

HERCULES TECHNOLOGY GROWTH CAPITAL INC  
Form 10-Q  
May 07, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For The Quarterly Period Ended March 31, 2010**

**OR**

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

**Commission File Number: 814-00702**

**HERCULES TECHNOLOGY GROWTH**  
**CAPITAL, INC.**

(Exact Name of Registrant as Specified in its Charter)

<b>Maryland</b> (State or Jurisdiction of Incorporation or Organization)	<b>743113410</b> (IRS Employer Identification No.)
<b>400 Hamilton Ave., Suite</b>  <b>310 Palo Alto, California 94301</b> (Address of Principal Executive Offices)	<b>94301</b> (Zip Code)
<b>(650) 289-3060</b> (Registrant's Telephone Number, Including Area Code)	

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

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

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

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

On May 5, 2010, there were 36,248,195 shares outstanding of the Registrant's common stock, \$0.001 par value.

**Table of Contents**

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**FORM 10-Q TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
Item 1. <u>Consolidated Financial Statements</u>	3
<u>Consolidated Statement of Assets and Liabilities as of March 31, 2010 (unaudited) and December 31, 2009</u>	3
<u>Consolidated Schedule of Investments as of March 31, 2010 (unaudited)</u>	4
<u>Consolidated Schedule of Investments as of December 31, 2009</u>	17
<u>Consolidated Statement of Operations for the three-month periods ended March 31, 2010 and 2009 (unaudited)</u>	29
<u>Consolidated Statement of Changes in Net Assets for the three-month periods ended March 31, 2010 and 2009 (unaudited)</u>	30
<u>Consolidated Statement of Cash Flows for the three-month periods ended March 31, 2010 and 2009 (unaudited)</u>	31
<u>Notes to Consolidated Financial Statements (unaudited)</u>	32
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	49
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	66
Item 4. <u>Controls and Procedures</u>	67
<b><u>PART II. OTHER INFORMATION</u></b>	68
Item 1. <u>Legal Proceedings</u>	68
Item 1A. <u>Risk Factors</u>	68
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
Item 3. <u>Defaults Upon Senior Securities</u>	72
Item 4. <u>Reserved</u>	72
Item 5. <u>Other Information</u>	72
Item 6. <u>Exhibits</u>	73
<b><u>SIGNATURES</u></b>	74

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

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

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**  
**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

(dollars in thousands, except per share data)

	March 31, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Investments:		
Non-Control/Non-Affiliate investments (cost of \$342,218 and \$353,648, respectively)	\$ 332,728	\$ 335,979
Affiliate investments (cost of \$2,880 and \$2,880, respectively)	2,222	2,274
Control investments (cost of \$44,806 and \$23,823, respectively)	45,023	32,184
Total investments, at value (cost of \$389,904 and \$380,351 respectively)	379,973	370,437
Deferred loan origination revenue	(3,210)	(2,425)
Cash and cash equivalents	106,138	124,828
Interest receivable	11,369	10,309
Other assets	6,687	5,818
<b>Total assets</b>	<b>500,957</b>	<b>508,967</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	3,945	11,852
Short-term credit facility		
Long-term SBA debentures	130,600	130,600
<b>Total liabilities</b>	<b>134,545</b>	<b>142,452</b>
<b>Net assets</b>	<b>\$ 366,412</b>	<b>\$ 366,515</b>
<b>Net assets consist of:</b>		
Common stock, par value	\$ 35	\$ 35
Capital in excess of par value	410,349	409,036
Unrealized appreciation (depreciation) on investments	(10,288)	(10,028)
Accumulated realized gains (losses) on investments	(27,767)	(28,129)
Distributions in excess of investment income	(5,917)	(4,399)
<b>Total net assets</b>	<b>\$ 366,412</b>	<b>\$ 366,515</b>
<b>Shares of common stock outstanding (\$0.001 par value, 60,000 authorized)</b>	<b>36,248</b>	<b>35,634</b>
<b>Net asset value per share</b>	<b>\$ 10.11</b>	<b>\$ 10.29</b>

See Notes to Consolidated Financial Statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		\$ 69	\$ 1,100
		Preferred Stock Warrants		35	226
		Preferred Stock		1,243	2,464
Total Acceleron Pharmaceuticals, Inc.				1,347	3,790
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures May 2012			
		Interest rate 11.13%	\$ 13,232	13,187	13,187
		Preferred Stock Warrants		190	279
		Preferred Stock Warrants		104	67
		Preferred Stock Warrants		24	26
Total Aveo Pharmaceuticals, Inc.				13,505	13,559
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures April 2012			
		Interest rate Prime + 9.20% or			
		Floor rate of 12.95%	\$ 5,987	5,851	5,851
		Preferred Stock Warrants		206	154
Preferred Stock Warrants		31	27		
Total Dicerna Pharmaceuticals, Inc.				6,088	6,032
Elixir Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures October 2011			
		Interest rate Prime + 9.25% or			
		Floor rate of 12.5%	\$ 6,967	6,967	1,967
		Preferred Stock Warrants		217	
Total Elixir Pharmaceuticals, Inc.				7,184	1,967
EpiCept Corporation	Drug Discovery	Common Stock Warrants		4	22
		Common Stock Warrants		40	255
Total EpiCept Corporation				44	277

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Horizon Therapeutics, Inc.	Drug Discovery	Senior Debt		
		Matures July 2011		
		Interest rate Prime + 1.50%	\$ 3,989	3,945
		Preferred Stock Warrants		231
Total Horizon Therapeutics, Inc.				4,176
				3,945
Inotek Pharmaceuticals Corp.	Drug Discovery	Preferred Stock		1,500
				353
Total Inotek Pharmaceuticals Corp.				1,500
				353
Merrimack Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		155
		Preferred Stock		2,000
				2,459
Total Merrimack Pharmaceuticals, Inc.				2,155
				2,523

See Notes to Consolidated Financial Statements (unaudited)

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Paratek Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		\$ 137	\$ 117
		Preferred Stock		1,000	1,000
<b>Total Paratek Pharmaceuticals, Inc.</b>				<b>1,137</b>	<b>1,117</b>
PolyMedix, Inc.	Drug Discovery	Senior Debt			
		Matures September 2013			
		Interest rate Prime + 7.1%	\$ 10,000	9,679	9,679
		Preferred Stock Warrants		321	321
<b>Total PolyMedix, Inc.</b>				<b>10,000</b>	<b>10,000</b>
Portola Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures April 2011			
		Interest rate Prime + 2.16%	\$ 5,416	5,416	5,416
		Preferred Stock Warrants		152	370
<b>Total Portola Pharmaceuticals, Inc.</b>				<b>5,568</b>	<b>5,786</b>
<b>Total Drug Discovery (13.47%)*</b>				<b>52,704</b>	<b>49,349</b>
Affinity Videonet, Inc. <sup>(4)</sup>	Communications & Networking	Senior Debt			
		Matures June 2012			
		Interest rate Prime + 8.75% or			
		Floor rate of 12.00%	\$ 2,117	2,139	2,139
		Senior Debt			
		Matures June 2012			
		Interest rate Prime + 14.75% or			
		Floor rate of 18.00%	\$ 2,000	2,063	2,063
		Revolving Line of Credit			
		Matures June 2012	\$ 500	500	500
		Interest rate Prime + 9.75% or			



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Floor rate of 13.00%		
		Preferred Stock Warrants	101	99
Total Affinity Videonet, Inc.			4,803	4,801
E-band Communications, Inc. <sup>(6)</sup>	Communications & Networking	Preferred Stock	2,880	2,222
Total E-Band Communications, Inc.			2,880	2,222
IKANO Communications, Inc.	Communications & Networking	Senior Debt		
		Matures August 2011		
		Interest rate 12.00%	\$ 5,156	5,156
		Preferred Stock Warrants		45
		Preferred Stock Warrants		72
Total IKANO Communications, Inc.			5,273	5,156
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	94	44
		Preferred Stock	250	247
Total Neonova Holding Company			344	291

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		\$ 95	\$
		Preferred Stock		1,000	820
<b>Total Peerless Network, Inc.</b>				<b>1,095</b>	<b>820</b>
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	199
<b>Total Ping Identity Corporation</b>				<b>52</b>	<b>199</b>
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	402
<b>Total Purcell Systems, Inc.</b>				<b>123</b>	<b>402</b>
Seven Networks, Inc.	Communications & Networking	Preferred Stock Warrants		174	2
<b>Total Seven Networks, Inc.</b>				<b>174</b>	<b>2</b>
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants		53	60
<b>Total Stoke, Inc.</b>				<b>53</b>	<b>60</b>
Tectura Corporation	Communications & Networking	Senior Debt			
		Matures September 2010			
		Interest rate Prime + 10.75% or			
		Floor rate of 14.00%	\$ 1,250	1,250	1,250
		Revolving Line of Credit			
		Matures July 2011			
		Interest rate Prime + 10.75% or			
		Floor rate of 14.00%	\$ 9,908	10,367	10,367
		Revolving Line of Credit	\$ 5,000	5,220	5,220
		Matures July 2011			
		Interest rate Prime + 10.75% or			

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Floor rate of 14.00%			
		Preferred Stock Warrants	51		
Total Tectura Corporation			16,888		16,837
<b>Total Communications &amp; Networking (8.40%)*</b>			<b>31,685</b>		<b>30,790</b>
Atrenta, Inc.	Software	Preferred Stock Warrants	102		225
		Preferred Stock Warrants	34		74
		Preferred Stock Warrants	95		174
		Preferred Stock	250		375
Total Atrenta, Inc.			481		848
Blurb, Inc.	Software	Senior Debt			
		Matures June 2011			
		Interest rate Prime + 3.50% or			
		Floor rate of 8.5%	\$ 2,804	2,737	2,737
		Preferred Stock Warrants		25	308
		Preferred Stock Warrants		299	190
Total Blurb, Inc.			3,061		3,235

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		\$ 188	\$ 119
Total Braxton Technologies, LLC.				188	119
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	247
Total Bullhorn, Inc.				43	247
Clickfox, Inc.	Software	Senior Debt Matures September 2011  Interest rate Prime + 5.00% or  Floor rate of 10.25% Revolving Line of Credit Matures July 2010  Interest rate Prime + 8.50% or  Floor rate of 13.5%	\$ 3,259	3,213	3,213
		Preferred Stock Warrants	\$ 2,000	1,996	1,996
				177	299
Total Clickfox, Inc.				5,386	5,508
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		99	127
Total Forescout Technologies, Inc.				99	127
GameLogic, Inc.	Software	Preferred Stock Warrants		92	2
Total GameLogic, Inc.				92	2
HighJump Acquisition, LLC.	Software	Senior Debt Matures May 2013  Interest rate Libor + 8.75% or  Floor rate of 12.00%	\$ 15,000	15,000	15,000
Total HighJump Acquisition, LLC.				15,000	15,000
HighRoads, Inc.	Software	Preferred Stock Warrants		44	44
Total HighRoads, Inc.				44	44
Infologix, Inc. <sup>(4),(7)</sup>	Software	Senior Debt			

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Matures November 2013

Interest rate 12.00%	\$ 5,500	5,500	5,500
----------------------	----------	-------	-------

Convertible Senior Debt  
Matures November 2014

Interest rate 12.00%	\$ 5,000	5,035	9,563
----------------------	----------	-------	-------

Revolving Line of Credit  
Matures May 2011

Interest rate 12.00%	\$ 8,909	8,909	8,909
----------------------	----------	-------	-------

Senior Debt  
Matures December 2010

Interest rate 18.00%	\$ 2,250	2,250	2,250
----------------------	----------	-------	-------

Preferred Stock Warrants		725	1,073
--------------------------	--	-----	-------

Common Stock		5,036	5,414
--------------	--	-------	-------

Total Infologix, Inc.		27,455	32,709
-----------------------	--	--------	--------

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
PSS Systems, Inc.	Software	Preferred Stock Warrants		\$ 51	\$ 94
Total PSS Systems, Inc.				51	94
Rockyou, Inc.	Software	Preferred Stock Warrants		117	132
Total Rockyou, Inc.				117	132
Sportvision, Inc.	Software	Preferred Stock Warrants		39	36
Total Sportvision, Inc.				39	36
WildTangent, Inc.	Software	Preferred Stock Warrants		239	46
Total WildTangent, Inc.				239	46
<b>Total Software (15.87%)*</b>				<b>52,295</b>	<b>58,147</b>
Luminus Devices, Inc.	Electronics & Computer Hardware	Senior Debt Matures December 2011			
		Interest rate 11.875%	\$ 1,290	1,290	1,290
		Preferred Stock Warrants		183	
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		334	
Total Luminus Devices, Inc.				1,891	1,290
Maxvision Holding, LLC.	Electronics & Computer Hardware	Senior Debt Matures October 2012			
		Interest rate Prime + 5.50%	\$ 5,000	5,255	5,255
		Senior Debt Matures April 2012			
		Interest rate Prime + 2.25%	\$ 4,159	4,159	4,159
		Revolving Line of Credit Matures April 2012			
		Interest rate Prime + 2.25%	\$ 2,500	2,580	2,580
		Common Stock		81	170

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Total Maxvision Holding, LLC				12,075	12,164
Shocking Technologies, Inc.	Electronics &	Senior Debt			
	Computer Hardware	Matures December 2010			
		Interest rate Prime + 2.50%	\$ 1,414	1,409	1,409
		Preferred Stock Warrants		63	108
Total Shocking Technologies, Inc.				1,472	1,517

See Notes to Consolidated Financial Statements

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Spatial Photonics, Inc.	Electronics & Computer Hardware	Senior Debt Matures April 2011			
		Interest rate 10.07%	\$ 1,651	\$ 1,635	\$ 1,635
		Senior Debt Mature April 2011			
		Interest rate 9.22%	\$ 164	164	165
		Preferred Stock Warrants		130	
		Preferred Stock		500	129
<b>Total Spatial Photonics Inc.</b>				<b>2,429</b>	<b>1,929</b>
VeriWave, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		54	
		Preferred Stock Warrants		46	
<b>Total VeriWave, Inc.</b>				<b>100</b>	
<b>Total Electronics &amp; Computer Hardware (4.61%)*</b>				<b>17,967</b>	<b>16,900</b>
Aegerion Pharmaceuticals, Inc. <sup>(4)</sup>	Specialty  Pharmaceuticals	Senior Debt  Matures September 2011			
		Interest rate Prime + 2.50% or			
		Floor rate of 11.00%	\$ 4,763	4,763	4,763
		Convertible Senior Debt Matures December 2010	\$ 340	340	340
		Preferred Stock Warrants		69	142
		Preferred Stock		1,000	710
<b>Total Aegerion Pharmaceuticals, Inc.</b>				<b>6,172</b>	<b>5,955</b>
QuatRx Pharmaceuticals Company	Specialty  Pharmaceuticals	Senior Debt  Matures October 2011			
		Interest rate Prime + 8.90% or			
		Floor rate of 12.15%	\$ 14,306	14,212	14,212
		Convertible Senior Debt			



