to the public at a stock price of \$10.25 per share, our closing stock price on January 19, 2012.
- (2) The percentage reflects estimated offering expenses of approximately \$300,000. For the purpose of calculating offering expenses, we assume the underwriter will sell to the public at a stock price of \$10.25 per share, our closing stock price on January 19, 2012.
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in the accompanying prospectus.
- (4) Operating expenses represent our estimated operating expenses for the year ending December 31, 2011 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2010 was 5.6%. See Management's Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors in the accompanying prospectus.
- (5) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (6) Interest payments on borrowed funds represents estimated interest payments on borrowed funds for 2011 including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the Citigroup Warrant Participation Agreement and the SBA debentures. On November 2, 2011, we renewed and amended the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of \$30.0 million and \$25.0 million, respectively. The Union Bank Facility will mature on November 2, 2014 and requires the payment of a non-use fee of 0.50% annually. See Recent Developments in Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement.
- (7) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2011 including our Wells Facility, Union Bank Facility, Convertible Senior Notes, Citigroup

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- Warrant Participation Agreement and the SBA debentures. This percentage for the year ended December 31, 2010 was approximately 0.3%.
- (8) For the quarter ended September 30, 2011 and for the year ended December 31, 2010, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.
- (9) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.
- (10) Average net assets attributable to common stock equals the weighted estimated average net assets for 2011 which is \$418.1 million.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a \$1,000 hypothetical investment in our common stock, assuming (1) a 6.25% sales load (underwriting discounts and commissions) and offering expenses totaling 0.59%, (2) total net annual expenses of 9.52% of net assets attributable to common shares as set forth in the table above and (3) a 5% annual return. These amounts assume no additional leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 155	\$ 317	\$ 465	\$ 782

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

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PROSPECTUS SUPPLEMENT SUMMARY

Our Company

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

As of September 30, 2011 our total assets were approximately \$688.6 million, of which, our investments comprised \$576.5 million at fair value and \$587.4 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately \$513.4 million, \$27.3 million and \$35.8 million, respectively, or 89.1%, 4.7% and 6.2% of total investments, respectively. Our September 30, 2011 total investments at value in foreign companies were approximately \$14.2 million or 2.5% of total assets. During the three and nine-month periods ended September 30, 2011, we made debt commitments totaling \$214.7 million and \$463.1 million, respectively, and funded approximately \$146.1 million and \$351.3 million, respectively. During the three and nine-month periods ended September 30, 2011, we made and funded equity commitments of approximately \$1.1 and \$1.6 million to 2 and 3 portfolio companies, respectively. Debt commitments for the nine months ended September 30, 2011 included commitments of approximately \$298.3 million to 25 new portfolio companies and \$164.8 million to 14 existing portfolio companies. Since inception through September 30, 2011, we have made debt and equity commitments of approximately \$2.6 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of September 30, 2011, we held investments in HT II in 84 companies with a fair value of approximately \$180.8 million. HT II s portfolio companies accounted for approximately 31.4% of our total portfolio at September 30, 2011. As of September 30, 2011, we held investments in HT III in 20 companies with a fair value of approximately \$92.4 million. HT III s portfolio accounted for approximately 16.0% of our total portfolio at September 30, 2011.

In aggregate, HT II and HT III held approximately \$334.9 million in assets and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 2011.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of September 30, 2011, our proprietary SQL-based database system included over 25,000 technology-related companies and approximately 6,300 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology, clean technology and life science industries and to offer a full suite of growth capital products up and down of the capital structure. We invest primarily in structured debt and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component,

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including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

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

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

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

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. During market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints. There can be no assurance that governmental or other measures to aid economic recovery will be effective.

As of September 30, 2011, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 29 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or

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acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Our Market Opportunity

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

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

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

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

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

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

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

Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies. Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In the first nine months of 2011, venture capital-backed companies received, in approximately 2,229 transactions, equity financing in an aggregate amount of approximately \$23.3 billion, representing a 29.4% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the three-month periods ended September 30, 2011 and 2010 was approximately \$6.0 million and \$5.0 million, respectively. We believe the larger number of companies provides us a greater opportunity to provide debt financing to these venture backed companies. Overall, seed- and first-round deals made up 42% of the deal flow in the three months ended September 30, 2011 and later-stage deals made up roughly 37% of the deal activity in the quarter.

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We believe that demand for structured debt financing is currently under served, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. In addition, lending requirements of traditional lenders have recently become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. Our team members have originated structured debt, structured debt with warrants and equity investments in over 180 technology-related companies, representing over \$2.6 billion in commitments from inception through September 30, 2011 and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

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

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash

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interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash and the continued support from a venture capital or private equity firm at the time we make our investment.

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

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

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

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

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

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of September 30, 2011, our proprietary SQL-based database system included over 25,000 technology-related companies and over 6,300 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

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Recent Developments

New Investments Since September 30, 2011

During the quarter ended December 31, 2011, we originated loan commitments of approximately \$165.0 million to new and existing portfolio companies. In 2011, we closed total loan commitments of approximately \$630.0 million, which represents a 20% increase from the year ended December 31, 2010. Since inception through December 31, 2011, we have extended debt and equity commitments to portfolio companies totaling approximately \$2.7 billion to 190 companies. See Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement for more information relating to our commitments. Our new investments included:

\$500,000 commitment to AHHHA, Inc., a social ideation platform designed to leverage ideas from concept into a real-world product, service or company.

\$15.0 million commitment to Blurb, Inc., a creative publishing and marketing platform.

\$20.0 million commitment to Cempra Pharmaceuticals, Inc., a clinical-stage pharmaceutical company focused on developing antibacterials. On October 12, 2011, Cempra Holdings, LLC (Cempra) filed its S-1 registration statement with the Securities and Exchange Commission in anticipation of its contemplated initial public offering, or IPO. There can be no assurances that Cempra will complete its IPO in a timely manner or at all.

\$20 million commitment to Concert Pharmaceuticals, Inc., a clinical stage biotechnology company focused on creating differentiated small molecule drugs.

\$3.0 million commitment to Integrated Photovoltaics, Inc., a company producing solar-power solutions through silicon photovoltaic technology.

\$9.2 million commitment to MedCall, LLC, a provider of on-call pharmacy services.

\$10.0 million commitment to Navidea Biopharmaceuticals, Inc. (NYSE Amex: NAVB), a biomedical company focused on the development and commercialization of precision diagnostic and radiopharmaceutical agents.

