

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

November 04, 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 September 30, 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)

**Maryland**  
(State or Jurisdiction of  
Incorporation or Organization)

**743113410**  
(IRS Employer  
Identification No.)

**400 Hamilton Ave., Suite**

**310 Palo Alto, California 94301**  
(Address of Principal Executive Offices)

**94301**  
(Zip Code)

**(650) 289-3060**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that 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 (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

On November 4, 2010, there were 36,170,811 shares outstanding of the Registrant's common stock, \$0.001 par value.

---

**Table of Contents**

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.**

**FORM 10-Q TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
Item 1. <u>Consolidated Financial Statements</u>	3
<u>Consolidated Statement of Assets and Liabilities as of September 30, 2010 (unaudited) and December 31, 2009</u>	3
<u>Consolidated Schedule of Investments as of September 30, 2010 (unaudited)</u>	4
<u>Consolidated Schedule of Investments as of December 31, 2009</u>	17
<u>Consolidated Statement of Operations for the three and nine-month periods ended September 30, 2010 and 2009 (unaudited)</u>	29
<u>Consolidated Statement of Changes in Net Assets for the nine-month periods ended September 30, 2010 and 2009 (unaudited)</u>	30
<u>Consolidated Statement of Cash Flows for the nine-month periods ended September 30, 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>	53
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	75
Item 4. <u>Controls and Procedures</u>	77
<b><u>PART II. OTHER INFORMATION</u></b>	78
Item 1. <u>Legal Proceedings</u>	78
Item 1A. <u>Risk Factors</u>	78
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
Item 3. <u>Defaults Upon Senior Securities</u>	82
Item 4. <u>Reserved</u>	82
Item 5. <u>Other Information</u>	82
Item 6. <u>Exhibits</u>	83
<b><u>SIGNATURES</u></b>	84

**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**

(Unaudited dollars in thousands, except per share data)

	September 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Investments:		
Non-affiliate investments (cost of \$397,925 and \$353,648, respectively)	\$ 370,720	\$ 335,979
Affiliate investments (cost of \$2,880 and \$2,880, respectively)	2,846	2,274
Control investments (cost of \$26,992 and \$23,823, respectively)	33,935	32,184
Total investments, at value (cost of \$427,796 and \$380,351 respectively)	407,501	370,437
Deferred loan origination revenue	(5,033)	(2,425)
Cash and cash equivalents	83,011	124,828
Interest receivable	11,512	10,309
Other assets	7,291	5,818
<b>Total assets</b>	<b>504,282</b>	<b>508,967</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	5,733	11,852
Long-term SBA Debentures	160,000	130,600
<b>Total liabilities</b>	<b>165,733</b>	<b>142,452</b>
<b>Net assets</b>	<b>\$ 338,549</b>	<b>\$ 366,515</b>
<b>Net assets consist of:</b>		
Common stock, par value	\$ 36	\$ 35
Capital in excess of par value	409,389	409,036
Unrealized appreciation (depreciation) on investments	(22,247)	(10,028)
Accumulated realized gains (losses) on investments	(43,273)	(28,129)
Distributions in excess of investment income	(5,356)	(4,399)
<b>Total net assets</b>	<b>\$ 338,549</b>	<b>\$ 366,515</b>
<b>Shares of common stock outstanding (\$0.001 par value, 60,000 authorized)</b>	<b>36,158</b>	<b>35,634</b>
<b>Net asset value per share</b>	<b>\$ 9.36</b>	<b>\$ 10.29</b>

See Notes to Consolidated Financial Statements (unaudited)

Table of Contents

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2010

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment <sup>(1)</sup>	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>
Accelaron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		\$ 69	\$ 920
		Preferred Stock Warrants		35	181
		Preferred Stock Warrants		39	95
		Preferred Stock		1,341	2,316
Total Accelaron Pharmaceuticals, Inc.				1,484	3,512
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures September 2013			
		Interest rate Prime + 7.15% or			
		Floor rate of 11.9%	\$ 25,000	24,517	24,517
		Preferred Stock Warrants		190	426
		Preferred Stock Warrants		104	103
		Preferred Stock Warrants		24	37
Total Aveo Pharmaceuticals, Inc.				25,411	25,879
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures July 2012			
		Interest rate Prime + 9.20% or			
		Floor rate of 12.95%	\$ 5,355	5,259	5,259
		Preferred Stock Warrants		206	164
		Preferred Stock Warrants		31	29
Total Dicerna Pharmaceuticals, Inc.				6,027	5,977
Elixir Pharmaceuticals, Inc <sup>(8)</sup>	Drug Discovery	Senior Debt	\$ 6,531	6,531	
		Matures October 2011			
		Interest rate Prime + 9.25% or			