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

	Matures March 2012	\$ 1,888	1,888	2,861
	Preferred Stock Warrants		220	
	Preferred Stock Warrants		308	
	Preferred Stock		750	
Total Quatrx Pharmaceuticals Company			17,378	17,073
<b>Total Specialty Pharmaceuticals (6.28%)*</b>			<b>23,550</b>	<b>23,028</b>

Annie's, Inc.	Consumer & Business Products	Senior Debt - Second Lien		
		Matures April 2011		
		Interest rate LIBOR + 6.50%		
		or Floor rate of 10.00%	\$ 6,000	6,119
		Preferred Stock Warrants		321
				85
Total Annie's, Inc.			6,440	6,204

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
IPA Holdings, LLC. <sup>(4)</sup>	Consumer & Business Products	Senior Debt			
		Matures November 2012			
		Interest rate Prime + 8.25% or			
		Floor rate of 12.5%	\$ 9,250	\$ 9,442	\$ 9,442
		Senior Debt			
		Matures May 2013			
		Interest rate Prime + 11.25%			
		or Floor rate of 15.5%	\$ 6,500	6,709	6,709
		Revolving Line of Credit			
		Matures November 2012			
		Interest rate Prime + 7.75% or			
		Floor rate of 12.00%	\$ 1,356	1,356	1,356
		Preferred Stock Warrants		275	
		Common Stock		500	120
Total IPA Holding, LLC.				18,282	17,627
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		24	42
		Preferred Stock		500	500
Total Market Force Information, Inc.				524	542
OnTech Operations, Inc.	Consumer & Business Products	Senior Debt			
		Matures June 2010			
		Interest rate 16.00%	\$ 106	106	
		Preferred Stock Warrants		452	
		Preferred Stock Warrants		218	
		Preferred Stock		1,000	
Total OnTech Operations, Inc.				1,776	
Velocity Technology Solutions	Consumer & Business Products	Senior Debt	\$ 16,667	16,667	16,667
		Matures February 2015			

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Interest rate LIBOR + 8%			
		Senior Debt			
		Matures February 2015			
		Interest rate LIBOR + 8%	\$ 8,333	8,339	8,339
<b>Total Velocity Technology Solutions</b>				<b>25,006</b>	<b>25,006</b>
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		252	1,371
		Preferred Stock		250	368
<b>Total Wageworks, Inc.</b>				<b>502</b>	<b>1,739</b>
<b>Total Consumer &amp; Business Products (13.95%)*</b>				<b>52,530</b>	<b>51,118</b>
Enpirion, Inc.	Semiconductors	Senior Debt			
		Matures August 2011			
		Interest rate Prime + 2.00% or			
		Floor rate of 7.625%	\$ 4,341	4,313	4,313
		Preferred Stock Warrants		157	0
<b>Total Enpirion, Inc.</b>				<b>4,470</b>	<b>4,313</b>

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
iWatt Inc.	Semiconductors	Preferred Stock Warrants		\$ 46	\$
		Preferred Stock Warrants		51	
		Preferred Stock Warrants		73	
		Preferred Stock Warrants		458	
		Preferred Stock		490	950
Total iWatt Inc.				1,118	950
NEXX Systems, Inc. <sup>(4)</sup>	Semiconductors	Revolving Line of Credit Matures June 2010			
		Interest rate Prime + 8.00% or			
		Floor rate of 13.25%	\$ 3,000	2,923	2,923
		Revolving Line of Credit Matures June 2010			
		Interest rate Prime + 8.00% or			
		Floor rate of 17.50%	\$ 2,500	2,500	2,500
		Preferred Stock Warrants		297	489
		Preferred Stock		277	733
Total NEXX Systems, Inc.				5,997	6,645
Quartics, Inc.	Semiconductors	Senior Debt Matures May 2010			
		Interest rate 10.00%	\$ 55	55	55
		Preferred Stock Warrants		53	
Total Quartics, Inc.				108	55
Solarflare Communications, Inc.	Semiconductors	Senior Debt Matures August 2010			
		Interest rate 11.75%	\$ 125	116	116
		Preferred Stock Warrants		83	
		Common Stock		641	
Total Solarflare Communications, Inc.				840	116
<b>Total Semiconductors (3.30%)*</b>				<b>12,533</b>	<b>12,079</b>

## Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Labopharm USA, Inc. <sup>(5)</sup>	Drug Delivery	Senior Debt Matures June 2012			
		Interest rate 10.95%	\$ 20,000	19,765	19,765
		Common Stock Warrants		635	710
Total Labopharm USA, Inc.				20,400	20,475
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		36	52
		Common Stock Warrants		51	45
		Common Stock		500	331
Total Transcept Pharmaceuticals, Inc.				587	428
<b>Total Drug Delivery (5.70%)*</b>				<b>20,987</b>	<b>20,903</b>

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
BARRX Medical, Inc.	Therapeutic	Senior Debt Mature December 2011			
		Interest rate 11.00%	\$ 4,861	\$ 4,855	\$ 4,855
		Revolving Line of Credit Matures May 2010			
		Interest rate 10.00%	\$ 1,000	1,000	1,000
		Preferred Stock Warrants		76	86
		Preferred Stock		1,500	2,318
<b>Total BARRX Medical, Inc.</b>				<b>7,431</b>	<b>8,259</b>
EKOS Corporation	Therapeutic	Senior Debt Matures November 2010			
		Interest rate Prime + 2.00%	\$ 1,959	1,932	1,932
		Preferred Stock Warrants		174	
		Preferred Stock Warrants		153	
<b>Total EKOS Corporation</b>				<b>2,259</b>	<b>1,932</b>
Gelesis, Inc. <sup>(8)</sup>	Therapeutic	Senior Debt Matures May 2012			
		Interest rate Prime + 7.5%			
		or Floor rate of 10.75%	\$ 2,847	2,820	
		Preferred Stock Warrants		58	
<b>Total Gelesis, Inc.</b>				<b>2,878</b>	
Gynesonics, Inc.	Therapeutic	Convertible Subordinated Debt Matures July 2010			
		Interest rate 8.00%	\$ 51	51	51
		Preferred Stock Warrants		17	
		Preferred Stock		250	250
<b>Total Gynesonics, Inc.</b>				<b>318</b>	<b>301</b>
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	26
<b>Total Light Science Oncology, Inc.</b>				<b>99</b>	<b>26</b>
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		71	

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Preferred Stock Warrants		54		
		Preferred Stock		1,000		1,170
Total Novasys Medical, Inc.				1,125		1,170
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015				
		Interest rate 8.0%	\$ 6,750	6,750		6,750
		Senior Debt Matures January 2015				
		Interest rate 10.50%	\$ 5,900	5,928		5,928
Total Pacific Child & Family Associates, LLC				12,678		12,678
<b>Total Therapeutic (6.65%)*</b>				26,788		24,366

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		\$ 147	\$
		Preferred Stock		177	7
<b>Total Cozi Group, Inc.</b>				<b>324</b>	<b>7</b>
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		56	117
		Preferred Stock Warrants		26	26
<b>Total Invoke Solutions, Inc.</b>				<b>82</b>	<b>143</b>
Prism Education Group Inc.	Internet Consumer & Business Services	Senior Debt			
		Matures December 2010			
		Interest rate 11.25%	\$ 609	601	601
		Preferred Stock Warrants		43	98
<b>Total Prism Education Group Inc.</b>				<b>644</b>	<b>699</b>
RazorGator Interactive Group, Inc. <sup>(4)</sup>	Internet Consumer & Business Services	Revolving Line of Credit			
		Matures October 2011			
		Interest rate Prime + 9.50% or			
		Floor rate of 14.00%	\$ 6,158	6,158	6,158
		Preferred Stock Warrants		13	582
		Preferred Stock Warrants		28	45
		Preferred Stock		1,000	452
<b>Total RazorGator Interactive Group, Inc.</b>				<b>7,199</b>	<b>7,237</b>
Spa Chakra Acquisition Corporation <sup>(7)</sup>	Internet Consumer & Business Services	Revolving Line of Credit			
		Matures April 2011			
		Interest rate Prime + 9.00% or			
		Floor rate of 12.50%	\$ 2,314	2,314	2,314
		Preferred Stock		15,037	10,000
<b>Total Spa Chakra Acquisition Corporation</b>				<b>17,351</b>	<b>12,314</b>



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

<b>Total Internet Consumer &amp; Business Services (5.57%)*</b>			25,600	20,400
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants	107	92
		Common Stock Warrants	48	
<b>Total Lilliputian Systems, Inc.</b>			155	92
<b>Total Energy (0.03%)*</b>			155	92
Box.net, Inc.	Information Services	Senior Debt Matures May 2011		
		Interest rate Prime + 1.50%	\$ 563	552
		Senior Debt Matures September 2011		
		Interest rate Prime + 0.50%	\$ 248	248
		Preferred Stock Warrants		73
<b>Total Box.net, Inc.</b>			873	995

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****March 31, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment</b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Buzznet, Inc.	Information Services	Preferred Stock Warrants		\$ 9	\$ 1
		Preferred Stock		250	74
<b>Total Buzznet, Inc.</b>				<b>259</b>	<b>75</b>
XL Education Corp.	Information Services	Common Stock		880	880
<b>Total XL Education Corp.</b>				<b>880</b>	<b>880</b>
hi5 Networks, Inc.	Information Services	Senior Debt Matures December 2010			
		Interest rate Prime + 2.5%	\$ 1,182	1,182	1,182
		Senior Debt Matures June 2011			
		Interest rate Prime + 0.5%	\$ 2,856	2,825	2,825
		Preferred Stock Warrants		212	
<b>Total hi5 Networks, Inc.</b>				<b>4,219</b>	<b>4,007</b>
Jab Wireless, Inc.	Information Services	Senior Debt Matures November 2012			
		Interest rate Prime + 3.50% or			
		Floor rate of 9.5%	\$ 14,375	14,603	14,603
		Revolving Line of Credit Matures October 2010			
		Interest rate Prime + 3.50% or			
		Floor rate of 9.5%	\$ 2,500	2,517	2,517
		Preferred Stock Warrants		265	158
<b>Total Jab Wireless, Inc.</b>				<b>17,385</b>	<b>17,278</b>
Solutionary, Inc.	Information Services	Preferred Stock Warrants		94	
		Preferred Stock Warrants		2	
		Preferred Stock		250	50
<b>Total Solutionary, Inc.</b>				<b>346</b>	<b>50</b>
Ancestry.com, Inc.	Information Services	Common Stock		452	1,348
<b>Total Ancestry.com</b>				<b>452</b>	<b>1,348</b>

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Intelligent Beauty, Inc.	Senior Debt Matures March 2013			
	Interest rate Prime + 8.0% or			
	Floor rate of 11.25%	\$ 6,000	6,000	6,000
Total Intelligent Beauty, Inc.			6,000	6,000
Good Technologies, Inc.	Information Services	Common Stock		
			603	603
Total Good Technologies, Inc.			603	603

See Notes to Consolidated Financial Statements

**Table of Contents**

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

**March 31, 2010**

**(unaudited)**

**(dollars in thousands)**

Portfolio Company	Industry	Type of Investment	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>
Coveroo, Inc.	Information Services	Preferred Stock Warrants		\$ 7	\$
Total Coveroo, Inc.				7	
Zeta Interactive Corporation	Information Services	Senior Debt Matures November 2012			
		Interest rate 10.0%	\$ 4,731	4,378	4,378
		Senior Debt Matures November 2012			
		Interest rate 12.0%	\$ 6,025	6,261	6,261
		Preferred Stock Warrants		172	
		Preferred Stock		500	310
Total Zeta Interactive Corporation				11,311	10,949
<b>Total Information Services (11.51%)*</b>				42,335	42,185
Novadaq Technologies, Inc. <sup>(5)</sup>	Diagnostic	Common Stock		1,474	497
Total Novadaq Technologies, Inc.				1,474	497
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures June 2011			
		Interest rate 10.25%	\$ 6,496	6,372	6,372
		Preferred Stock Warrants		761	168
		Preferred Stock		3,000	3,000
Total Optiscan Biomedical, Corp.				10,133	9,540
<b>Total Diagnostic (2.74%)*</b>				11,607	10,037
Kamada, LTD. <sup>(5)</sup>	Biotechnology Tools	Preferred Stock Warrants		159	310
		Common Stock		752	1,697
Total Kamada, LTD.				911	2,007
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures November 2012	\$ 3,500	3,347	3,347

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Interest rate Prime + 8.6% or		
		Floor rate of 11.85%		
		Common Stock Warrants	192	
Total Labcyte, Inc.			3,539	3,347
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	45	298
		Preferred Stock Warrants	33	24
		Preferred Stock	500	517
Total NuGEN Technologies, Inc.			578	839

See Notes to Consolidated Financial Statements

**Table of Contents**

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

**March 31, 2010**

**(unaudited)**

**(dollars in thousands)**

Portfolio Company	Industry	Type of Investment	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>
Solace Pharmaceuticals, Inc. <sup>(4)</sup>	Biotechnology Tools	Senior Debt			
		Matures August 2012			
		Interest rate Prime + 4.25% or			
		Floor rate of 9.85%	\$ 2,386	\$ 2,351	\$ 2,351
		Senior Debt			
		Matures August 2012			
		Interest rate 8.0%	\$ 250	250	250
		Preferred Stock Warrants		42	
		Preferred Stock Warrants		54	
Total Solace Pharmaceuticals, Inc.				2,697	2,601
<b>Total Biotechnology Tools (2.40%)*</b>				<b>7,725</b>	<b>8,794</b>
Crux Biomedical, Inc.	Surgical Devices	Preferred Stock Warrants		37	
		Preferred Stock		250	26
Total Crux Biomedical, Inc.				287	26
Transmedics, Inc.	Surgical Devices	Senior Debt			
		Matures February 2014			
		Interest rate Prime + 9.70% or			
		Floor rate of 12.95%	\$ 8,375	8,288	8,288
		Preferred Stock Warrants		225	
		Preferred Stock		1,100	1,100
Total Transmedics, Inc.				9,613	9,388
<b>Total Surgical Devices (2.57%)*</b>				<b>9,900</b>	<b>9,414</b>
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants		483	283
Total Glam Media, Inc.				483	283
Everyday Health (Waterfront Media)	Media/Content/Info	Preferred Stock Warrants		60	588
		Preferred Stock		1,000	1,500

## Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Total Everyday Health	1,060	2,088
<b>Total Media/Content/Info (0.65%)*</b>	<b>1,543</b>	<b>2,371</b>
Total Investments	389,904	379,973

\* Value as a percent of net assets

- (1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
- (2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$14,747, \$27,408 and \$12,661, respectively. The tax cost of investments is \$389,558.
- (3) Except for warrants in seven publicly traded companies and common stock in five publicly traded companies, all investments are restricted at March 31, 2010. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (5) Non-U.S. company or the company's principal place of business is outside the United States.
- (6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 5% but not more than 25% of the voting securities of the company.
- (7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns as least 25% or more of the voting securities of such company or has greater than 50% representation on its board.
- (8) Debt is on non-accrual status at March 31, 2010, and is therefore considered non-income producing.