\$20.0 million commitment to NextWave Pharmaceuticals Incorporated, an emerging pharmaceutical company focused on the development and commercialization of products for the treatment of ADHD and related CNS disorders.

\$11.0 million commitment to Scientific Conservation, Inc., a provider of a cloud-based energy management platform for building owners and operators.

\$600,000 commitment to Tada Innovations, Inc., an interactive online website operated by Shopzilla.com.

\$21.0 million commitment to Westwood One, Inc. (NASDAQ: WWON), a provider of network radio programming. On October 21, 2011, Westwood One announced the consummation of a merger transaction, by and among Westwood, Radio Network Holdings,

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LLC, and Verge Media Companies, Inc. Westwood One, Inc. was renamed Dial Global, Inc. on December 12, 2011. In addition, we made over \$35.0 million in loan commitments to existing portfolio companies.

In the fourth quarter, we entered into an agreement to acquire approximately \$9.6 million through a secondary marketplace in Facebook, Inc., the social networking company, acquiring on December 13, 2011 and December 20, 2011 an aggregate of 307,500 shares at an average price of \$31.08 per share. The investments are subject to certain closing conditions and a right of first refusal by Facebook, Inc. which expires thirty days after the date of investment. As a result, there is no assurance that our investment in Facebook, Inc. will close in a timely fashion or at all.

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Liquidity Events

In the fourth quarter of 2011, Covidien plc (NYSE: COV) announced its acquisition of our portfolio company, BARRX Medical, Inc. for an aggregate consideration of approximately \$325.0 million, net of cash and short-term investments. The transaction closed on January 5, 2012. See our Consolidated Schedule of Investments in this prospectus supplement for more information with respect to our investment in BARRX Medical, Inc.

As of January 17th, 2012, we held warrant positions in over 104 different technology-related companies, nine of which have filed Form S-1 registration statements in anticipation of completing a potential initial public offering, or IPO. There can be no assurances that any of these companies will complete their respective IPO in a timely manner or at all. These portfolio companies include:

- | | |
|---|---|
| 1. <u>Annies, Inc.</u> | 6. <u>Merrimack Pharmaceuticals, Inc.</u> |
| 2. <u>BrightSource Energy, Inc.</u> | 7. <u>NEXX Systems, Inc.</u> |
| 3. <u>Cempra Holdings, LLC</u> | 8. <u>Reply!, Inc.</u> |
| 4. <u>Enphase Energy, Inc.</u> | 9. <u>WageWorks, Inc.</u> |
| 5. <u>Intelepeer, Inc.</u> | |

Hercules Cleantech

On June 15, 2011, Hercules Clean Technology Capital, Inc., or Hercules Cleantech, filed its registration statement on Form N-2 in contemplation of its IPO. Hercules Cleantech is a specialty finance company formed for the purpose of lending to, and investing in, privately held and select publicly traded clean technology or clean technology related companies. The investment activities of Hercules Cleantech will be managed by Olympus Advisers, LLC. It is intended that the investment professionals of Olympus Advisers, LLC, including Manuel Henriquez, our Chairman, President and Chief Executive Officer, will be members of our management team. We also will provide the administrative services necessary for Hercules Cleantech to operate. There can be no assurance that Hercules Cleantech will complete its IPO in a timely process or at all.

Debt Issuance and Borrowing

In the fourth quarter of 2011, we issued an additional \$36.25 million of SBA guaranteed debentures and borrowed approximately \$10.3 million principal amount under our revolving senior secured credit facility with Wells Fargo Capital Finance.

Personnel Update

On October 4, 2011, we announced that Samir Bhaumik, Senior Managing Director and Technology Group Head of the Company, resigned from all his positions with the Company and its subsidiaries. On October 13, 2011, the Board appointed Todd Jacquez-Fissori, our Cleantech Group Head, as Technology Group Head of the Company.

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FORWARD-LOOKING STATEMENTS; MARKET DATA

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

our future operating results;

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

the impact of investments that we expect to make;

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

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

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

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

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

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

the adequacy of our cash resources and working capital;

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

the timing, form and amount of any dividend distributions;

the impact of fluctuations in interest rates on our business;

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

our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus supplement and the accompanying prospectus, please see the discussion under **Risk Factors** in both this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus supplement and the accompanying prospectus relate only to events as of the date on which the statements are made. The forward-looking statements contained herein are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933.

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

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

SUPPLEMENTARY RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the following supplementary risk factors together with the risk factors beginning on page 16 of the accompanying prospectus before making an investment in our common stock. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us might also impair our operations and performance. If any of the events described herein or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

We have identified a material weakness in our internal control over financial reporting, and our business and stock price may be adversely affected if we have not adequately addressed the weakness.

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2010, management identified a material weakness related to our valuation process specifically involving debt investments. We have corrected the valuation process to refine our application of ASC 820 and believe that our audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of our debt investments in accordance with ASC 820 using the new valuation procedure. During the year ended December 31, 2010, we recognized additional unrealized depreciation of \$803,000, which is not material to the 2010 consolidated financial statements. Management has evaluated the remedial action, assessed the operating effectiveness of the remediated controls and concluded that it has remediated the material weakness described above.

In connection with the preparation of our Consolidated Financial Statements for the three-month period ended March 31, 2011, we identified a material weakness in our internal control over financial reporting related to manual input errors in calculations used to derive the fair value of some investment portfolio holdings as of the measurement date, thereby impacting reported amounts with respect to investments and net increase (decrease) in unrealized appreciation on investments. Our consolidated financial statements for the quarter ended March 31, 2011 reflect the fair value of our investments and we continue to take remediation steps to enhance the internal control procedures in order to effectively remediate the deficiencies in our internal control processes related to such errors.

If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock and the Convertible Senior Notes could decline significantly, we may

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be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed. See Management's Discussion and Analysis of Financial Condition and Results of Operations Disclosure Controls and Procedures in this prospectus supplement and Management's Discussion and Analysis of Financial Condition and Results of Operations Controls and Procedures in the accompanying prospectus.

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

On August 25, 2008, we, through a special purpose wholly-owned subsidiary, entered into a two-year revolving senior secured credit facility with an optional one-year extension with initial commitments of \$50.0 million at closing with Wells Fargo Capital Finance (the Wells Facility). The Wells Facility has the capacity to increase to \$300.0 million if additional lenders are added to the lending syndicate. As of September 30, 2011, we had zero outstanding borrowings under the Wells Facility.