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

		Floor rate of 12.5%		
		Preferred Stock Warrants	217	
Total Elixir Pharmaceuticals, Inc.			6,748	
EpiCept Corporation	Drug Discovery	Common Stock Warrants	4	42
		Common Stock Warrants	40	4
Total EpiCept Corporation			44	46
Horizon Therapeutics, Inc.	Drug Discovery	Preferred Stock Warrants	231	
Total Horizon Therapeutics, Inc.			231	
Inotek Pharmaceuticals Corp.	Drug Discovery	Preferred Stock	1,500	
Total Inotek Pharmaceuticals Corp.			1,500	
Merrimack Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	155	113
		Preferred Stock	2,000	1,470
Total Merrimack Pharmaceuticals, Inc.			2,155	1,583
Paratek Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	137	122
		Preferred Stock	1,000	999
Total Paratek Pharmaceuticals, Inc.			1,137	1,121
See Notes to Consolidated Financial Statements				

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
PolyMedix, Inc.	Drug Discovery	Senior Debt			
		Matures September 2013			
		Interest rate Prime + 7.1% or			
		Floor rate of 12.35%	\$ 10,000	\$ 9,618	\$ 9,618
		Preferred Stock Warrants		480	268
<b>Total PolyMedix, Inc.</b>				<b>10,098</b>	<b>9,886</b>
Portola Pharmaceuticals, Inc.	Drug Discovery	Senior Debt			
		Matures April 2011			
		Interest rate Prime + 2.16%	\$ 2,916	2,916	2,916
		Preferred Stock Warrants		152	441
<b>Total Portola Pharmaceuticals, Inc.</b>				<b>3,068</b>	<b>3,357</b>
<b>Total Drug Discovery (15.17%)*</b>				<b>57,903</b>	<b>51,361</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%	\$ 1,685	1,736	1,736
		Senior Debt			
		Matures June 2012			
		Interest rate Prime + 14.75% or			
		Floor rate of 18.00%	\$ 2,000	2,084	2,084
		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		102	166
Total Affinity Videonet, Inc.				4,422	4,486
E-band Communications, Corp. <sup>(6)</sup>	Communications & Networking	Preferred Stock		2,880	2,846
Total E-Band Communications, Corp.				2,880	2,846
IKANO Communications, Inc.	Communications & Networking	Senior Debt			
		Matures August 2011			
		Interest rate 12.00%	\$ 2,779	2,779	2,779
		Preferred Stock Warrants		45	
		Preferred Stock Warrants		72	
Total IKANO Communications, Inc.				2,896	2,779
Intelepeer, Inc.	Communications & Networking	Senior Debt			
		Matures May 2013			
		Interest rate Prime + 8.125%	\$ 5,185	5,114	5,114
		Preferred Stock Warrants		102	94
Total Intelepeer, Inc.				5,216	5,208
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants		94	39
		Preferred Stock		250	225
Total Neonova Holding Company				344	264
	See Notes to Consolidated Financial Statements				

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Opsource, Inc. <sup>(4)</sup>	Communications & Networking	Senior Debt			
		Matures June 2013			
		Interest rate Prime + 7.75% or			
		Floor rate of 11.00%	\$ 5,000	\$ 4,811	\$ 4,811
		Revolving Line of Credit			
		Matures June 2011			
		Interest rate Prime + 5.25% or			
		Floor rate of 8.50%	\$ 1,500	1,500	1,500
		Preferred Stock Warrants		222	208
Total Opsource, Inc.				6,533	6,519
PeerApp, Inc.	Communications & Networking	Senior Debt			
		Matures April 2013			
		Interest rate Prime + 7.5% or			
		Floor rate of 11.50%	\$ 3,000	2,951	2,951
		Preferred Stock Warrants		61	56
Total PeerApp, Inc.				3,012	3,007
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		95	134
		Preferred Stock		1,000	1,930
Total Peerless Network, Inc.				1,095	2,064
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	4
Total Ping Identity Corporation				52	4
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	327

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

Total Purcell Systems, Inc.				123	327
Seven Networks, Inc.	Communications & Networking	Preferred Stock Warrants		174	34
Total Seven Networks, Inc.				174	34
Stoke, Inc <sup>(4)</sup>	Communications & Networking	Senior Debt			
		Matures May 2013			
		Interest rate Prime + 7.0% or	\$ 4,000	3,947	3,947
		Preferred Stock Warrants		53	71
		Preferred Stock Warrants		65	61
Total Stoke, Inc.				4,065	4,079
Tectura Corporation	Communications & Networking	Senior Debt			
		Matures March 2011			
		Interest rate 11%	\$ 833	833	833
		Revolving Line of Credit			
		Matures July 2011			
		Interest rate 11%	\$ 16,517	17,456	17,456
		Preferred Stock Warrants		51	3
Total Tectura Corporation				18,340	18,292
<b>Total Communications &amp; Networking</b> <b>(14.74%)*</b>				49,152	49,909