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		\$ 69	\$ 1,157
		Preferred Stock Warrants		35	215
		Preferred Stock		1,243	2,508
Total Acceleron Pharmaceuticals, Inc.				1,347	3,880
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures May 2012			
		Interest rate 11.13%	\$ 14,564	14,509	14,509
		Preferred Stock Warrants		190	725
		Preferred Stock Warrants		104	219
Total Aveo Pharmaceuticals, Inc.				14,827	15,529
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures April 2012			
		Interest rate Prime + 9.20% or			
		Floor rate of 12.95%	\$ 6,603	6,434	6,434
		Preferred Stock Warrants		206	128
Total Dicerna Pharmaceuticals, Inc.				6,671	6,584
Elixir Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures October 2011			
		Interest rate Prime + 9.25% or			
Total Elixir Pharmaceuticals, Inc.				8,284	8,067
EpiCept Corporation	Drug Discovery	Common Stock Warrants		8	38
		Common Stock Warrants		40	201
		Total EpiCept Corporation			
Horizon Therapeutics, Inc.	Drug Discovery	Senior Debt			
		Matures July 2011			
		Interest rate Prime + 1.50%	\$ 4,699	4,638	4,638
Total Horizon Therapeutics, Inc.				4,869	4,638
Inotek Pharmaceuticals Corp.	Drug Discovery	Preferred Stock		1,500	353



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Total Inotek Pharmaceuticals Corp.			1,500	353
Merrimack Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	155	269
		Preferred Stock	2,000	1,699
Total Merrimack Pharmaceuticals, Inc.			2,155	1,968
Paratek Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	137	55
		Preferred Stock	1,000	1,000
Total Paratek Pharmaceuticals, Inc.			1,137	1,055

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Portola Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures April 2011 Interest rate Prime + 2.16%	\$ 6,666	\$ 6,667	\$ 6,671
		Preferred Stock Warrants		152	288
<b>Total Portola Pharmaceuticals, Inc.</b>				<b>6,819</b>	<b>6,959</b>
Recoly, N.V. <sup>(5)</sup>	Drug Discovery	Senior Debt Matures June 2012 Interest rate Prime + 4.25%	\$ 2,576	2,576	2,576
<b>Total Recoly, N.V.</b>				<b>2,576</b>	<b>2,576</b>
<b>Total Drug Discovery (14.15%)*</b>				<b>50,233</b>	<b>51,848</b>
Affinity Videonet, Inc. <sup>(4)</sup>	Communications & Networking	Senior Debt Matures June 2012 Interest rate Prime + 8.75% or Floor rate of 12.00%	\$ 2,318	2,326	2,326
		Senior Debt Matures June 2012 Interest rate Prime + 14.75% or Floor rate of 18.00%	\$ 2,000	2,052	2,052
		Revolving Line of Credit Matures June 2012 Interest rate Prime + 9.75% or Floor rate of 13.00%	\$ 500	500	500
		Preferred Stock Warrants		102	83
<b>Total Affinity Videonet, Inc.</b>				<b>4,980</b>	<b>4,961</b>
E-band Communications, Inc. <sup>(6)</sup>	Communications & Networking	Preferred Stock		2,880	2,274
<b>Total E-Band Communications, Inc.</b>				<b>2,880</b>	<b>2,274</b>
IKANO Communications, Inc.	Communications & Networking	Senior Debt Matures August 2011 Interest rate 12.00%	\$ 6,472	6,472	6,472
		Preferred Stock Warrants		45	
		Preferred Stock Warrants		72	

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Total IKANO Communications, Inc.			6,589	6,472
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	94	42
		Preferred Stock	250	247
Total Neonova Holding Company			344	289
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	95	
		Preferred Stock	1,000	800
Total Peerless Network, Inc.			1,095	800
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	52	168
Total Ping Identity Corporation			52	168

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		\$ 123	\$ 386
Total Purcell Systems, Inc.				123	386
Rivulet Communications, Inc. <sup>(4)</sup>	Communications & Networking	Senior Debt Matures March 2010 Interest rate Prime + 8.00% or Floor rate of 12%	\$ 1,063	1,060	1,060
		Preferred Stock Warrants		146	
		Common Stock		250	
Total Rivulet Communications, Inc.				1,456	1,060
Seven Networks, Inc.	Communications & Networking	Preferred Stock Warrants		174	11
Total Seven Networks, Inc.				174	11
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants		53	81
Total Stoke, Inc.				53	81
Tectura Corporation	Communications & Networking	Senior Debt Matures September 2010 Interest rate Prime + 10.75% or Floor rate of 14.00%	\$ 1,875	1,875	1,875
		Revolving Line of Credit Matures July 2011 Interest rate Prime + 10.75% or Floor rate of 14.00%	\$ 9,908	10,238	10,238
		Revolving Line of Credit Matures July 2011 Interest rate Prime + 10.75% or Floor rate of 14.00%	\$ 5,000	5,156	5,156
		Preferred Stock Warrants		51	
Total Tectura Corporation				17,320	17,269
Zayo Bandwidth, Inc.	Communications & Networking	Senior Debt Matures November 2013 Interest rate Libor + 5.25%	\$ 24,750	24,750	24,317
Total Zayo Bandwidth, Inc.				24,750	24,317

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

<b>Total Communications &amp; Networking (15.85%)*</b>			59,816	58,088
Atrenta, Inc.	Software	Preferred Stock Warrants	102	99
		Preferred Stock Warrants	34	32
		Preferred Stock Warrants	95	159
		Preferred Stock	250	375
<b>Total Atrenta, Inc.</b>			<b>481</b>	<b>665</b>

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Blurb, Inc.	Software	Senior Debt Matures June 2011 Interest rate Prime + 3.50% or Floor rate of 8.5%	\$ 3,329	\$ 3,234	\$ 3,234
		Preferred Stock Warrants		25	128
		Preferred Stock Warrants		299	69
Total Blurb, Inc.				3,558	3,431
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		188	116
Total Braxton Technologies, LLC.				188	116
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	248
Total Bullhorn, Inc.				43	248
Clickfox, Inc.	Software	Senior Debt Matures September 2011 Interest rate Prime + 5.00% or Floor rate of 10.25%	\$ 3,754	3,683	3,683
		Revolving Line of Credit Matures July 2010 Interest rate Prime + 8.50% or Floor rate of 13.5%	\$ 2,000	2,003	2,003
		Preferred Stock Warrants		177	143
Total Clickfox, Inc.				5,863	5,829
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		99	77
Total Forescout Technologies, Inc.				99	77
GameLogic, Inc.	Software	Preferred Stock Warrants		92	1
Total GameLogic, Inc.				92	1
HighJump Acquisition, LLC.	Software	Senior Debt Matures May 2013 Interest rate Libor + 8.75% or Floor rate of 12.00%	\$ 15,000	15,000	15,000
Total HighJump Acquisition, LLC.				15,000	15,000
HighRoads, Inc.	Software	Preferred Stock Warrants		44	13
Total HighRoads, Inc.				44	13
Infologix, Inc. <sup>(4)(7)</sup>	Software	Senior Debt Matures November 2013	\$ 5,500	5,500	5,500

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Interest rate 12.00%			
		Convertible Senior Debt			
		Matures November 2014			
		Interest rate 12.00%	\$ 5,000	5,004	10,060
		Revolving Line of Credit			
		Matures May 2011			
		Interest rate 12.00%	\$ 7,559	7,559	7,559
		Common Stock Warrants		760	1,494
		Common Stock		5,000	7,571
Total Infologix, Inc.				23,823	32,184
Intelliden, Inc.	Software	Preferred Stock Warrants		18	
Total Intelliden, Inc.				18	
PSS Systems, Inc.	Software	Preferred Stock Warrants		51	71
Total PSS Systems, Inc.				51	71
Rockyou, Inc.	Software	Preferred Stock Warrants		117	140
Total Rockyou, Inc.				117	140

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Savvion, Inc. <sup>(4)</sup>	Software	Senior Debt Matures February 2011 Interest rate Prime + 7.75% or Floor rate of 11.00%	\$ 2,117	\$ 2,065	\$ 2,065
		Revolving Line of Credit			
		Matures May 2010			
		Interest rate Prime + 6.75% or Floor rate of 10.00%	\$ 1,500	1,500	1,500
		Preferred Stock Warrants		52	183
Total Savvion, Inc.				3,617	3,748
Sportvision, Inc.	Software	Preferred Stock Warrants		39	47
Total Sportvision, Inc.				39	47
WildTangent, Inc.	Software	Preferred Stock Warrants		238	77
Total WildTangent, Inc.				238	77
<b>Total Software (16.82%)*</b>				<b>53,272</b>	<b>61,647</b>
Luminus Devices, Inc.	Electronics & Computer Hardware	Senior Debt Matures December 2011 Interest rate 12.875%	\$ 1,062	1,062	1,062
		Preferred Stock Warrants		183	
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		334	
Total Luminus Devices, Inc.				1,663	1,062
Maxvision Holding, LLC.	Electronics & Computer Hardware	Senior Debt Matures October 2012 Interest rate Prime + 5.50%	\$ 5,000	5,220	5,220
		Senior Debt Matures April 2012 Interest rate Prime + 2.25%	\$ 4,409	4,409	4,409
		Revolving Line of Credit Matures April 2012 Interest rate Prime + 2.25%	\$ 2,500	2,580	2,580
		Common Stock		81	170
Total Maxvision Holding, LLC				12,290	12,379
Shocking Technologies, Inc.	Electronics &	Senior Debt Matures December 2010 Interest rate Prime + 2.50%	\$ 1,867	1,858	1,858



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

	Computer Hardware				
		Preferred Stock Warrants		63	119
Total Shocking Technologies, Inc.				1,921	1,977
Spatial Photonics, Inc.	Electronics &	Senior Debt			
		Matures April 2011			
	Computer Hardware	Interest rate 10.066%	\$ 1,980	1,957	1,957
		Senior Debt			
		Mature April 2011			
		Interest rate 9.217%	\$ 197	197	197
		Preferred Stock Warrants		129	
		Preferred Stock		500	129
Total Spatial Photonics Inc.				2,783	2,283

See Notes to Consolidated Financial Statements

Table of Contents

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

(dollars in thousands)

Portfolio Company	Industry	Type of Investment <sup>(1)</sup>	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>		
VeriWave, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		\$ 54	\$		
		Preferred Stock Warrants		46			
Total VeriWave, Inc.				100			
<b>Total Electronics &amp; Computer Hardware (4.83%)*</b>				18,757	17,701		
Aegerion Pharmaceuticals, Inc. <sup>(4)</sup>	Specialty Pharmaceuticals	Senior Debt					
		Matures September 2011					
		Interest rate Prime + 2.50%					
		or					
		Floor rate of 11.00%	\$ 5,481	5,482	5,482		
		Convertible Senior Debt					
		Matures December 2010	\$ 279	279	279		
		Preferred Stock Warrants		69	253		
		Preferred Stock		1,000	1,019		
Total Aegerion Pharmaceuticals, Inc.				6,830	7,033		
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt					
		Matures October 2011					
		Interest rate Prime + 8.90%					
		or					
				Floor rate of 12.15%	\$ 15,417	15,299	15,299
				Convertible Senior Debt			
		Matures March 2010	\$ 1,888	1,888	2,861		
		Preferred Stock Warrants		220			
		Preferred Stock Warrants		307			
		Preferred Stock		750			
Total QuatRx Pharmaceuticals Company				18,464	18,160		
<b>Total Specialty Pharmaceuticals (6.87%)*</b>				25,294	25,193		
Annie s, Inc.	Consumer & Business Products	Senior Debt - Second Lien					
		Matures April 2011					
		Interest rate LIBOR + 6.50%					
		or					
		Floor rate of 10.00%	\$ 6,000	6,060	6,060		
		Preferred Stock Warrants		321	113		
Total Annie s, Inc.				6,381	6,173		
IPA Holdings, LLC. <sup>(4)</sup>	Consumer & Business Products	Senior Debt	\$ 9,500	9,633	9,633		
		Matures November 2012					
		Interest rate Prime + 8.25%					
		or					

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

	Floor rate of 12.5%			
	Senior Debt			
	Matures May 2013			
	Interest rate Prime + 11.25%			
	or			
	Floor rate of 15.5%	\$ 6,500	6,625	6,625
	Revolving Line of Credit			
	Matures November 2012			
	Interest rate Prime + 7.75%			
	or			
	Floor rate of 12.00%	\$ 856	856	856
	Common Stock Warrants		275	
	Common Stock		500	120
Total IPA Holding, LLC.			17,889	17,234

See Notes to Consolidated Financial Statements

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		\$ 24	\$
		Preferred Stock		500	267
Total Market Force Information, Inc.				524	267
OnTech Operations, Inc. <sup>(8)</sup>	Consumer & Business Products	Senior Debt			
		Matures June 2010			
		Interest rate 16.00%	\$ 106	106	
		Preferred Stock Warrants		452	
		Preferred Stock Warrants		218	
		Preferred Stock		1,000	
Total OnTech Operations, Inc.				1,776	
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		252	1,425
		Preferred Stock		250	368
Total Wageworks, Inc.				502	1,793
<b>Total Consumer &amp; Business Products (6.95%)*</b>				<b>27,072</b>	<b>25,467</b>
Custom One Design, Inc. <sup>(8)</sup>	Semiconductors	Senior Debt			
		Matures September 2010			
		Interest rate 11.50%	\$ 426	422	122
		Common Stock Warrants		18	
Total Custom One Design, Inc.				440	122
Enpirion, Inc.	Semiconductors	Senior Debt			
		Matures August 2011			
		Interest rate Prime + 2.00% or			
		Floor rate of 7.625%	\$ 5,094	5,055	5,053
		Preferred Stock Warrants		157	2
Total Enpirion, Inc.				5,212	5,055
iWatt Inc.	Semiconductors	Preferred Stock Warrants		628	
		Preferred Stock		490	950
Total iWatt Inc.				1,118	950
NEXX Systems, Inc. <sup>(4)</sup>	Semiconductors	Senior Debt			
		Matures March 2010			
		Interest rate Prime + 3.50% or			
		Floor rate of 11.25%	\$ 565	423	423
		Revolving Line of Credit	\$ 3,000	3,000	
		Matures June 2010			

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Interest rate Prime + 8.00% or  
Floor rate of 13.25%

3,000

Revolving Line of Credit  
Matures June 2010

Interest rate Prime + 8.00% or  
Floor rate of 14.00%

\$ 500 500 500

Preferred Stock Warrants 562 784

Preferred Stock 6 332

Total NEXX Systems, Inc.