On June 20, 2011, we renewed the Wells Facility. The revolving credit facility will expire on June 20, 2014. The new facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. There can be no assurances that additional lenders will join the new credit facility. This new arrangement replaced the previous \$300.0 million Wells Facility, under which Wells Fargo Capital Finance had committed \$50.0 million in capital. Under the new three-year senior secured facility, Wells Fargo Capital Finance has a commitment of \$75.0 million. Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50% with a floor of 5.00%. The Wells Facility requires the payment of a monthly non-use fee and has 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.

On February 10, 2010, we entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility required the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. Union Bank 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, 2011.

On June 7, 2011, we entered into an amendment to the Union Bank Facility which extended the borrowing termination date to September 30, 2011. The amendment to the Union Bank Facility also amends the maturity date of Union Bank's \$20.0 million commitment to mean the earliest of: (a) December 31, 2011; (b) the date on which Union Bank's obligation to make loans is terminated and the obligations are declared to be due and payable or the commitment is terminated; or (c) the date of prepayment in full by the Company. There was no outstanding debt under the Union Bank Facility at September 30, 2011.

On November 2, 2011, we renewed and amended the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of \$30.0 million and \$25.0 million, respectively. The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. The other terms of the Union Bank Facility generally

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remain unchanged, including the stated interest rate. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions.

The current lenders under the Wells Facility and the Union Bank Facility have, and any future lender or lenders will have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. In addition, we may grant a security interest in our assets in connection with any such borrowing. These facilities contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, such facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially, the business of our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under that facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

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

be forced to reduce or discontinue our operations;

not be able to expand or acquire complementary businesses; and

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

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2011, HT II had the potential to borrow up to \$125.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$75.0 million in HT II as of September 30, 2011, HT II has the capacity to issue a total of \$125.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$125.0 million is outstanding as of September 30, 2011.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2011, HT III had the potential to borrow up to \$100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$50.0 million in HT III as of September 30, 2011, HT III has the capacity to issue a total of \$100.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$63.75 million was outstanding as of September 30, 2011.

As of September 30, 2011, there was \$188.75 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Access to the remaining leverage is subject to SBA approval and compliance with SBA regulations.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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

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

Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns.

Our investments in clean technology companies are subject to substantial operational risks, such as failed drilling or well development, unscheduled outages, underestimated cost projections, unanticipated operation and maintenance expenses, failure to obtain the necessary permits to operate and failure of third-party contractors (*e.g.*, energy producers and shippers) to perform their contractual obligations. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for wind, solar and other renewable energies may be dependent upon adequate wind, sunlight, or biogas production, which can vary from period to period, resulting in volatility in production levels and profitability. In addition, clean technology companies have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for clean technology and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. There is particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect our business, financial condition and results of operations.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at September 30, 2011 that represent greater than 5% of net assets:

(in thousands)	September 30, 2011	
	Fair Value	Percentage of Net Assets
Aveo Pharmaceuticals, Inc.	\$ 29,887	7.1%
Women s Marketing, Inc.	\$ 29,405	7.0%
Tectura Corporation	\$ 26,574	6.3%
Pacira Pharmaceuticals, Inc	\$ 26,264	6.2%
Anthera Pharmaceuticals, Inc	\$ 25,705	6.1%
Brightsource Energy, Inc	\$ 25,261	6.0%
Revance Therapeutics, Inc	\$ 21,814	5.2%

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

Women s Marketing, Inc. is a media solutions company, delivering premium media at value pricing across all platforms.

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

Pacira Pharmaceuticals, Inc. is an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of new pharmaceutical products.

Anthera Pharmaceuticals, Inc. is a biopharmaceutical company focused on developing and commercializing products to treat serious diseases, including cardiovascular and autoimmune diseases.

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

Revance Therapeutics, Inc. is a privately held biopharmaceutical company developing products that will change the way that drugs are delivered by carrying active levels of drug across the skin to deliver at specific and targeted depths.

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

Economic downturns or recessions could impair the value of the collateral for our loans to our portfolio companies, increase our funding costs, limit our access to the credit and capital markets, impair the ability of a portfolio company to satisfy covenants imposed by its lenders and consequently increase the possibility of an adverse effect on our business, financial condition and results of operations.

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

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

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

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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USE OF PROCEEDS

Our proceeds from the sale of the 5,000,000 shares of common stock we are offering will be approximately \$48.05 million, and approximately \$55.26 million if the underwriter's overallotment option is exercised in full. After deducting estimated offering expenses payable by us our net proceeds from the sale of the 5,000,000 shares of common stock we are offering will be approximately \$47.75 million, and approximately \$54.96 million in the underwriter's overallotment option is exercised in full.

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

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

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The following table sets forth (i) our actual capitalization as of September 30, 2011, and (ii) our capitalization as adjusted to reflect the effects of the sale of 5,000,000 shares of our common stock in this offering at a price of \$9.61 per share (assuming no exercise of the underwriters overallotment option) and after deducting estimated offering expenses payable by us. You should read this table together with Use of Proceeds and our statement of assets and liabilities included elsewhere in this prospectus supplement.

(in thousands)	As of September 30, 2011	
	Actual	As Adjusted for This Offering ⁽¹⁾
Cash and cash equivalents	\$ 96,309	\$ 144,059
Total assets	\$ 688,637	\$ 736,387
Long-term SBA debentures outstanding ⁽²⁾	188,750	188,750
Convertible Senior Notes ⁽³⁾	70,082	70,082
Common stock, par value	\$ 43	\$ 48
Capital in excess of par value	486,557	534,302
Distributable earnings	(64,550)	(64,550)
Total stockholders' equity	422,050	469,800
Total capitalization ⁽⁴⁾	\$ 680,882	\$ 728,632

(1) Does not include the underwriters' overallotment option.

(2) As of December 31, 2011, we had \$225.0 million of SBA debentures outstanding after issuing an additional \$36.25 million of SBA debentures in the fourth quarter of 2011.

(3) Represents the aggregate principal amount outstanding of the convertible senior notes issued on April 11, 2011, less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,918 at September 30, 2011.

(4) As of September 30, 2011, we had \$75.0 million available to borrow under the Wells Facility and \$20.0 million available to borrow under the Union Bank Facility. As of December 31, 2011, there was approximately \$10.3 million principal amount borrowed under the Wells Facility, which is not reflected in the above table. On November 2, 2011, we renewed and amended the Union Bank Facility. The Union Bank Facility will mature on November 2, 2014. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Subsequent Events in this prospectus supplement for more information.