4,491 5,039

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Quartics, Inc.	Semiconductors	Senior Debt Matures May 2010 Interest rate 10.00%	\$ 139	\$ 134	\$ 134
		Preferred Stock Warrants		53	
<b>Total Quartics, Inc.</b>				<b>187</b>	<b>134</b>
Solarflare Communications, Inc.	Semiconductors	Senior Debt Matures August 2010 Interest rate 11.75%	\$ 197	181	181
		Preferred Stock Warrants		83	
		Common Stock		641	
<b>Total Solarflare Communications, Inc.</b>				<b>905</b>	<b>181</b>
<b>Total Semiconductors (3.13%)*</b>				<b>12,353</b>	<b>11,481</b>
Labopharm USA, Inc. <sup>(5)</sup>	Drug Delivery	Senior Debt Matures June 2012 Interest rate 10.95%	\$ 20,000	19,718	19,718
		Common Stock Warrants		687	1,307
<b>Total Labopharm USA, Inc.</b>				<b>20,405</b>	<b>21,025</b>
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		36	94
		Common Stock Warrants		51	91
		Common Stock		500	283
<b>Total Transcept Pharmaceuticals, Inc.</b>				<b>587</b>	<b>468</b>
<b>Total Drug Delivery (5.86%)*</b>				<b>20,992</b>	<b>21,493</b>
BARRX Medical, Inc.	Therapeutic	Senior Debt Mature December 2011 Interest rate 11.00%	\$ 5,481	5,473	5,473
		Revolving Line of Credit			
		Matures May 2010			
		Interest rate 10.00%	\$ 1,000	1,000	1,000
		Preferred Stock Warrants		76	111
		Preferred Stock		1,500	2,303
<b>Total BARRX Medical, Inc.</b>				<b>8,050</b>	<b>8,887</b>
EKOS Corporation	Therapeutic	Senior Debt	\$ 2,677	2,629	2,630
		Matures November 2010			

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Interest rate Prime + 2.00%		
		Preferred Stock Warrants	175	
		Preferred Stock Warrants	153	
<b>Total EKOS Corporation</b>			<b>2,957</b>	<b>2,630</b>
Gelesis, Inc. <sup>(8)</sup>	Therapeutic	Senior Debt		
		Matures May 2012		
		Interest rate Prime + 7.5% or		
		Floor rate of 10.75%	\$ 2,847	2,814
		Preferred Stock Warrants		58
<b>Total Gelesis, Inc.</b>			<b>2,872</b>	
Gynesonics, Inc.	Therapeutic	Preferred Stock Warrants	18	5
		Preferred Stock	250	627
<b>Total Gynesonics, Inc.</b>			<b>268</b>	<b>632</b>

See Notes to Consolidated Financial Statements

Table of Contents

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2009

(dollars in thousands)

Portfolio Company	Industry	Type of Investment <sup>(1)</sup>	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		\$ 99	\$ 26
Total Light Science Oncology, Inc.				99	26
Novasys Medical, Inc. <sup>(4)</sup>	Therapeutic	Senior Debt Matures January 2010			
		Interest rate 9.70%	\$ 295	295	295
		Preferred Stock Warrants		71	
		Preferred Stock Warrants		54	
		Preferred Stock		1,000	1,000
Total Novasys Medical, Inc.				1,420	1,295
<b>Total Therapeutic (3.68%)*</b>				15,665	13,470
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		148	
		Preferred Stock		177	7
Total Cozi Group, Inc.				325	7
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		56	129
		Preferred Stock Warrants		26	29
Total Invoke Solutions, Inc.				82	158
Prism Education Group Inc.	Internet Consumer & Business Services	Senior Debt Matures December 2010			
		Interest rate 11.25%	\$ 801	789	790
		Preferred Stock Warrants		43	104
Total Prism Education Group Inc.				832	894
RazorGator Interactive Group, Inc. <sup>(4)</sup>	Internet Consumer & Business Services	Revolving Line of Credit Matures May 2010			
		Interest rate Prime + 6.00% or			
		Floor rate of 12.00%	\$ 10,000	10,000	10,000
		Preferred Stock Warrants		14	223
		Preferred Stock Warrants		28	33
		Preferred Stock		1,000	1,037



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Total RazorGator Interactive Group, Inc.				11,042	11,293
Spa Chakra, Inc. <sup>(8)</sup>		Senior Debt			
		Matures from December 2009 to October 2011			
	Internet Consumer & Business Services	Interest rate from 16.45% to 17%	\$ 12,482	12,778	8,000
		Preferred Stock Warrants		1	
Total Spa Chakra, Inc.				12,779	8,000
<b>Total Internet Consumer &amp; Business Services (5.55%)*</b>				25,060	20,352
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		107	104
		Common Stock Warrants		48	
Total Lilliputian Systems, Inc.				155	104
<b>Total Energy (0.03%)*</b>				155	104

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Box.net, Inc.	Information Services	Senior Debt Matures May 2011 Interest rate Prime + 1.50%	\$ 676	\$ 658	\$ 658
		Senior Debt Matures September 2011 Interest rate Prime + 0.50%	\$ 287	287	287
		Preferred Stock Warrants		73	53
Total Box.net, Inc.				1,018	998
Buzznet, Inc.	Information Services	Preferred Stock Warrants		9	9
		Preferred Stock		250	74
Total Buzznet, Inc.				259	74
XL Education Corp.	Information Services	Common Stock		880	880
Total XL Education Corp.				880	880
hi5 Networkss, Inc.	Information Services	Senior Debt Matures December 2010 Interest rate Prime + 2.5%	\$ 1,559	1,559	1,559
		Senior Debt Matures June 2011 Interest rate Prime + 0.5%	\$ 3,401	3,356	3,356
		Preferred Stock Warrants		213	
Total hi5 Networks, Inc.				5,128	4,915
Jab Wireless, Inc.	Information Services	Senior Debt Matures November 2012 Interest rate Prime + 3.50% or Floor rate of 9.5%	\$ 14,750	14,891	14,892
		Revolving Line of Credit Matures October 2010 Interest rate Prime + 3.50% or Floor rate of 9.5%	\$ 2,500	2,504	2,504
		Preferred Stock Warrants		265	151
Total Jab Wireless, Inc.				17,660	17,547
Solutionary, Inc.	Information Services	Preferred Stock Warrants		94	94
		Preferred Stock Warrants		2	2
		Preferred Stock		250	83
Total Solutionary, Inc.				346	83
Ancestry.com, Inc.	Information Services	Common Stock		452	880
Total Ancestry.com, Inc.				452	880

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Good Technologies, Inc.	Common Stock	603	603
Total Good Technologies Inc.		603	603
Coveroo, Inc.	Information Services Preferred Stock Warrants	7	
Total Coveroo, Inc.		7	

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Zeta Interactive Corporation	Information Services	Senior Debt Matures November 2012 Interest rate 9.50%	\$ 4,731	\$ 4,732	\$ 4,731
		Senior Debt Matures November 2012 Interest rate 10.50%	\$ 6,484	6,719	6,719
		Preferred Stock Warrants		172	
		Preferred Stock		500	310
<b>Total Zeta Interactive Corporation</b>				<b>12,123</b>	<b>11,760</b>
<b>Total Information Services (10.30%)*</b>				<b>38,476</b>	<b>37,740</b>
Novadaq Technologies, Inc. <sup>(5)</sup>	Diagnostic	Common Stock		1,567	542
<b>Total Novadaq Technologies, Inc.</b>				<b>1,567</b>	<b>542</b>
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures June 2011 Interest rate 10.25%	\$ 7,696	7,516	7,515
		Preferred Stock Warrants		760	342
		Preferred Stock		3,000	3,000
<b>Total Optiscan Biomedical, Corp.</b>				<b>11,276</b>	<b>10,857</b>
<b>Total Diagnostic (3.11%)*</b>				<b>12,843</b>	<b>11,399</b>
Kamada, LTD. <sup>(5)</sup>	Biotechnology Tools	Common Stock Warrants		159	149
		Common Stock		794	1,161
<b>Total Kamada, LTD.</b>				<b>953</b>	<b>1,310</b>
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures November 2012 Interest rate Prime + 8.6% or Floor rate of 11.85%	\$ 3,500	3,323	3,323
		Common Stock Warrants		192	235
<b>Total Labcyte, Inc.</b>				<b>3,515</b>	<b>3,558</b>
NuGEN Technologies, Inc.	Biotechnology Tools	Senior Debt Matures November 2010 Interest rate Prime + 3.45% or Floor rate of 6.75%	\$ 785	780	780
		Senior Debt Matures November 2010 Interest rate Prime + 1.70% or	\$ 442	442	442

Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

		Floor rate of 6.75%			
		Preferred Stock Warrants	45	391	
		Preferred Stock Warrants	33	41	
		Preferred Stock	500	587	
Total NuGEN Technologies, Inc.			1,800	2,241	
Solace Pharmaceuticals, Inc. <sup>(4)</sup>	Biotechnology Tools	Senior Debt			
		Matures August 2012			
		Interest rate Prime + 4.25% or			
		Floor rate of 9.85%	\$ 2,617	2,560	2,560
		Preferred Stock Warrants		42	
		Preferred Stock Warrants		54	
Total Solace Pharmaceuticals, Inc.			2,656	2,560	
<b>Total Biotechnology Tools (2.64%)*</b>			8,924	9,669	
Crux Biomedical, Inc.	Surgical Devices	Preferred Stock Warrants		37	
		Preferred Stock		250	26
Total Crux Biomedical, Inc.			287	26	

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2009****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Transmedics, Inc. <sup>(4)(8)</sup>	Surgical Devices	Senior Debt Matures December 2011 Interest rate Prime + 5.25% or Floor rate of 10.50%	\$ 9,475	\$ 9,384	\$ 2,384
		Preferred Stock Warrants		225	
<b>Total Transmedics, Inc.</b>				<b>9,609</b>	<b>2,384</b>
<b>Total Surgical Devices (0.66%)*</b>				<b>9,896</b>	<b>2,410</b>
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants		482	283
<b>Total Glam Media, Inc.</b>				<b>482</b>	<b>283</b>
Waterfront Media Inc.	Media/Content/Info	Preferred Stock Warrants		60	592
		Preferred Stock		1,000	1,500
<b>Total Waterfront Media Inc.</b>				<b>1,060</b>	<b>2,092</b>
<b>Total Media/Content/Info (0.65%)*</b>				<b>1,542</b>	<b>2,375</b>
<b>Total Investments</b>				<b>\$ 380,351</b>	<b>\$ 370,437</b>

\* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$17,409, \$30,495 and \$13,086, respectively. The tax cost of investments is \$379,600.

(3) Except for warrants in five publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2009. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

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

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

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

(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% or more of the voting securities of such company or has greater than 50% representation on its board.

(8) Debt is on non-accrual status at December 31, 2009, and is therefore considered non-income producing.

See Notes to Consolidated Financial Statements



**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

(in thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Investment income:</b>		
Interest income		
Non Control/Non Affiliate investments	\$ 10,430	\$ 17,823
Affiliate investments		153
Control investments	805	
<b>Total interest Income</b>	<b>11,235</b>	<b>17,976</b>
<b>Fees</b>		
Non Control/Non Affiliate investments	1,113	2,455
Affiliate investments		19
Control investments	172	
<b>Total fees</b>	<b>1,285</b>	<b>2,474</b>
<b>Total investment income</b>	<b>12,520</b>	<b>20,450</b>
<b>Operating expenses:</b>		
Interest	2,026	3,159
Loan fees	298	946
General and administrative	1,889	1,471
<b>Employee Compensation:</b>		
Compensation and benefits	2,238	2,884
Stock-based compensation	457	432
<b>Total employee compensation</b>	<b>2,695</b>	<b>3,316</b>
<b>Total operating expenses</b>	<b>6,908</b>	<b>8,892</b>
<b>Net investment income</b>	<b>5,612</b>	<b>11,558</b>
Net realized gain (loss) on investments	362	(1,146)
Net increase (decrease) in unrealized appreciation on investments	(260)	(5,930)
<b>Net realized and unrealized gain (loss)</b>	<b>102</b>	<b>(7,076)</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 5,714</b>	<b>\$ 4,482</b>
<b>Net investment income before investment gains and losses per common share:</b>		
Basic	\$ 0.16	\$ 0.35
Diluted	\$ 0.16	\$ 0.35
<b>Change in net assets per common share:</b>		
Basic	\$ 0.16	\$ 0.14



Edgar Filing: HERCULES TECHNOLOGY GROWTH CAPITAL INC - Form 10-Q

Diluted	\$ 0.16	\$ 0.14
Weighted average shares outstanding		
Basic	35,181	32,775
Diluted	35,813	32,798

See notes to Consolidated Financial Statements (unaudited).

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

	Common Stock		Capital in Excess of Par Value	Unrealized Accumulated Depreciation on Investments	Accumulated Realized Gains (Losses) on Investments	Distributions in Excess of Investment Income	Provision for Income Taxes on Investment Gains	Net Assets
	Shares	Par Value						
Balance at December 31, 2008	33,096	\$ 33	\$ 395,760	\$ (11,297)	\$ 3,906	\$ (5,602)	\$ (342)	\$ 382,458
Net increase in net assets resulting from operations				(5,930)	(1,146)	11,558		4,482
Issuance of common stock	2		13					13
Issuance of common stock under restricted stock plan	306							
Issuance of common stock as stock dividend	1,921	2	9,530					9,532
Dividends declared						(10,591)		(10,591)
Stock-based compensation			452					452
Balance at March 31, 2009	35,325	\$ 35	\$ 405,755	\$ (17,227)	\$ 2,760	\$ (4,635)	\$ (342)	\$ 386,346
Balance at December 31, 2009	35,634	\$ 35	\$ 409,036	\$ (10,028)	\$ (28,129)	\$ (4,057)	\$ (342)	\$ 366,515
Net increase (decrease) in net assets resulting from operations				(260)	362	5,612		5,714
Issuance of common stock	81		446					446
Issuance of common stock under restricted stock plan	491							
Acquisition of common stock under stock repurchase plan	(25)		(234)					(234)
Issuance of common stock under dividend reinvestment plan	67		620					620
Dividends declared						(7,130)		(7,130)
Stock-based compensation			481					481
Balance at March 31, 2010	36,248	\$ 35	\$ 410,349	\$ (10,288)	\$ (27,767)	\$ (5,575)	\$ (342)	\$ 366,412

See notes to Consolidated Financial Statements (unaudited)

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 5,714	\$ 4,482
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities:		
Purchase of investments	(88,108)	(48,648)
Principal payments received on investments	77,983	91,690
Proceeds from sale of investments	2,090	1,239
Net unrealized appreciation (depreciation) on investments	260	5,930
Net realized gain on investments	(362)	1,146
Accretion of paid-in-kind principal	(568)	(411)
Accretion of loan discounts	(588)	(2,445)
Accretion of loan exit fees	(568)	(225)
Depreciation	95	91
Stock-based compensation	176	452
Amortization of restricted stock grants	305	
Common stock issued in lieu of Director compensation		13
Amortization of deferred loan origination revenue	(639)	(1,647)
Change in operating assets and liabilities:		
Interest receivable	(614)	1,081
Prepaid expenses and other assets	(788)	1,036
Accounts payable	(112)	(330)
Income tax payable	8	(192)
Accrued liabilities	(7,764)	(4,915)
Deferred loan origination revenue	1,424	172
Net cash (used in) provided by operating activities	(12,056)	48,519
<b>Cash flows from investing activities:</b>		
Purchases of capital equipment	(50)	(13)
Other long-term assets	153	25
Net cash provided by (used in) investing activities	103	12
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net	383	
Stock repurchase program	(234)	
Dividends paid	(6,510)	(1,060)
Borrowings of credit facilities		53,858
Repayments of credit facilities		(110,687)
Fees paid for credit facilities and debentures	(376)	
Net cash provided by (used in) financing activities	(6,737)	(57,889)
Net increase (decrease) in cash	(18,690)	(9,358)
Cash and cash equivalents at beginning of period	124,828	17,242

Cash and cash equivalents at end of period	\$ 106,138	\$ 7,884
--	------------	----------

See Notes to Consolidated Financial Statements (unaudited).

**Table of Contents**

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development, from seed and emerging growth to expansion and established, which include select publicly listed companies and lower middle market companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts and Boulder, Colorado. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, (the Code). Effective January 1, 2006, the Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Code (see Note 4).

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

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

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2009. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

---

**Table of Contents****2. Valuation of Investments**

Our investments are carried at fair value in accordance with the Investment Act of 1948, (the 1948 Act ) Act and Accounting Standards Codification ( ASC ) topic 820 *Fair Value Measurements and Disclosures*. At March 31, 2010, approximately 76% of the Company's total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors in accordance with valuation procedures and the recommendation of the Valuation Committee of the Board of Directors. Since there is typically no readily available market value for the investments in the Company's portfolio, it values substantially all of its investments at fair value as determined in good faith by its Board of Directors pursuant to a consistent valuation policy and a consistent valuation process in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board of Directors may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

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

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

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

In accordance with ASC 820, the Company has considered the principal market, or the market in which it exits its portfolio investments with the greatest volume and level of activity. ASC 820 requires that the portfolio investment is assumed to be sold in the principal market to market participants, or in the absence of a principal

## **Table of Contents**

market, the most advantageous market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. The Company believes that the market participants for its investments are primarily other technology-related companies. Such participants acquire the Company's investments in order to gain access to the underlying assets of the portfolio company. As such, the Company believes the estimated value of the collateral of the portfolio company, up to the cost value of the investment, represents the fair value of the investment.

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

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

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

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

An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower's ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, unrealized appreciation is recorded when the investment has

**Table of Contents**

appreciated in value. Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer's earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors.

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

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

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of March 31, 2010 and as of December 31, 2009:

<b>Investments at Fair Value as of March 31, 2010</b>				
(in thousands)	March 31, 2010	Quoted Prices In	Significant	Significant
		Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Description</b>				
Senior secured debt	\$ 315,523	\$	\$	\$ 315,523
Senior debt-second lien	6,119			6,119
Preferred stock	34,102			34,102
Common stock	11,061	2,526	6,762	1,773
Warrants	13,168		3,159	10,009
	\$ 379,973	\$ 2,526	\$ 9,921	\$ 367,526

<b>Investments at Fair Value as of December 31, 2009</b>				
(in thousands)	December 31, 2009	Quoted Prices In	Significant	Significant
		Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Description</b>				
Senior secured debt	\$ 314,842	\$	\$	\$ 314,842
Senior debt-second lien	6,060			6,060
Preferred stock	22,875			22,875
Common stock	12,210	1,986	8,451	1,773
Warrants	14,450		3,374	11,076



\$ 370,437      \$ 1,986      \$ 11,825      \$ 356,626

**Table of Contents**

The table below presents a reconciliation for all financial assets measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and as of December 31, 2009:

(in thousands)	Balance, January 1, 2010	Net Realized Gains (losses) <sup>(1)</sup>	Net change in unrealized appreciation or depreciation <sup>(2)</sup>	Purchases, sales, repayments, and exit, net	Transfer in & out of Level 3	Balances, March 31, 2010
Senior Debt	\$ 314,842	\$ 579	\$ 6,974	\$ (6,872)	\$	\$ 315,523
Senior Debt-Second Lien	6,060			59		6,119
Preferred Stock	22,875		(5,180)	16,407		34,102
Common Stock	1,773			0		1,773
Warrants	11,076	(514)	466	0	(1,019)	10,009
Total	\$ 356,626	\$ 65	\$ 2,260	\$ 9,594	\$ (1,019)	\$ 367,526

(in thousands)	Balance, January 1, 2009	Net Realized Gains (losses) <sup>(1)</sup>	Net change in unrealized appreciation or depreciation <sup>(2)</sup>	Purchases, sales, repayments, and exit, net	Transfer in & out of Level 3	Balances, December 31, 2009
Senior Debt	\$ 534,230	\$ (27,192)	\$ 4,698	\$ (196,894)	\$	\$ 314,842
Senior Debt-Second Lien	5,824			236		6,060
Preferred Stock	21,249	(3,000)	4,373	661	(408)	22,875
Common Stock	1,894	(105)	(749)	1,204	(471)	1,773
Warrants	14,952	(1,150)	(4,116)	1,390		11,076
Total	\$ 578,149	\$ (31,447)	\$ 4,206	\$ (193,403)	\$ (879)	\$ 356,626

<sup>(1)</sup> Includes net realized gains (losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.

<sup>(2)</sup> Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statements of operations.

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

At March 31, 2010, the Company had investments in two portfolio companies deemed to be Control Investments. Approximately \$821,000 and \$156,000 in investment income was derived from our debt investments in these Software and Internet Consumer and Business Services portfolio companies, respectively. Approximately \$1,000 of realized losses related to Control Investments was recognized during the quarter ended March 31, 2010. The Company recognized net unrealized depreciation of approximately \$3.4 million on control investments during the quarter ended March 31, 2010. As of March 31, 2009, no portfolio companies were deemed to be Control Investments.

At March 31, 2010, the Company had an investment in one portfolio company deemed to be an Affiliate. No income was derived from this investment as this is a non-income producing equity investment. At March 31, 2009,

**Table of Contents**

the Company had three portfolio companies deemed to be Affiliates. For the quarter ended March 31, 2009, income derived from these investments was approximately \$153,000. One company that was an Affiliate as of March 31, 2009 performed a capital raise in 2009 which resulted in our ownership percentage decreasing to less than 5% of the voting securities in the portfolio company. As a result, this portfolio company is no longer considered an Affiliate for reporting purposes. We recognized a realized loss of approximately \$4.0 million in the second quarter of 2009 in a portfolio company that was an Affiliate prior to the disposal of the investment. During the quarters ended March 31, 2010 and 2009, we recognized net unrealized depreciation of approximately \$52,000 and \$867,000, respectively, related to Affiliates.

A summary of the composition of the Company's investment portfolio as of March 31, 2010 and December 31, 2009 at fair value is shown as follows:

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 250,459	65.9%	\$ 229,454	61.9%
Senior secured debt	78,147	20.6%	99,725	26.9%
Preferred stock	34,102	9.0%	22,875	6.2%
Senior debt-second lien with warrants	6,204	1.6%	6,173	1.7%
Common Stock	11,061	2.9%	12,210	3.3%
	\$ 379,973	100.0%	\$ 370,437	100%

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

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 356,994	94.0%	\$ 344,984	93.1%
Canada	20,972	5.5%	21,567	5.8%
Israel	2,007	0.5%	1,310	0.4%
Netherlands		%	2,576	0.7%
	\$ 379,973	100.0%	\$ 370,437	100%

**Table of Contents**

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

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Software	\$ 58,147	15.3%	\$ 61,647	16.6%
Consumer & Business Products	51,118	13.5%	25,467	6.9%
Drug Discovery	49,348	13.0%	51,848	14.0%
Information Services	42,185	11.1%	37,740	10.2%
Communications & Networking	30,790	8.1%	58,088	15.7%
Therapeutic	24,366	6.4%	13,470	3.6%
Specialty Pharma	23,028	6.1%	25,193	6.8%
Drug Delivery	20,903	5.5%	21,493	5.8%
Internet Consumer & Business Services	20,400	5.4%	20,352	5.5%
Electronics & Computer Hardware	16,900	4.4%	17,701	4.8%
Semiconductors	12,079	3.2%	11,481	3.1%
Diagnostic	10,037	2.6%	11,399	3.1%
Surgical Devices	9,414	2.5%	2,410	0.7%
Biotechnology Tools	8,795	2.3%	9,669	2.6%
Media/Content/Info	2,371	0.6%	2,375	0.6%
Energy	92	%	104	%
	\$ 379,973	100%	\$ 370,437	100%

During the three-month periods ended March 31, 2010 and 2009, the Company made investments in debt securities totaling approximately \$87.3 million and \$48.6 million, respectively, and funded equity investments of approximately \$16.1 million in the three-month periods ended March 31, 2010, including restructured loans. The Company did not fund any equity investments in the three months ended March 31, 2009.

During the three-month period ended March 31, 2010, the Company recognized net realized gains of approximately \$151,000 from the sale of common stock in public companies, approximately \$644,000 from mergers of private portfolio companies and realized losses of approximately \$433,000 from equity and warrant investments in portfolio companies that have been liquidated. During the three-month period ended March 31, 2009, the Company recognized realized gains of approximately \$700,000 from sale of common and preferred stock in two portfolio companies and realized losses on warrants of portfolio companies that had been acquired of approximately \$1.8 million.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately \$3.2 million and \$2.4 million of unamortized fees at March 31, 2010 and December 31, 2009, respectively and approximately \$7.1 million and \$6.6 million in exit fees receivable at March 31, 2010 and December 31, 2009, respectively.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately \$568,000 and \$477,000 in PIK income in the three-month period ended March 31, 2010 and 2009, respectively.

---

**Table of Contents**

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 March 31, 2010, approximately 74.2% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 23.9% of portfolio company loans were prohibited from pledging or encumbering their intellectual property and 1.9% of portfolio company loans had a second lien facility.

**3. Fair Value of Financial Instruments**

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The SBIC debentures remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of its SBIC debentures would be approximately \$142.2 million, compared to the carrying amount of \$130.6 million as of March 31, 2010.

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

**4. Borrowings*****Credit Facility***

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the "Credit Facility") with Citigroup Global Markets Realty Corp. (Citigroup) and Deutsche Bank Securities which expired under the normal terms. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the "Maximum Participation Limit"). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$430,000 as of March 31, 2010 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

***Long-term SBA Debentures***

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. As of March 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. With the Company's net investment of \$68.55 million in HT II as of March 31, 2010, HT II has the current

**Table of Contents**

capacity to issue a total of \$137.1 million of SBA guaranteed debentures, of which \$130.6 million was outstanding. Currently, HT II has paid commitment fees of approximately \$1.4 million. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 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 subsidiary HT II, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

Through our wholly-owned subsidiary HT II, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments. HT II is periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. As of March 31, 2010, HT II could draw up to \$137.1 million of leverage from the SBA as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 4.233% to 5.725%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee related to HT II debentures that pooled on September 23, 2009 was 0.406%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended March 31, 2010 was approximately \$130.6 million and the average interest rate was approximately 6.27%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

The American Recovery and Reinvestment Act of 2009 (the Federal Stimulus Bill) includes a provision, which allows for existing SBIC entities to obtain a second license and gain access to additional leverage of up to \$75 million, for a maximum of \$225.0 million combined SBIC leverage (subject to additional required capitalization of its second wholly owned SBIC subsidiary). Hercules has filed an application for a second SBIC license. In September 2009, the Company formed HT III for the purposes of obtaining a second SBIC license. In April 2010, the Company received the approval of the Divisional Licensing Committee of the SBA for a second SBIC license. Upon final approval by the Agency Committee of the SBA, which is expected in May 2010, the second SBIC license would provide the Company with access to an additional \$75.0 million of SBIC debentures, subject to compliance with SBA regulations and an additional capital contribution by the Company of \$37.5 million into HT III, the Company's new SBIC subsidiary.