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

Overview

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

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

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

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

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

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

Portfolio and Investment Activity

The total value of our investment portfolio was \$576.5 million at September 30, 2011 as compared to \$472.0 million at December 31, 2010.

Debt commitments for the nine-month period ended September 30, 2011 included commitments of approximately \$298.3 million to twenty-five new portfolio companies and \$164.8 million to fourteen existing companies. During the three and nine month periods ended September 30, 2011 we made debt commitments to new and existing portfolio companies, including restructured loans, totaling \$214.7 million and \$463.1 million and funded approximately \$147.2 million and \$356.4 million, respectively, of debt and equity investments. During the three and nine-month periods ended September 30, 2011 we made and funded equity commitments of \$1.1 million to two existing companies and \$1.6 million to three existing companies.

At September 30, 2011, we had unfunded contractual commitments of approximately \$148.2 million to twenty-six portfolio companies. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we have approximately \$136.0 million of non-binding term sheets outstanding to nine new and existing companies at September 30, 2011. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at September 30, 2011 was approximately \$513.4 million, compared to a fair value of approximately \$352.0 million at September 30, 2010. The fair value of the equity portfolio at September 30, 2011 and 2010 was approximately \$35.8 million and \$39.4 million, respectively. The fair value of our warrant portfolio at September 30, 2011 and 2010 was approximately \$27.3 million and \$19.0 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, 2011, we received normal principal amortization repayments of approximately \$51.0 million, and early repayments and working line of credit pay-downs of approximately \$172.2 million. During the nine-month period ended September 30, 2011, we restructured the debt for three portfolio companies for approximately \$8.1 million, \$4.7 million and \$3.3 million, converted \$3.5 million of debt to equity, and received approximately \$23.8 million in early repayments associated with the sale of Infologix, Inc.

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Total portfolio investment activity as of September 30, 2011 (unaudited) and for the year ended December 31, 2010 is as follows:

(in millions)	September 30, 2011	December 31, 2010
Beginning Portfolio	\$ 472.0	\$ 374.7
Purchase of debt investments	332.3	320.4
Equity Investments	6.3	2.3
Sale of Investments	(17.5)	(34.2)
Principal payments received on investments	(54.4)	(81.6)
Early pay-offs and recoveries	(168.8)	(114.5)
Accretion of loan discounts and paid-in-kind principal	9.2	3.3
Net change in unrealized depreciation in investments	(2.6)	1.6
Restructure fundings	16.1	78.4
Restructure payoffs	(16.1)	(78.4)
Ending Portfolio	\$ 576.5	\$ 472.0

The following table shows the fair value of our portfolio of investments by asset class:

(in thousands)	September 30, 2011		December 31, 2010	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 414,723	71.9%	\$ 357,963	75.8%
Senior secured debt	125,962	21.9%	59,251	12.6%
Preferred stock	28,928	5.0%	26,813	5.7%
Subordinated Debt		0.0%	8,094	1.7%
Common Stock	6,864	1.2%	19,911	4.2%
	\$ 576,477	100.0%	\$ 472,032	100.0%

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

(in thousands)	September 30, 2011		December 31, 2010	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 562,296	97.5%	\$ 438,585	92.9%
Canada	808	0.1%	20,876	4.4%
England	9,082	1.6%	10,653	2.3%
Ireland	3,893	0.7%		0.0%
Israel	398	0.1%	1,918	0.4%
	\$ 576,477	100.0%	\$ 472,032	100.0%

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

As of September 30, 2011, over 99.2% of our debt investments were in a senior secured position, and more than 91.1% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. Our investments in senior

secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us

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with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of September 30, 2011, we held warrants in 104 portfolio companies, with a fair value of approximately \$27.3 million. These warrant holdings would require us to invest approximately \$70.7 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. The value of our senior secured debt (without warrants) at September 30, 2011 was approximately \$126.0 million compared to approximately \$59.3 million at December 31, 2010. The increase was primarily attributable to two new investments in lower middle market technology companies in the nine month period ended September 30, 2011, which typically do not have equity enhancement features.

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

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and nine months ended September 30, 2011 and September 30, 2010:

<i>(in thousands)</i> Portfolio Company		Three months ended September 30, 2011				Nine months ended September 30, 2011			
		Fair Value at September 30, 2011	Investment Income	Unrealized (Depreciation) /Appreciation	Realized Gain /(Loss)	Investment Income	Unrealized (Depreciation) /Appreciation	Unrealized (Depreciation) /Appreciation	Realized Gain/ (Loss)
MaxVision Holding, LLC.	Control	\$ 2,983	\$ 10	\$ 14	\$	\$ 861	\$ (3,546)	\$	\$
E-Band Communiations, Corp.	Non-Controlled Affiliate		5	(53)		9	(3,425)		
Total		\$ 2,983	\$ 15	\$ (39)	\$	\$ 870	\$ (6,971)	\$	\$

<i>(in thousands)</i> Portfolio Company		Three months ended September 30, 2010				Nine months ended September 30, 2010			
		Fair Value at September 30, 2011	Investment Income	Unrealized (Depreciation) /Appreciation	Realized Gain /(Loss)	Investment Income	Unrealized (Depreciation) /Appreciation	Unrealized (Depreciation) /Appreciation	Realized Gain /(Loss)
InfoLogix, Inc.	Control	\$ 33,935	\$ 796	\$ (4,266)	\$	\$ 2,488	\$ (1,419)	\$ 128	\$ 2,500
E-Band Communiations, Corp.	Non-Controlled Affiliate	2,846		(371)			572		
Total		\$ 36,781	\$ 796	\$ (4,637)	\$	\$ 2,488	\$ (847)	\$ 128	\$ 2,500

The Company's investment in InfoLogix, Inc., a company that was a Control Investment as of December 31, 2010, was sold to Stanley Black & Decker (NYSE:SWK) in January 2011. Approximately \$8.3 million of realized gains and \$8.4 million of net change in unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

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The following table shows the fair value of our portfolio by industry sector at September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011		December 31, 2010	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery	\$ 81,264	14.1%	\$ 52,777	11.2%
Drug Delivery	66,734	11.6%	35,250	7.5%
Internet Consumer & Business Services	65,975	11.4%	7,255	1.5%
Specialty Pharmaceuticals	61,603	10.7%	63,607	13.5%
Clean Tech	59,793	10.4%	25,722	5.4%
Communications & Networking	56,119	9.7%	65,098	13.8%
Information Services	38,812	6.7%	10,857	2.3%
Therapeutic	32,562	5.7%	25,300	5.4%
Media/Content/Info	30,852	5.4%	2,223	0.5%
Biotechnology Tools	23,796	4.1%	5,987	1.3%
Software	22,094	3.8%	96,508	20.4%
Diagnostic	14,889	2.6%	14,911	3.2%
Surgical Devices	7,683	1.3%	10,172	2.1%
Semiconductors	6,916	1.2%	3,227	0.7%
Consumer & Business Products	4,345	0.8%	45,316	9.6%
Electronics & Computer Hardware	3,040	0.5%	7,819	1.6%
Energy		0.0%	3	0.0%
	\$ 576,477	100.0%	\$ 472,032	100.0%

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2011 and December 31, 2010.