***Wells Facility***

On August 25, 2008, the Company, through a special purpose wholly-owned subsidiary of the Company, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of \$50 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to \$300 million if additional lenders are added to the syndicate. The Wells Facility expires in August 2011.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which was reduced to 0.3% on the one year anniversary of the credit facility. The Wells Facility

**Table of Contents**

is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. The Company has paid a total of approximately \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at March 31, 2010.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of \$250 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitment exceeds \$250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at March 31, 2010.

**Union Bank Facility**

On February 10, 2010, the Company entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). 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%. At March 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in the Company's portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

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

(in thousands)	March 31, 2010		December 31, 2009	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Union Bank Facility	\$ 20,000	\$	\$	\$
Wells Facility	50,000		50,000	
SBA Debenture	150,000	130,600	150,000	130,600
Total	\$ 220,000	\$ 130,600	\$ 200,000	\$ 130,600

**5. Income taxes**

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

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

Taxable income includes the Company's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net

**Table of Contents**

unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

For the quarter ended March 31, 2010, the Company declared a distribution of \$0.20 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company had determined the tax attributes of its distributions year-to-date as of March 31, 2010, approximately 89.9% would be from ordinary income and spill over earnings from 2009 and 10.1% would be a return of capital. However there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2010 distributions to shareholders will actually be.

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

Taxable income for the three-month periods ended March 31, 2010 and 2009 was approximately \$5.6 million or \$0.16 per share, and \$10.0 million or \$0.30 per share, respectively. Taxable net realized losses for the three-month periods ended March 31, 2010 were approximately \$6.6 million or approximately \$0.19 loss per share. Taxable net realized losses for the same period in 2009 were approximately \$270,000 or \$0.01 per share.

In accordance with RIC distribution rules, the Company is required to declare current year dividends to be paid from carried over excess taxable income from 2009 before the Company files its 2009 tax return in September 2010, and the Company must pay such dividends by December 31, 2010.

**6. Shareholders' Equity**

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

Common stock subject to future issuance is as follows:

	March 31, 2010	March 31, 2009
Stock options and warrants	5,086,021	4,964,818
Warrants issued in June 2004		283,614
Common stock reserved	5,086,021	5,248,432

In February 2010, the Board of Directors authorized a stock repurchase plan permitting the Company to repurchase up to \$35.0 million of its common stock. During the quarter ended March 31, 2010, the Company repurchased 25,125 shares of its common stock at a total cost of approximately \$234,000.



**Table of Contents****7. Equity Incentive Plan**

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

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the "2006 Plan" and, together with the 2004 Plan, the "Plans") for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company's Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission ("SEC") to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

On June 21, 2007, the shareholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company's stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by Hercules during the terms of the Plans. The proposed amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company's outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company's outstanding warrants, options and rights issued to Hercules directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

In conjunction with the amendment and in accordance with the exemptive order, on June 21, 2007 the Company made an automatic grant of shares of restricted common stock to Messrs. Badavas, Chow and Woodward, the independent members of its Board of Directors, in the amounts of 1,667, 1,667 and 3,334 shares, respectively. In May 2008, the Company issued restricted shares to Messrs. Badavas and Chow in the amount of 5,000 shares each. In June 2009, the Company issued 5,000 restricted stock shares to Mr. Woodward. The shares were issued pursuant to the 2006 Plan and vest 33% on an annual basis from the date of grant and deferred compensation cost will be recognized ratably over the three year vesting period.

A summary of common stock options and warrant activity under the Company's 2006 and 2004 Plans for the three months ended March 31, 2010 and 2009 is as follows:

	For the three month period ended March 31,			
	2010	2009	Common Stock Options	Five-Year Warrants
Outstanding at Beginning of Period	4,924,405	3,931,527		10,692
Granted	242,250	1,163,000		
Exercised	(80,634)			
Cancelled		140,401		
Outstanding at End of Period	5,086,021	4,954,126		10,692
Weighted-average exercise price	\$ 10.79	\$ 10.75		\$ 10.57

**Table of Contents**

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At March 31, 2010, options for approximately 3.5 million shares were exercisable at a weighted average exercise price of approximately \$12.18 per share with a weighted average remaining contractual term of 3.64 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the three-month periods ended March 31, 2010 and 2009 was approximately \$442,000 and \$447,000, respectively. During the three-month periods ended March 31, 2010 and 2009, approximately \$171,000 and \$251,000 of share-based cost was expensed, respectively. As of March 31, 2010, there was approximately \$1.3 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.2 years. The fair value of options granted is based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the three-month periods ended March 31, 2010 and 2009:

	2010	2009
Expected Volatility	46.39%	32%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	2.13% - 2.36%	1.86%

The following table summarizes stock options outstanding and exercisable at March 31, 2010:

(Dollars in thousands)	Options outstanding				Options exercisable			
	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
Range of exercise prices								
\$4.00 - \$6.60	1,063,395	5.97	\$ 6,776	4.22	312,645	5.97	\$ 1,994	4.21
\$6.70 - \$10.39	376,000	6.57	250	9.93	64,696	5.76	27	10.17
\$10.49 - \$15.00	3,646,626	3.69	24	12.80	3,140,955	3.36	4	13.01
\$4.00 - \$15.00	5,086,021	4.38	\$ 7,050	10.79	3,518,296	3.64	\$ 2,025	12.18

During the three months ended March 31, 2010 and 2009, respectively, the Company granted approximately 491,500 and 306,500 shares of restricted stock pursuant to the Plans. Each restricted stock award granted in 2009 and 2010 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. The restricted stock awarded in 2008 vests 25% annually on the anniversary date of the award. The value of the restricted stock was determined to be the Company's closing prices on March 16, 2010 and March 24, 2010, the date of the grants. During the three months ended March 31, 2010 and 2009 the Company recognized compensation expense related to restricted stock of approximately \$286,792 and \$201,000, respectively.

**8. Earnings Per Share**

In 2008, the FASB issued ASC 260, *Earnings Per Share* formerly known as FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Under this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, such as our restricted stock issued under the Plans, are considered participating securities for purposes of calculating change in net assets per share. Under the two-class method a portion of net increase in net assets resulting from operations is allocated to these participating securities and therefore is excluded from the calculation of change in net assets per share allocated to common stock, as shown in the table below. The standard was effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this standard beginning with financial statements ended March 31, 2009. The adoption of this standard did not result in a change to the previously reported basic change in net assets per share and diluted change in net assets per share.

**Table of Contents**

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

(in thousands, except per share data)	Quarter Ended March 31,	
	2010	2009
<b>Numerator</b>		
Net increase in net assets resulting from operations	\$ 5,714	\$ 4,482
Less: Dividends declared-common and restricted shares	7,130	10,592
Undistributed earnings	(1,416)	(6,110)
Undistributed earnings-common shares	(1,416)	(6,110)
Add: Dividend declared-common shares	7,031	10,519
<b>Numerator for basic and diluted change in net assets per common share</b>	<b>5,615</b>	<b>4,409</b>
<b>Denominator</b>		
<b>Basic weighted average common shares outstanding</b>	<b>35,181</b>	<b>32,775</b>
Common shares issuable	632	23
<b>Weighted average common shares outstanding assuming dilution</b>	<b>35,813</b>	<b>32,798</b>
<b>Change in net assets per common share</b>		
Basic	\$ 0.16	\$ 0.14
Diluted	\$ 0.16	\$ 0.14

The calculation of change in net assets per common share assuming dilution, excludes all anti-dilutive shares. For both the quarters ended March 31, 2010 and 2009, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 3.8 million shares.

**9. Related-Party Transactions**

In connection with the sale of public equity investments, during the three-month periods ended March 31, 2010 and 2009, the Company paid JMP Securities LLC approximately \$6,000 and \$15,000, respectively.

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

Following is a schedule of financial highlights for the three months ended March 31, 2009 and 2010:

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

	Three Months Ended March 31,	
	2010	2009
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 10.29	\$ 11.56
Net investment income <sup>(1)</sup>	0.16	0.35
Net realized gain (loss) on investments	0.01	(0.03)
Net unrealized appreciation (depreciation) on investments	(0.01)	(0.18)
Total from investment operations	0.16	0.14
Net increase/(decrease) in net assets from capital share transactions	(0.15)	(0.45)
Distributions	(0.20)	(0.32)
Stock-based compensation expense included in investment income <sup>(2)</sup>	0.01	0.01
Net asset value at end of period	\$ 10.11	\$ 10.94
<b>Ratios and supplemental data:</b>		
Per share market value at end of period	\$ 10.59	\$ 5.00
Total return	0.09% <sup>(3)</sup>	(34.08)% <sup>(3)</sup>
Shares outstanding at end of period	36,248	35,325
Weighted average number of common shares outstanding	35,181	32,775
Net assets at end of period	\$ 366,412	\$ 386,346
Ratio of operating expense to average net assets (annualized)	7.19%	9.20%
Ratio of net investment income before investment gains and losses to average net assets (annualized)	5.84%	11.96%
Average debt outstanding	\$ 130,600	\$ 194,282
Weighted average debt per common share	\$ 3.71	\$ 5.89
Portfolio turnover	0.20%	0.22%

(1) For the three months ended March 31 2010 and 2009, basic and diluted net investment income per share are calculated as net investment income divided by the basic and net diluted weighted average shares outstanding. Basic net investment income per share calculated under the two class method are \$0.16 and \$0.35 for the three months ended March 31, 2010 and 2009, respectively. Diluted net investment income per share calculated under the two class method are \$0.16 and \$0.14 for the three months ended March 31, 2010 and 2009, respectively.

(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

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



**Table of Contents****11. Commitments and Contingencies**

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans to the Company's portfolio companies. The balance of unused commitments to extend credit at March 31, 2010 totaled approximately \$20.0 million. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately \$90.0 million of non-binding term sheets outstanding. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately \$237,000 and \$251,000 during the three-month periods ended March 31, 2010 and 2009, respectively.

Future commitments under the credit facility and operating leases as of March 31, 2010 were as follows:

Contractual Obligations <sup>(1)(2)</sup>	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings <sup>(3)</sup>	\$ 130,600	\$	\$	\$	\$ 130,600
Operating Lease Obligations <sup>(4)</sup>	3,307	976	1,877	453	
<b>Total</b>	<b>\$ 133,907</b>	<b>\$ 976</b>	<b>\$ 1,877</b>	<b>\$ 453</b>	<b>\$ 130,600</b>

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

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

(3) Includes borrowings under the Wells Facility the Union Bank Facility and the SBA debentures. There were no outstanding borrowings under the Wells Facility or the Union Bank Facility at March 31, 2010.

(4) Long-term facility leases.

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

**12. Recent Accounting Pronouncements**

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

In February 2010, the FASB issued ASU 2010-09 to amend ASC 855 to address certain implementation issues, including (1) eliminating the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, (2) clarifying the period through which conduit bond obligors must evaluate subsequent events, and (3) refining the scope of the disclosure requirements for reissued financial statements. The adoption of this standard did not have a significant impact on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-01, *Accounting for Distributions to Shareholders with Components of Stock and Cash* (ASU 2010-01), which addresses the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can receive in the aggregate. ASU

**Table of Contents**

2010-01 clarifies that the stock portion of such a distribution is considered a share issuance reflected prospectively in earnings per share. ASU 2010-01 is effective for interim and annual periods ending after December 15, 2009 and should be applied on a prospective basis. We adopted the requirements of ASU 2010-01 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* ( ASU 2010-06 ), which amends ASC 820 and requires additional disclosure related to recurring and nonrecurring fair value measurements with respect to transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. The update also clarifies existing disclosure requirements related to the level of disaggregation and disclosure about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009 except for disclosures related to activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Management is currently evaluating the impact on our consolidated financial statements of adopting ASU 2010-06.

**Table of Contents**

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

***Forward-Looking Statements***

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

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

timing, form and amount of any dividend distributions;

impact of fluctuation of interest rates on our business;

valuation of our investments in portfolio companies;

our ability to access the debt and equity markets;

our future operating results;

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

our ability to recover unrealized losses;

the impact of investments that we expect to make;

our informal relationships with third parties;

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

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;



our regulatory structure and tax status;

our ability to operate as a business development company and a regulated investment company;

the adequacy of our cash resources and working capital; and

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

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this report, please see the discussion under Item 1A Risk Factors as well as Item 1A Risk Factors of our annual report of Form 10-K. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this report.

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this report. In addition to historical

## **Table of Contents**

information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Item 1A Risk Factors, Item 1A Risk Factors of our annual report on Form 10-K, and Forward-Looking Statements of this Item 2.

### *Overview*

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

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

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

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

**Table of Contents**

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

**Portfolio and Investment Activity**

The total value of our investment portfolio was \$380.0 million at March 31, 2010 as compared to \$370.4 million at December 31, 2009. During the quarter ended March 31, 2010 we made debt commitments totaling \$93.5 million and funded approximately \$87.3 million, respectively. Debt commitments for the quarter ended March 31, 2010 included commitments of approximately \$63.2 million to four new portfolio companies and \$30.3 million to eight existing companies. During the quarter ended March 31, 2010 we made and funded an equity commitment of \$1.1 million to one company. These commitments further diversify our portfolio by stage and industry sector. During the quarter ended March 31, 2009, we made debt commitments to eight portfolio companies totaling \$61.0 million and funded approximately \$48.6 million to nine companies. No equity investment was made during the quarter ended March 31, 2009. At March 31, 2010, we had unfunded contractual commitments of \$20.0 million to eight portfolio companies. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately \$90.0 million of non-binding term sheets outstanding to seven new companies and one existing company at March 31, 2010. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at March 31, 2010 was approximately \$ 321.6 million, compared to a fair value of approximately \$493.4 million at March 31, 2009. The fair value of the equity portfolio at March 31, 2010 and 2009 was approximately \$45.2 million and \$23.5 million, respectively. The fair value of our warrant portfolio at March 31, 2010 and 2009 was approximately \$13.2 million and \$15.9 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 quarter ended March 31, 2010, we received normal principal amortization repayments of \$26.7 million, and early repayments and working line of credit pay-downs totaling \$51.6 million. Total portfolio investment activity (exclusive of unearned income) as of the quarter ended March 31, 2010 and for the year ended December 31, 2009 is as follows:

(in millions)	March 31, 2010	December 31, 2009
Beginning Portfolio	\$ 370.4	\$ 581.3
Purchase of debt investments	87.3	95.5
Equity Investments	1.1	2.9
Sale of Investments	(1.7)	(36.5)
Principal payments received on investments	(26.7)	(110.6)
Early pay-offs and recoveries	(51.6)	(171.9)
Accretion of loan discounts and paid-in-kind principal	1.2	8.4
Net change in unrealized depreciation in investments		1.3
<b>Ending Portfolio</b>	<b>\$ 380.0</b>	<b>\$ 370.4</b>

**Table of Contents**

The high level of loan repayments we experienced during the quarter ended March 31, 2010 occurred at the beginning of the quarter while the increase in investment origination activity we experienced during the quarter occurred at the end of the quarter.