(in thousands)	September 30, 2011		December 31, 2010	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Investment Grading				
1	\$ 108,038	21.0%	\$ 65,345	16.3%
2	368,878	71.9%	232,713	57.9%
3	24,866	4.8%	90,739	22.6%
4	8,602	1.7%	8,777	2.2%
5	2,983	0.6%	4,045	1.0%
	\$ 513,367	100.0%	\$ 401,619	100.0%

As of September 30, 2011, our investments had a weighted average investment grading of 1.96 as compared to 2.21 at December 31, 2010. The improvement in investment grading is primarily attributable to one new investment rated 1 and the improvements from rated 2 to rated 1 of two investments, approximately 27 new investments to the portfolio rated 2, and the improvement from level 3 to level 2 of four investments. 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, 2011, four portfolio companies were graded 3, three portfolio companies were graded 4, and two portfolio companies were graded 5 as compared to eight portfolio companies that were graded 3, two portfolio companies that were graded 4 and two portfolio companies that were graded 5 at December 31, 2010.

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At September 30, 2011, there was one portfolio company on non-accrual status with a fair value of zero. There were two loans on non-accrual status as of December 31, 2010 with a fair value of approximately \$4.0 million. During the three months ended March 31, 2011 we wrote off our warrant, equity and debt investments in one of these portfolio companies for a realized loss of approximately \$5.2 million.

The effective yield on our debt investments for the nine month periods ended September 30, 2011 and 2010 was 17.8% and 16.2%, respectively. This yield was higher period over period due to unearned income accelerations attributed to early payoffs. The effective yield on our debt investments for the nine month periods ended September 30, 2011 and 2010 excluding payoffs was 11.5% and 11.3%, respectively.

The overall weighted average yield to maturity of our loan obligations was approximately 13.0% and 13.9% at September 30, 2011 and December 31, 2010. 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 14% as of September 30, 2011. 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.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately \$9.8 million and \$6.6 million of unamortized fees at September 30, 2011 and December 31, 2010, respectively, and approximately \$7.2 million and \$5.1 million in exit fees receivable at September 30, 2011 and December 31, 2010, respectively.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$1.4 million and \$1.7 million in PIK income in the nine month periods ended September 30, 2011 and 2010.

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, 2011, approximately 60.9% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 38.3% of the loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 0.8% of portfolio company loans had an equipment only lien.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition,

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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.

Results of Operations

Comparison of the three and nine-month periods ended September 30, 2011 and 2010

Investment Income

Interest income totaled approximately \$16.4 and \$50.9 million for the three and nine-month periods ended September 30, 2011, compared to \$14.1 and \$38.1 million for the three and nine-month periods ended September 30, 2010. Income from commitment, facility and loan related fees totaled approximately \$2.3 and \$7.7 million for the three and nine-month period ended September 30, 2011, compared with \$1.5 and \$4.5 million for the same periods ended September 30, 2010, respectively. The increase in interest income is attributable to a higher average interest earning investment portfolio and income from early repayments. Income from commitment, facility and loan related fees are primarily the result of an increase in facilities fees of approximately \$1.4 million during the period ended September 30, 2011 compared to the same period ended September 30, 2010.

PIK Income

The following table shows the PIK-related activity for the nine months ended September 30, 2011 and 2010, *at cost*:

(in thousands)	Nine months ended September 30,	
	2011	2010
Beginning PIK loan balance	\$ 3,955	\$ 2,315
PIK interest capitalized during the period	1,801	2,366
Payments received from PIK loans	(3,567)	(1,087)
PIK converted to other securities	(440)	
Realized Loss		(327)
Ending PIK loan balance	\$ 1,749	\$ 3,267

The increase in payments received from PIK loans during the nine months September 30, 2011 includes \$1.5 million of PIK collected in conjunction with the sale of our investment in Infologix, Inc. in the first quarter of 2011.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately \$10.1 million and \$7.5 million during the three month periods ended September 30, 2011 and 2010, respectively. Operating expenses totaled approximately \$29.9 million and \$22.0 million during the nine month periods ended September 30, 2011 and 2010, respectively.

Interest and fees totaled approximately \$4.3 million and approximately \$11.3 million during the three and nine month periods ended September 30, 2011, respectively, and approximately \$2.5 million and \$7.2 million during the three and nine month periods ended September 30, 2010. The increase is primarily attributed to \$1.3 million and \$2.3 million of interest and fee expenses during the three and nine month periods ended September 30, 2011, respectively, related to the \$75.0 million of Convertible Senior Notes issued on April 15, 2011. Additionally, the Company incurred approximately \$271,000 and \$496,000 of non cash interest expense during

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the three and nine month periods ended September 30, 2011, respectively, attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. The Company had a weighted average cost of debt comprised of interest and fees of approximately 6.5% at September 30, 2011, as compared to 6.2% during the third quarter of 2010. The increase was primarily attributed to the weighted average cost of debt on the senior convertible notes of 8.2% offset by a lower weighted average cost of debt on outstanding SBA debentures at 5.2% in the third quarter of 2011 versus 6.1% in the third quarter of 2010.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses remained relatively flat at approximately \$1.7 million for the three month periods ended September 30, 2011 and 2010 and increased to \$6.2 million from \$5.2 million for the nine month periods ended September 30, 2011 and 2010, respectively, primarily due to increased recruiting, accounting and legal expenses.

Employee compensation and benefits totaled approximately \$3.3 million and approximately \$9.9 million during the three and nine-month periods ended September 30, 2011, respectively. Employee compensation and benefits totaled approximately \$2.6 million and approximately \$7.7 million during the three and nine-month periods ended September 30, 2010, respectively. This increase is primarily due to an increase in employee headcount and increased salary and executive severance costs as compared to the same period of 2010. We expect to continue to hire to meet our portfolio growth. Stock-based compensation totaled approximately \$870,000 and approximately \$2.5 million during the three and nine month periods ended September 30, 2011 respectively and approximately \$752,000 and approximately \$2.0 million during the three and nine month periods ended September 30, 2010. These increases were due primarily to the expense on restricted stock grants issued in the first quarter of 2011. See *Financial Condition, Liquidity, and Capital Resources* for disclosure of additional expenses.

Net Investment Income Before Investment Gains and Losses

Net investment income per share was \$0.20 for the quarter ended September 30, 2011 compared to \$0.23 per share in the quarter ended September 30, 2010. Net investment income before investment gains and losses for the three and nine month periods ended September 30, 2011 totaled \$8.6 million and \$28.8 million, respectively as compared to \$8.1 million and \$20.6 million in the three and nine month periods ended September 30, 2010, respectively. The changes are made up of the items described above under *Investment Income* and *Operating Expenses*.

Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

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

During the three and nine-months ended September 30, 2011 the Company recognized total net realized gains of approximately \$10.1 million from the sale of common stock in its public portfolio companies and realized losses of approximately \$1.6 million and approximately \$6.7 million from equity, loan, and warrant investments in portfolio companies that have been liquidated. The loss is primarily attributed to the termination of warrants in LaboPharm, Inc. of \$0.6 million and the write-off of equity in Solarflare, Inc. of \$0.6 million. During the three and nine-month period ended September 30, 2010 the Company recognized net realized losses of approximately \$18.9 million and approximately \$19.2 million from equity, loan and warrant investments in portfolio companies that have been liquidated and realized gains of approximately \$3.6 million from the sale of common stock in public companies and approximately \$465,000 from the mergers of private portfolio companies.

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A summary of realized gains and losses for the three and nine month periods ended September 30, 2011 and 2010 is as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized gains	\$ 0.3	\$	\$ 10.6	\$ 4.4
Realized losses	(1.9)	(18.9)	(7.2)	(19.5)
Net realized gains (losses)	\$ (1.6)	\$ (18.9)	\$ 3.4	\$ (15.1)

During the three month period ended September 30, 2011 net change in unrealized depreciation totaled approximately \$769,000 from loan, warrant and equity investments. Approximately \$5.9 million was due to net unrealized appreciation on equity and loans, primarily attributed to the exercise of our warrants in Aveo Pharmaceuticals, Inc. to common shares. Approximately \$6.6 million was due to unrealized depreciation on warrant investments, primarily attributable to the exercise of our warrants and the decrease in fair market value for public company holdings.

During the nine month period ended September 30, 2011 net change in unrealized depreciation totaled approximately \$2.8 million from loan, warrant and equity investments. Approximately \$4.0 million was due to net unrealized appreciation on debt and warrants, primarily attributable to the increase in fair market value for public company holdings. Approximately \$6.8 million was due to unrealized depreciation on equity investments, primarily attributable to the sale of InfoLogix, Inc. in the first quarter of 2011. Approximately \$8.3 million of realized gains and \$8.4 million of net change in unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

During the same periods ending September 30, 2010 net unrealized appreciation totaled approximately \$2.9 million and net unrealized depreciation totaled approximately \$12.2 million, respectively.

For the three month period ended September 30, 2011 approximately \$2.2 million and \$3.7 million of the net unrealized appreciation recognized was attributable to debt and equity investments, respectively, and approximately \$6.6 million of net unrealized depreciation on our warrant investments. Included in this amount is unrealized appreciation of approximately \$1.5 million attributable to the reversal of prior period net unrealized depreciation upon being realized as a loss and approximately \$2.9 million in unrealized depreciation attributable to the exercise of warrants to equity. For the nine month period ended September 30, 2011 approximately \$3.4 million and \$616,000 of the net unrealized appreciation was attributable to debt and warrant investments, respectively, and approximately \$6.8 million of depreciation was attributable to equity investments. As of September 30, 2011, the net unrealized depreciation recognized by the Company was increased by approximately \$229,000 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 in this prospectus supplement.

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors. This net unrealized appreciation was primarily comprised of increases in the fair value of our portfolio companies due to positive company performance and market conditions.

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The following table itemizes the change in net unrealized appreciation/depreciation of investments for the three and nine-month periods ended September 30, 2011 and 2010:

(in thousands)	Three Months Ended September 30,	
	2011	2010
Gross unrealized appreciation on portfolio investments	\$ 11,928	\$ 4,565
Gross unrealized depreciation on portfolio investments	(11,423)	(15,824)
Reversal of prior period net unrealized appreciation upon realization	(3,323)	(3,912)
Reversal of prior period net unrealized depreciation upon realization	1,913	17,888
Citigroup Warrant Participation	136	177
Net unrealized appreciation (depreciation) on portfolio investments	\$ (769)	\$ 2,894

(in thousands)	Nine Months Ended September 30,	
	2011	2010
Gross unrealized appreciation on portfolio investments	\$ 41,945	\$ 26,369
Gross unrealized depreciation on portfolio investments	(38,833)	(52,867)
Reversal of prior period net unrealized appreciation upon realization	(13,225)	(3,902)
Reversal of prior period net unrealized depreciation upon realization	7,519	18,048
Citigroup Warrant Participation	(229)	134
Net unrealized appreciation (depreciation) on portfolio investments	\$ (2,823)	\$ (12,218)

Income and Excise Taxes

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

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

For the three and nine months ended September 30, 2011, the net increase in net assets resulting from operations totaled approximately \$6.2 million and \$29.4 million, respectively. For the three and nine months ended September 30, 2010, the net decrease in net assets resulting from operations totaled approximately \$7.8 million and \$6.7 million. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share for the three and nine-month periods ended September 30, 2011 was \$0.14 and \$0.67, respectively, as compared to basic and fully diluted change in net assets per common share of \$(0.23) and \$(0.20) for the three and nine-month periods ended September 30, 2010, respectively.

Financial Condition, Liquidity, and Capital Resources

At September 30, 2011, we had approximately \$96.3 million in cash and cash equivalents and available borrowing capacity of approximately \$75.0 million under the Wells Facility, \$20.0 million under the Union Bank Facility and \$36.25 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

As of September 30, 2011, net assets totaled \$422.1 million, with a net asset value per share of \$9.61. 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

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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 2011 Annual Shareholder Meeting held on June 1, 2011, our shareholders authorized us, with the approval of our Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. However, there can be no assurance that these capital resources will be available given the credit constraints of the banking and capital markets.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of September 30, 2011 our asset coverage ratio under our regulatory requirements as a business development company was 971.5%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 263.1% at September 30, 2011.