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

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 250,459	65.9%	\$ 229,454	61.9%
Senior secured debt	78,147	20.6%	99,725	26.9%
Preferred stock	34,102	9.0%	22,875	6.2%
Senior debt-second lien with warrants	6,204	1.6%	6,173	1.7%
Common Stock	11,061	2.9%	12,210	3.3%
	\$ 379,973	100.0%	\$ 370,437	100%

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

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 356,994	94.0%	\$ 344,984	93.1%
Canada	20,972	5.5%	21,567	5.8%
Israel	2,007	0.5%	1,310	0.4%
Netherlands			2,576	0.7%
	\$ 379,973	100.0%	\$ 370,437	100%

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

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

At March 31, 2010, we had investments in two portfolio companies deemed to be Control Investments. Approximately \$821,000 and \$156,000 in investment income was derived from our debt investments in these Software and Internet Consumer and Business Services portfolio companies, respectively. Approximately \$1,000 of realized losses related to Control Investments was recognized during the quarter ended March 31, 2010. We recognized net unrealized depreciation of approximately \$3.4 million on control investments during the quarter ended March 31, 2010. During the quarter ended March 31, 2009, no portfolio companies were deemed to be Control Investments.

**Table of Contents**

We currently hold a controlling interest in the following two portfolio companies:

InfoLogix, Inc., a public company, is a provider of enterprise mobility and radio frequency identification (RFID) solutions. Our investment in InfoLogix represents 8.9% of our total investments at March 31, 2010. We currently have a greater than 60% equity interest in InfoLogix and have representation on its board of directors. We also have a total debt investment of approximately \$26.2 million at fair value in InfoLogix. InfoLogix has received a delisting notification from the Nasdaq Stock Market which may impact our ability to divest ourselves of our equity investment in InfoLogix. We recognized approximately \$821,000 in income from InfoLogix during the first quarter of 2010.

Spa Chakra is one of the top spa operators in the world. Our investment in Spa Chakra represents 3.2% of our total investments at March 31, 2010. We currently own 100% of the outstanding stock in Spa Chakra and control its board of directors. We also have a debt investment at fair value of \$2.3 million in Spa Chakra. In connection with Spa Chakra's recent emergence from bankruptcy, we converted our debt position into an equity position and we expect to play an integral role in assisting Spa Chakra as it continues to operate and maintain normal business operations. We recognized approximately \$156,000 in income from Spa Chakra during the first quarter of 2010.

Our financial results could be negatively affected if either InfoLogix or Spa Chakra encounter financial difficulty and fail to repay their obligations or to perform as expected.

At March 31, 2010 we had an investment in one portfolio company deemed to be an Affiliate. Income derived from this investment was zero, as this is a non-income producing equity investment. At March 31, 2009, we had three portfolio companies deemed to be Affiliates. For the quarter ended March 31, 2009, income derived from these investments was approximately \$172,000. One company that was an Affiliate as of March 31, 2009 performed a capital raise in 2009 which resulted in our ownership percentage decreasing to less than 5% of the voting securities in the portfolio company. As a result, this portfolio company is no longer an Affiliate. We recognized a realized loss of approximately \$4.0 million in the second quarter of 2009 in a portfolio company that was an Affiliate prior to the disposal of the investment. During the quarters ended March 31, 2010 and 2009, we recognized net unrealized depreciation of approximately \$52,000 and \$867,000, respectively, related to Affiliates.

**Table of Contents**

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

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Software	\$ 58,147	15.3%	\$ 61,647	16.6%
Consumer & Business Products	51,118	13.5%	25,467	6.9%
Drug Discovery	49,348	13.0%	51,848	14.0%
Information Services	42,185	11.1%	37,740	10.2%
Communications & Networking	30,790	8.1%	58,088	15.7%
Therapeutic	24,366	6.4%	13,470	3.6%
Specialty Pharma	23,028	6.1%	25,193	6.8%
Drug Delivery	20,903	5.5%	21,493	5.8%
Internet Consumer & Business Services	20,400	5.4%	20,352	5.5%
Electronics & Computer Hardware	16,900	4.4%	17,701	4.8%
Semiconductors	12,079	3.2%	11,481	3.1%
Diagnostic	10,037	2.6%	11,399	3.1%
Surgical Devices	9,414	2.5%	2,410	0.7%
Biotechnology Tools	8,795	2.3%	9,669	2.6%
Media/Content/Info	2,371	0.6%	2,375	0.6%
Energy	92	%	104	%
	\$ 379,973	100%	\$ 370,437	100%

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of March 31, 2010 and December 31, 2009.

(in thousands)	March 31, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
<b>Investment Grading</b>				
1	\$ 53,641	16.7%	\$ 15,777	4.9%
2	152,209	47.3%	147,520	46.0%
3	80,888	25.1%	108,716	33.9%
4	32,936	10.3%	38,384	12.0%
5	1,967	0.6%	10,505	3.2%
	\$ 321,641	100.0%	\$ 320,902	100.0%

As of March 31, 2010, our investments had a weighted average investment grading of 2.35 as compared to 2.71 at December 31, 2009. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At March 31, 2010, 11 portfolio companies were graded 3, 4 portfolio companies were graded 4, and 3 portfolio companies were graded 5 as compared to 17 portfolio companies that were graded 3, 4 portfolio companies that were graded 4 and 5 portfolio companies that were graded 5 at December 31, 2009. The improvement in investment grading for the quarter ended March 31, 2010 was driven in part by meaningful progress in the economy and among our portfolio companies, many of which have experienced improved operating performance and greater access to the venture capital market as they secure new equity financings.



## **Table of Contents**

At March 31, 2010, there was one portfolio company on non-accrual status with a fair value of \$0. There were five loans on non-accrual status as of December 31, 2009 with a fair value of approximately \$10.5 million. In general, interest is not accrued on loans and debt securities if we have doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. To the extent interest payments are received on a loan that is not accruing interest, we may use such payments to reduce our cost basis in the investment in lieu of recognizing interest income.

The effective yield on our debt investments for the quarters ended March 31, 2010 and December 31, 2009 was 14.5% and 13.3%, respectively. The increase in the effective yield is primarily attributed to the lower weighted average loan balance from the fourth quarter of 2009. This decline is related to the quarterly decrease in non-accrual loans, the timing of early repayments and the late quarter timing of new debt investments in 2010.

The overall weighted average yield to maturity of our loan obligations was approximately 14.1% at March 31, 2010 as compared to 13.6% as of December 31, 2009, attributed to higher interest rates on new loans and loans refinanced in the first three months of 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 18% as of March 31, 2010. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In most cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property.

At March 31, 2010, approximately 74.2% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 23.9% of portfolio company loans were prohibited from pledging or encumbering their intellectual property and 1.9% of portfolio company loans had a second lien facility. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of March 31, 2010, we held warrants in 77 technology and life science portfolio companies, with a fair value of approximately \$13.2 million. These warrant holdings would require us to invest approximately \$49.0 million to exercise such warrants. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.



---

**Table of Contents*****Results of Operations***

*Comparison of the Three Month Periods Ended March 31, 2010 and 2009*

***Operating Income***

Interest income totaled approximately \$11.2 million for the quarter ended March 31, 2010, compared with \$18.0 million for the quarter ended March 31, 2009, respectively. Income from commitment, facility and loan related fees totaled approximately \$1.3 million and \$2.5 million for the quarters ended March 31, 2010 and March 31, 2009, respectively. The decreases in interest income and income from commitment, facility and loan related fees are the result of a reduction in accelerated one-time and restructuring fees, attributable to significant improvement in credit performance in the portfolio as a result of overall credit improvement in the debt portfolio and a lower average interest earning investment portfolio and due to a lower average interest earning investment portfolio.

***Operating Expenses***

Operating expenses totaled approximately \$6.9 million and \$8.9 million during the quarter ended March 31, 2010 and 2009, respectively. Operating expenses for the three months ended March 31, 2010 and 2009 included interest expense, loan fees and unused commitment fees of approximately \$2.3 million and \$4.1 million, respectively. The 44% decrease in interest and loan fee expenses relates to a lower average outstanding debt balance of \$130.6 million during the first quarter of 2010 as compared to \$194.3 million in the first quarter of 2009.

Employee compensation and benefits were lower at \$2.2 million compared to \$2.9 million during the quarters ended March 31, 2010 and 2009, respectively. This decrease is primarily attributable to a lower bonus accrued in the quarter ended March 31, 2010. General and administrative expenses which include legal, consulting and accounting fees, insurance premiums, rent and various other expenses increased to \$1.9 million for the quarter March 31, 2010 compared to \$1.5 million during the quarter ended March 31, 2009. The increase quarter over quarter is attributed primarily to higher work out related expenses. In addition, we incurred approximately \$457,000 of stock compensation expense in the first quarter of 2010 as compared to \$432,000 in the first quarter of 2009. The increase was due to additional option and restricted stock grants made in 2009 and the first quarter of 2010.

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

Net investment income per share was \$0.16 for the quarter ended March 31 2010 compared to \$0.35 per share in the quarter ended March 31 2009. Net investment income before investment gains and losses for the three months ended March 31, 2010 totaled \$5.6 million as compared to \$11.6 million in the quarter ended March 31, 2009. The changes are made up of the items described above under Operating Income and Operating Expenses.

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

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 quarter ended March 31, 2010, the Company recognized net realized gains of approximately \$151,000 from the sale of common stock in public companies, approximately \$644,000 from merges of private portfolio companies and realized losses of approximately \$433,000 from equity and warrant investments in portfolio companies that have been liquidated. During the quarter ended March 31, 2009, the Company recognized realized gains of approximately \$700,000 from sale of common and preferred stock in two portfolio companies and realized losses on warrants of portfolio companies that had been acquired of approximately \$1.8 million.

**Table of Contents**

A summary of realized gains and losses for the quarter ended March 31, 2010 and 2009 is as follows:

(in millions)	March 31, 2010	March 31, 2009
Realized gains	\$ 0.9	\$ 0.7
Realized losses	(0.5)	(1.8)
Net realized gains (losses)	\$ 0.4	\$ (1.1)

During the quarter ended March 31, 2010, unrealized appreciation totaled approximately \$10.6 million and during the quarter ended March 31, 2009, unrealized depreciation totaled approximately \$11.8 million. 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 carrying value of our portfolio companies due to company performance and market conditions. For the quarter ended March 31, 2010 approximately \$5.5 million of the net appreciation recognized was attributable to debt investments in our portfolio companies. The remaining appreciation was attributable to appreciation of approximately \$2.3 million equity investments and approximately \$1.8 million investment in warrants held in our portfolio companies. As of March 31, 2010, the net unrealized appreciation recognized by the Company was increased by approximately \$38,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

The following table itemizes the change in net unrealized depreciation of investments for the quarters ended March 31, 2009 and 2010:

(in thousands)	March 31, 2010		March 31, 2009	
	Companies	Amount	Companies	Amount
Gross unrealized appreciation on portfolio investments	27	\$ 10,596	37	\$ 4,175
Gross unrealized depreciation on portfolio investments	34	(11,823)	47	(11,417)
Reversal of prior period net unrealized appreciation upon realization		928		(700)
Reversal of prior period net unrealized depreciation upon realization				1,992
Citigroup Warrant Participation		38		20
Net unrealized appreciation (depreciation) on portfolio investments		\$ (260)		\$ (5,930)

**Income and Excise Taxes**

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

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

For the three months ended March 31, 2010, the net increase in net assets resulting from operations totaled approximately \$5.7 million compared to approximately \$4.5 million for the three months ended March 31, 2009. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were \$0.16 and \$0.16, respectively, for the three month period ended March 31, 2010, compared to both basic and fully diluted net change in net assets per common share of \$0.14 for the three month period ended March 31, 2009.

**Table of Contents****Financial Condition, Liquidity, and Capital Resources**

At March 31, 2010, we had approximately \$106.1 million in cash and cash equivalents and available borrowing capacity of approximately \$50.0 million under the Wells Facility, \$20.0 million under the Union Bank Facility and \$19.4 million under the SBA program, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

As of March 31, 2010, net assets totaled \$366.4 million, with a net asset value per share of \$10.11. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. Additionally, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2009 Annual Shareholder Meeting held on June 3, 2009, our shareholders authorized the Company, with the approval of its board of directors (the Board), to sell up to 20% of the Company's outstanding common stock at a price below the Company's then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of its common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. However, there can be no assurance that these capital resources will be available in the near term given the credit constraints of the banking and capital markets.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of March 31, 2010 was significantly above the required asset coverage ratio, excluding SBA leverage.

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

(in thousands)	March 31, 2010		December 31, 2009	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Union Bank Facility	\$ 20,000	\$	\$	\$
Wells Facility	50,000		50,000	
SBA Debenture	150,000	130,600	150,000	130,600
Total	\$ 220,000	\$ 130,600	\$ 200,000	\$ 130,600

On September 27, 2006, HT II received a license to operate as a Small Business Investment Company under the SBIC program and is able to borrow funds from the SBA against eligible previously approved investments and additional contributions to regulatory capital. The Company is the sole limited partner of HT II and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II is our wholly owned subsidiary.