During the nine months ended September 30, 2011, our operating activities used \$72.5 million of cash and cash equivalents, compared to \$45.6 million used during the nine months ended September 30, 2010. The \$26.9 million increase in cash used in operating activities resulted primarily from increased investing activity. During the nine months ended September 30, 2011, our financing activities provided \$62.0 million of cash, compared to \$4.2 million during the nine months ended September 30, 2010. This \$57.9 million increase in cash provided by financing activities was due primarily due to the issuance of \$75.0 million of Convertible Senior Notes in April 2011.

At September 30, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding amounts:

	September 30, 2011		December 31, 2010	
	Total Available	Carrying Value ⁽¹⁾	Total Available	Carrying Value ⁽¹⁾
Union Bank Facility	\$ 20,000	\$	\$ 20,000	\$
Wells Facility	75,000		50,000	
Convertible Senior Notes ⁽²⁾	75,000	70,082		
SBA Debenture ⁽³⁾	225,000	188,750	225,000	170,000
Total	\$ 395,000	\$ 258,832	\$ 295,000	\$ 170,000

⁽¹⁾ Except for the Convertible Senior Notes (as defined below), all carrying values are the same as the principal amount outstanding.

⁽²⁾ Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,918 at September 30, 2011.

⁽³⁾ The Company has the ability to borrow an additional \$36.3 million subject to SBA approval and compliance with SBIC regulations. On September 27, 2006, HT II received a license and on May 26, 2010 HT III received a license to operate as SBICs under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of September 30, 2011, all required contributed capital from the Company has been invested into HT II and HT III. The Company is the sole limited partner of HT II and HT III and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare

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outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations.

In aggregate, HT II and HT III hold approximately \$334.9 million in assets, and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 2011.

With our net investment of \$75.0 million in HT II as of September 30, 2011, HT II has the capacity to issue a total of \$125.0 million of SBA guaranteed debentures, of which \$125.0 million was outstanding at September 30, 2011. As of September 30, 2011, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. As of September 30, 2011, we held investments in HT II in 84 companies with a fair value of approximately \$180.8 million, accounting for approximately 31.4% of our total portfolio at September 30, 2011.

As of September 30, 2011, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. As of September 30, 2011, HT III had the potential to borrow up to \$100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$50.0 million in HT III as of September 30, 2011, HT III has the capacity to issue a total of \$100.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$63.75 million was outstanding at September 30, 2011. As of September 30, 2011, HT III has paid the SBA commitment fees of approximately \$750,000. As of September 30, 2011, we held investments in HT III in 20 companies with a fair value of approximately \$92.4 million accounting for approximately 16.0% of our total portfolio at September 30, 2011.

(in thousands)

Issuance/Pooling Date	Maturity Date	Interest Rate ⁽¹⁾	September 30, 2011	December 31, 2010
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	\$ 12,000	\$ 12,000
March 26, 2008	March 1, 2018	6.38%	\$ 58,050	\$ 58,050
September 24, 2008	September 1, 2018	6.63%	\$ 13,750	\$ 38,750
March 25, 2009	March 1, 2019	5.53%	\$ 18,400	\$ 18,400
September 23, 2009	September 1, 2019	4.64%	\$ 3,400	\$ 3,400
September 22, 2010	September 1, 2020	3.62%	\$ 6,500	\$ 6,500
September 22, 2010	September 1, 2020	3.50%	\$ 22,900	\$ 32,900
March 29, 2011	March 1, 2021	4.37%	\$ 28,750	\$
September 21, 2011	September 1, 2021	3.16%	\$ 25,000	\$
Total SBA Debentures			\$ 188,750	\$ 170,000

⁽¹⁾ Interest rate includes annual charge

Current Market Conditions

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in

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Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. We anticipate that there may be yield compression as 2011 comes to an end, however, given our level of liquidity and pipeline, we believe that we are well positioned despite the uncertainty in the market. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

We may acquire a portfolio of investments or sell a portion of our portfolio on an opportunistic basis. We, from time to time, engage in discussions with counterparties in respect of various potential transactions. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our Board of Directors and required third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated.

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

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our origination activity unfunded commitments may be significant from time to time. As of September 30, 2011, we had unfunded commitments of approximately \$148.2 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. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from Senior Secured Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately \$136.0 million of non-binding term sheets outstanding with nine companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term from prior release are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2011:

	Total	Payments due by period (in thousands)			
		Less than 1 year	1 - 3 years	3 - 5 years ⁽³⁾	After 5 years ⁽⁴⁾
Contractual Obligations ⁽¹⁾⁽²⁾					
Borrowings	\$ 258,832	\$	\$	\$ 70,082	\$ 188,750
Operating Lease Obligations ⁽⁵⁾	2,488	1,242	1,245		
Total	\$ 261,320	\$ 1,242	\$ 1,245	\$ 70,082	\$ 188,750

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- (1) Excludes commitments to extend credit to our portfolio companies.
- (2) We also have warrant participation obligation with Citigroup. See Borrowings.
- (3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,918 at September 30, 2011.
- (4) Borrowings under the SBA debentures
- (5) Long-term facility leases

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2011, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. HT II has a total of \$125.0 million of SBA guaranteed debentures outstanding as of September 30, 2011 and has paid the SBA commitment fees of approximately \$1.5 million. As of September 30, 2011, the Company held investments in HT II in 84 companies with a fair value of approximately \$180.8 million, accounting for approximately 31.4% of our total portfolio at September 30, 2011.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company's net investment of \$50.0 million in HT III as of September 30, 2011, HT III has the capacity to issue a total of \$100.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$63.75 million was outstanding as of September 30, 2011. As of September 30, 2011, HT III has paid commitment fees of approximately \$750,000. As of September 30, 2011, the Company held investments in HT III in 20 companies with a fair value of approximately \$92.4 million accounting for approximately 16.0% of our total portfolio at September 30, 2011.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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

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HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company's wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations. As of September 30, 2011, HT III could draw up to \$36.25 million, respectively, of additional leverage from SBA.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.88% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fee related to HT III debentures that pooled on September 21, 2011 was 0.285%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2011 for HT II was approximately \$125.0 million with an average interest rate of approximately 5.0%. The average amount of debentures outstanding for the quarter ended September 30, 2011 for HT III was approximately \$63.75 million with an average interest rate of approximately 3.5%.