With our net investment of \$68.55 million in HT II as of March 31, 2010, HT II has the current capacity to issue a total of \$137.1 million of SBA guaranteed debentures, of which \$130.6 million was outstanding. As of March 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures

## **Table of Contents**

issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. As of March 31, 2010, we hold investments in HT II in 35 companies with a fair value of approximately \$157.0 million. HT II's portfolio accounted for approximately 41.3% of our total portfolio at March 31, 2010.

The American Recovery and Reinvestment Act of 2009 (the Federal Stimulus Bill) includes a provision, which allows for existing SBIC entities to obtain a second license and gain access to additional leverage of up to \$75.0 million, for a maximum of \$225.0 million combined SBIC leverage (subject to additional required capitalization of its second wholly owned SBIC subsidiary). Hercules has filed an application for a second SBIC license. In September 2009, we formed HT III for the purpose of obtaining a second SBIC license. In April 2010, we received the approval of the Divisional Licensing Committee of the SBA for a second SBIC license. Upon final approval by the Agency Committee of the SBA, which is expected in May 2010, the second SBIC license would provide us with access to an additional \$75.0 million of SBIC debentures, subject to compliance with SBA regulations and an additional capital contribution by us of \$37.5 million into the HT III, the Company's new SBIC subsidiary.

### ***Current Market Conditions***

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

At the same time, the venture capital market for the technology-related companies in which we invest has been active but at reduced investment activity levels. Therefore, to the extent we have capital available; we believe this is an opportune time to invest in the structured lending market for technology-related companies. While today's economy creates potentially new attractive lending opportunities, our outlook remains cautious for at least the next two quarters as the economic environment recovers from the recession of the past 18 months. Due to the economic slowdown and reduced venture capital investment activity, we determined that it would be prudent to substantially curtail new investment activity in 2009 in order to have working capital available to support our existing portfolio companies. These changes were made to manage our credit performance, maintain adequate liquidity and manage our operating expenses in this extremely challenging and unprecedented credit environment.

Despite the current capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009, and would expect it to continue to the extent the venture capital community continues to accelerate its own pace of new investments. We are encouraged by signs of an improving economy, including improved valuations and higher levels of liquidity for our portfolio companies, increased investment activity from venture capitalists and the opening of the IPO marketplace. To the extent that we are able, we intend to seek new investment opportunities; however, we remain cautious and conservative in our investment and credit management strategies and we do not expect to see significant growth in the portfolio until the second half of 2010.

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

**Table of Contents****Off Balance Sheet Arrangements**

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our origination activity unfunded commitments may be significant from time to time. As of March 31, 2010, we had unfunded commitments of approximately \$20.0 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We intend to use cashflow from normal and early principal repayments, SBA debentures and our Wells Facility and our Union Bank Facility to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

**Contractual Obligations**

The following table shows our contractual obligations as of March 31, 2010:

Contractual Obligations <sup>(1)(2)</sup>	Total	Payments due by period (in thousands)			
		Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings <sup>(3)</sup>	\$ 130,600	\$ 0	\$ 0	\$ 0	\$ 130,600
Operating Lease Obligations <sup>(4)</sup>	3,307	976	1,877	453	0
<b>Total</b>	<b>\$ 133,907</b>	<b>\$ 976</b>	<b>\$ 1,877</b>	<b>\$ 453</b>	<b>\$ 130,600</b>

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

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

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

(4) Long-term facility leases.

**Borrowings**

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. which expired under the normal terms. During the first quarter of 2009, the Company paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$430,000 as of March 31, 2010 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

**Long-term SBA Debentures**

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible previously approved investments and additional contributions to

**Table of Contents**

regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of March 31, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA. With our net investment of \$68.55 million in HT II as of March 31, 2010, HT II has the current capacity to issue up to a total of \$137.1 million of SBA guaranteed debentures, of which \$130.6 million was outstanding. Currently, HT II has paid commitment fees of approximately \$1.4 million. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 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 subsidiary HT II, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II is periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. As of March 31, 2010, HT II could draw up to \$137.1 million of leverage from the SBA, as noted above. The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 4.233% to 5.725%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fee related to HT II debentures that pooled on September 23, 2009 was 0.406%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended March 31, 2010 was approximately \$130.6 million and the average interest rate was approximately 6.27%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Included in the Federal Stimulus Bill is a provision, which allows for existing SBIC entities to obtain a second license and gain access to additional leverage of up to \$75 million, for a maximum of \$225.0 million combined SBIC leverage (subject to additional required capitalization of its second wholly owned SBIC subsidiary). Hercules has filed an application for a second SBIC license. In September 2009, we formed HT III for the purpose of obtaining a second SBIC license. In April 2010, we received the approval of the Divisional Licensing Committee of the SBA for a second SBIC license. Upon final approval by the Agency Committee of the SBA, which is expected in May 2010, the second SBIC license would provide us with access to an additional \$75.0 million of SBIC debentures, subject to compliance with SBA regulations and an additional capital contribution by us of \$37.5 million into HT III, the Company's new SBIC subsidiary.

*Wells Facility*

On August 25, 2008, the Company, through a special purpose wholly-owned subsidiary of the Company, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of \$50 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to

**Table of Contents**

\$300 million if additional lenders are added to the syndicate. The Wells Facility was originally set to expire on August 25, 2010. In February 2010, the Company extended the maturity date to August 2011 under the same terms and conditions of the existing agreement.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which was reduced to 0.3% on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. We have paid a total of \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at March 31, 2010.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of \$250 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitments exceeds \$250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at March 31, 2010.

*Union Bank Facility*

On February 10, 2010, we entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility ). Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. At March 31, 2010, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

At March 31, 2010 and 2009, the Company had the following borrowing capacity and outstanding borrowings:

(in thousands)	March 31, 2010		December 31, 2009	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Union Bank Facility	\$ 20,000	\$	\$	\$
Wells Facility	50,000		50,000	
SBA Debenture	150,000	130,600	150,000	130,600
Total	\$ 220,000	\$ 130,600	\$ 200,000	\$ 130,600

**Table of Contents****Dividends**

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
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
			\$ 5.405

\* Dividend paid in cash and stock.

On May 6, 2010, the Board of Directors announced a cash dividend of \$0.20 per share that was paid on June 18, 2010 to shareholders on record as of May 12, 2010. This is the Company's nineteenth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.41 per share.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. If we had determined the tax attributes of its distributions year-to-date as of March 31, 2010, approximately 89.9% would be from ordinary income and spill over earnings from 2009 and 10.1% would be a return of capital. However there can be no certainty to stockholders that this determination is representative of what the tax attributes of its 2010 distributions to stockholders will actually be.

**Critical Accounting Policies**

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





## **Table of Contents**

### *Valuation of Portfolio Investments.*

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

At March 31, 2010 approximately 76% of our total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors in accordance with established valuation procedures and the recommendation of the Valuation Committee of the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our board pursuant to a valuation policy and a consistent valuation process. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

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

As a business development company, we invest primarily in illiquid securities including debt and equity related securities of private companies. Our investments are generally subject to some restrictions on resale and generally have no established trading market. Because of the type of investments that we make and the nature of our business, our valuation process requires an analysis of various factors. Our valuation methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation, estimated remaining life, and interest rate spreads of similar securities as of the measurement date. If there is a significant deterioration of the credit quality of a debt investment, we may consider other factors that a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

With respect to private debt and equity securities, each investment is valued using industry valuation benchmarks, and, where appropriate, the value is assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation. We periodically review the valuation of our portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date. We may consider, but are not limited to, industry valuation methods such as price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks in our evaluation of the fair value of our investment. Securities that are traded in the over-the-counter market or on a stock exchange will be valued at the prevailing bid price on the valuation date.

## **Table of Contents**

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

### *Income Recognition.*

Interest income is recorded on the accrual basis and is recognized as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount, ( *OID* ), initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will, as a general matter, place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of March 31, 2010, we had one loan on non-accrual with a fair value of zero. There was one loan on non-accrual status as of March 31, 2009 with a fair value of approximately \$1.5 million.

### *Paid-In-Kind and End of Term Income.*

Contractual paid-in-kind ( *PIK* ) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing *PIK* interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, *PIK* and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the three-month periods ended March 31, 2010 and 2009, approximately \$1.7 million and \$1.7 million in *PIK* and end of term income was recorded.

### *Fee Income.*

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

### *Stock-Based Compensation.*

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

### *Federal Income Taxes.*

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To

**Table of Contents**

qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98% of our capital gain net income for each 1 year period ending on October 31. At December 31, 2009, no excise tax was recorded. At December 31, 2008, we recorded a liability for excise tax of approximately \$203,000 on income and capital gains of approximately \$5.0 million which was distributed in 2009. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

*Subsequent Events*

In April 2010, Hercules was approved by the Divisional Licensing Committee for a second SBIC license. Upon final approval by the Agency Committee of the SBA, which is expected in May, the second SBIC license would provide the Company with access to an additional \$75.0 million of SBIC debentures, subject to compliance with SBA regulations and an additional capital contribution by Hercules of \$37.5 million into the new SBIC subsidiary. To date, Hercules has invested \$2.5 million of regulatory capital into this new facility.

InfoLogix, a control portfolio company, received a staff determination letter from the Nasdaq Stock Market ( Nasdaq ) regarding the company's non-compliance with the Nasdaq continued listing standards. Nasdaq is reviewing the delisting of InfoLogix's securities and InfoLogix has requested a hearing before Nasdaq Listing Qualifications Panel. Its common stock will remain listed pending the issuance of a decision. There can be no assurance that InfoLogix's securities will remain listed on Nasdaq. If InfoLogix's securities are delisted, it may impact our ability to divest of our equity investment in InfoLogix and potentially impact the carrying value of our investment in InfoLogix.

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

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

As of March 31, 2010, approximately 69.8% of our portfolio loans were at floating rates or floating with a floor and 30.2% of our loans were at fixed rates. Over time additional investments may be at floating rates. We may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. Interest rates on our borrowings are based primarily on LIBOR.

Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 4.233% to 5.725%. 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

## **Table of Contents**

the date that the leverage was drawn by the SBIC. The annual fee on HT II debentures that pooled on September 23, 2009 was 0.406%. The annual fees on other debentures have been set at 0.906%. Interest is payable semi-annually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which reduces to 0.3% on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investment in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity, which includes the extension if exercised. There were no borrowings outstanding under this facility at March 31, 2010. In February 2010 the facility was extended an additional year to August 2011 under the same terms and conditions.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility requires the payment of a unused fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. There were no outstanding borrowings under this facility at March 31, 2010.

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

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

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

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

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

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

**Table of Contents**

**PART II: OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

At March 31, 2010, we were not a party to any legal proceedings. However, from time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**ITEM 1A. RISK FACTORS**

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

Despite the capital market disruption and recession, venture capitalists increased their investment activity during the second half of 2009. As a result of this favorable level of venture capital investment activities, we continue to experience an increase in new investment origination activities which commenced in the fourth quarter of 2009, and we expect it to continue as the venture capital community continues to make new investments. To the extent that we are able, we intend to seek new investment opportunities; however, we remain cautious and conservative in our investment and credit management strategies and we do not expect to see any significant balance sheet loan portfolio growth until the second half of 2010 or beyond.

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

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

**Table of Contents**

*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 March 31, 2010 that represent greater than 5% of net assets:

(in thousands)	March 31, 2010	
	Fair Value	Percentage of Net Assets
Infologix, Inc.	32,709	8.9%
Velocity Technology Solutions	25,006	6.8%
Labopharm USA, Inc.	20,475	5.6%

InfoLogix, Inc. is a provider of enterprise mobility and radio frequency identification (RFID) solutions. The Company provides these solutions to its customers by utilizing a combination of products and services, including consulting, business software applications, managed services, mobile workstations and devices, and wireless infrastructure. At March 31, 2010 we owned a controlling interest in this portfolio company.

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

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

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

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

Since the nation entered into a recession in late 2007, the stock market has declined, many financial institutions have failed, the availability of debt and equity capital became severely constrained, unemployment rose and consumer confidence eroded significantly, all of which led to a decline in consumer spending. The U.S. government has acted to restore liquidity and stability to the financial system, but there can be no assurance these regulatory programs and proposals will have a long-term beneficial impact. In the event of renewed financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity and extreme volatility in fixed-income, credit, currency and equity markets. The current economic and capital markets conditions in the U.S. have severely reduced capital availability. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers.

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

## **Table of Contents**

As of March 31, 2010, we had no outstanding borrowings under the Wells Facility or the Union Bank Facility and \$130.6 million under the SBA debenture program.

As of March 31, 2010, we have been unable to secure additional lenders under our Wells Facility. There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

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

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

The continuing unprecedented declines in prices and liquidity in the capital markets have resulted in some net unrealized depreciation in our portfolio. As of March 31, 2010, conditions in the public and private debt and equity markets had continued to deteriorate and pricing levels continued to decline. While the U.S. government has acted to restore liquidity and stability to the financial system, there can be no assurance these regulatory programs and proposals will have a long-term beneficial impact. As a result, in the future, depending on market conditions, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during three months ended March 31, 2010.



**Table of Contents**

*Current levels of market volatility are high. Our common stock price has been and continues to be volatile and may decrease substantially.*

The capital and credit market have been experiencing volatility and disruption for more than 12 months. Although the U.S. government has acted to restore liquidity and stability to the financial system, there can be no assurance these regulatory programs and proposals will have a long-term beneficial impact. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

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

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;

any inability to deploy or invest our capital;

fluctuations in interest rates;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the financial performance of specific industries in which we invest in on a recurring basis;

announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;

changes in regulatory policies or tax guidelines with respect to RICs or business development companies;

losing RIC status;

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

changes in the value of our portfolio of investments;

realized losses in investments in our portfolio companies;

general economic conditions and trends;

inability to access the capital markets;

loss of a major funded source; or

departures of key personnel.

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

**Table of Contents**

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

Not applicable

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. RESERVED**

**ITEM 5. OTHER INFORMATION**

Not applicable.

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit**

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

**Table of Contents**

**SIGNATURES**

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

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Registrant)

Dated: May 7, 2010

/s/ MANUEL A. HENRIQUEZ  
**Manuel A. Henriquez**  
**Chairman, President, and Chief Executive Officer**

Dated: May 7, 2010

/s/ DAVID M. LUND  
**David M. Lund**  
**Chief Financial Officer**

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

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