Wells Facility

On August 25, 2008, Hercules, 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 \$50.0 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the "Wells Facility"). The Wells Facility has the capacity to increase to \$300.0 million if additional lenders are added to the syndicate. The Wells Facility expired in August 2011.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of \$1.1 million in structuring fees in connection with the Wells Facility which has been amortized through August 2011.

The Wells Facility includes various financial and operating covenants applicable to the Company and its subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding Subordinated Indebtedness, that is in excess of \$314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

On June 20, 2011, we renewed the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of \$75.0 million. Borrowings under the facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The facility will be secured by loans in the borrowing base. The Wells Facility requires the

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monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the new credit facility. This new arrangement replaced the previous \$300.0 million Wells Facility under which Wells Fargo Capital Finance had committed \$50.0 million in capital. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was no outstanding debt under the Wells Facility at September 30, 2011.

We anticipate incurring a non-use fee expense of approximately \$200,000 or \$0.005 per share per quarter until we borrow under the Wells Facility. In total, we expect the expense from the Convertible Senior Notes and facility fees to negatively impact earnings in the near term by approximately \$1.5 million or \$0.04 per quarter until any of the capital is deployed.

Union Bank Facility

On February 10, 2010, we entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the *Union Bank Facility*). Borrowings under the *Union Bank Facility* will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The *Union Bank Facility* required the payment of a non-use fee of 0.25% annually. The *Union Bank Facility* is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The *Union Bank Facility* generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. *Union Bank 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, 2011.

On June 7, 2011, we entered into an amendment to the *Union Bank Facility* which extended the borrowing termination date to September 30, 2011. The amendment to the *Union Bank Facility* also amends the maturity date of Union Bank's \$20.0 million commitment to mean the earliest of: (a) December 31, 2011; (b) the date on which Union Bank's obligation to make loans is terminated and the obligations are declared to be due and payable or the commitment is terminated; or (c) the date of prepayment in full by the Company. There was no outstanding debt under the *Union Bank Facility* at September 30, 2011.

On November 2, 2011, we renewed and amended the *Union Bank Facility*. Union Bank and RBC Capital Markets have made commitments of \$30.0 million and \$25.0 million, respectively. The *Union Bank Facility* requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding Subordinated Indebtedness, that is in excess of \$314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The *Union Bank Facility* will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The *Union Bank Facility* requires the payment of a non-use fee of 0.50% annually. The other terms of the *Union Bank Facility* generally remain unchanged, including the stated interest rate. The *Union Bank Facility* contains an accordion feature, in which we can increase the credit line up to an aggregate of \$150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions.

Table of Contents**Convertible Senior Notes**

In April 2011, we issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes (the *Convertible Senior Notes*) due 2016. As of September 30, 2011, the carrying value of the *Convertible Senior Notes*, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the *Convertible Senior Notes*, is approximately \$70.1 million.

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

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

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

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

As of September 30, 2011, the components of the carrying value of the *Convertible Senior Notes* were as follows:

(in thousands)	As of September 30, 2011
Principal amount of debt	\$ 75,000
Original issue discount, net of accretion	(4,918)
Carrying value of debt	\$ 70,082

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For the three and nine months ended September 30, 2011, the components of interest expense and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
(in thousands)		
Stated interest expense	\$ 1,125	\$ 2,062
Accretion of original issue discount	270	496
Amortization of debt issuance cost	144	264
 Total interest expense	 \$ 1,539	 \$ 2,822
 Cash paid for interest expense	 \$	 \$

As of September 30, 2011, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note 4 to our consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the Convertible Senior Notes.

Citibank Credit Facility

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. During the first quarter of 2009, we paid off all remaining principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$727,000 as of September 30, 2011 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

Outstanding Borrowings

At September 30, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding borrowings:

	September 30, 2011		December 31, 2010	
	Total Available	Carrying Value⁽¹⁾	Total Available	Carrying Value⁽¹⁾
Union Bank Facility	\$ 20,000	\$	\$ 20,000	\$
Wells Facility	75,000		50,000	
Convertible Senior Notes ⁽²⁾	75,000	70,082		
SBA Debenture ⁽³⁾	225,000	188,750	225,000	170,000
 Total	 \$ 395,000	 \$ 258,832	 \$ 295,000	 \$ 170,000

⁽¹⁾ Except for the Convertible Senior Notes (as defined above), all carrying values are the same as the principal amount outstanding.

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- (2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined above) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,918 at September 30, 2011.
- (3) The Company has the ability to borrow an additional \$36.3 million subject to SBA approval and compliance with SBIC regulations for which they have received a commitment.

Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	\$ 0.025
December 9, 2005	January 6, 2006	January 27, 2006	0.300
April 3, 2006	April 10, 2006	May 5, 2006	0.300
July 19, 2006	July 31, 2006	August 28, 2006	0.300
October 16, 2006	November 6, 2006	December 1, 2006	0.300
February 7, 2007	February 19, 2007	March 19, 2007	0.300
May 3, 2007	May 16, 2007	June 18, 2007	0.300
August 2, 2007	August 16, 2007	September 17, 2007	0.300
November 1, 2007	November 16, 2007	December 17, 2007	0.300
February 7, 2008	February 15, 2008	March 17, 2008	0.300
May 8, 2008	May 16, 2008	June 16, 2008	0.340
August 7, 2008	August 15, 2008	September 19, 2008	0.340
November 6, 2008	November 14, 2008	December 15, 2008	0.340
February 12, 2009	February 23, 2009	March 30, 2009	0.320*
May 7, 2009	May 15, 2009	June 15, 2009	0.300
August 6, 2009	August 14, 2009	September 14, 2009	0.300
October 15, 2009	October 20, 2009	November 23, 2009	0.300
December 16, 2009	December 24, 2009	December 30, 2009	0.040
February 11, 2010	February 19, 2010	March 19, 2010	0.200
May 3, 2010	May 12, 2010	June 18, 2010	0.200
August 2, 2010	August 12, 2010	September 17, 2010	0.200
November 4, 2010	November 10, 2010	December 17, 2010	0.200
March 1, 2011	March 10, 2011	March 24, 2011	0.220
May 5, 2011	May 11, 2011	June 23, 2011	0.220
August 4, 2011	August 15, 2011	September 15, 2011	0.220
November 3, 2011	November 14, 2011	November 29, 2011	0.220
			\$ 6.685

* Dividend paid in cash and stock.

On November 3, 2011, the Board of Directors announced a cash dividend of \$0.22 per share to be paid on November 29, 2011 to shareholders of record as of November 14, 2011. This dividend is the Company's twenty-fifth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$6.69 per share.

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

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