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Atrenta, Inc.	Software	Preferred Stock Warrants		\$ 102	\$ 36
		Preferred Stock Warrants		34	12
		Preferred Stock Warrants		95	15
		Preferred Stock		250	136
<b>Total Atrenta, Inc.</b>			<b>481</b>	<b>199</b>	
Blurb, Inc.	Software	Senior Debt			
		Matures June 2011			
		Interest rate Prime + 3.50% or			
		Floor rate of 8.5%	\$ 1,721	1,696	1,696
		Preferred Stock Warrants		25	348
		Preferred Stock Warrants		299	224
<b>Total Blurb, Inc.</b>			<b>2,020</b>	<b>2,268</b>	
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		188	
<b>Total Braxton Technologies, LLC.</b>				<b>188</b>	
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	234
<b>Total Bullhorn, Inc.</b>				<b>43</b>	<b>234</b>
Clickfox, Inc.	Software	Senior Debt			
		Matures July 2013			
		Interest rate Prime + 6.00% or			
		Floor rate of 11.25%	\$ 6,000	5,851	5,851
		Revolving Line of Credit			
		Matures July 2011			
		Interest rate Prime + 5.00% or			
		Floor rate of 12.00%	\$ 2,000	2,000	2,000
		Preferred Stock Warrants		177	128
		Preferred Stock Warrants		152	163

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

Total Clickfox, Inc.			8,180	8,142
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	99	10
Total Forescout Technologies, Inc.			99	10
GameLogic, Inc.	Software	Preferred Stock Warrants	92	
Total GameLogic, Inc.			92	
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	61
Total HighRoads, Inc.			44	61
See Notes to Consolidated Financial Statements				

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Infologix, Inc <sup>(4)(7)</sup>	Software	Senior Debt			
		Matures November 2013			
		Interest rate 12.00%	\$ 5,500	\$ 5,500	\$ 5,500
		Convertible Senior Debt			
		Matures November 2014			
		Interest rate 12.00%		707	723
		Revolving Line of Credit			
		Matures May 2011			
		Interest rate 12.00%	\$ 7,617	7,617	7,617
		Senior Debt			
		Matures December 2010			
		Interest rate 18.00%	\$ 2,202	2,202	2,202
Senior Debt					
Matures April 2013					
Interest rate 8.00%	\$ 1,350	1,350	1,350		
Senior Debt					
Matures September 2011					
Interest rate 10.00%	\$ 500	500	500		
Preferred Stock Warrants			725	2,740	
Common Stock			5,000	5,680	
Common Stock			3,391	7,623	
<b>Total Infologix, Inc.</b>				<b>26,992</b>	<b>33,935</b>
PSS Systems, Inc.	Software	Preferred Stock Warrants		51	13
<b>Total PSS Systems, Inc.</b>				<b>51</b>	<b>13</b>
Rockyou, Inc.	Software	Preferred Stock Warrants		117	183

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

Total Rockyou, Inc.			117	183
Sportvision, Inc.	Software	Preferred Stock Warrants	39	
Total Sportvision, Inc.			39	
Unify Corporation	Software	Senior Debt		
		Matures June 2015		
		Interest rate Libor + 8.25% or		
		Floor rate of 10.25%	\$ 24,000	22,746
		Revolving Line of Credit		22,746
		Matures June 2015		
		Interest rate Libor + 7.25% or		
		Floor rate of 9.25%	\$ 3,250	3,250
		Preferred Stock Warrants		1,435
				1,567
Total Unify Corporation			27,431	27,563
WildTangent, Inc.	Software	Preferred Stock Warrants	238	12
Total WildTangent, Inc.			238	12
<b>Total Software (25.88%)*</b>			81,015	87,620

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></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	
<b>Total Luminus Devices, Inc.</b>				<b>1,891</b>	<b>1,290</b>
Maxvision Holding, LLC.	Electronics & Computer Hardware	Senior Debt			
		Matures October 2012			
		Interest rate Prime + 7.25% or			
		Floor rate of 10.75%	\$ 5,000	5,318	318
		Senior Debt			
		Matures April 2012			
		Interest rate Prime + 5.0% or			
		Floor rate of 8.5%	\$ 3,659	3,659	3,659
		Revolving Line of Credit			
		Matures April 2012			
		Interest rate Prime + 5.0% or			
		Floor rate of 8.5%	\$ 3,100	3,180	3,180
		Common Stock		82	
<b>Total Maxvision Holding, LLC</b>				<b>12,239</b>	<b>7,157</b>
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants			
				63	89
<b>Total Shocking Technologies, Inc.</b>				<b>63</b>	<b>89</b>



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

Spatial Photonics, Inc. <sup>(8)</sup>	Electronics & Computer Hardware	Senior Debt				
		Matures April 2011				
		Interest rate 10.07%	\$	722	722	
		Preferred Stock Warrants			130	
		Preferred Stock			500	
Total Spatial Photonics, Inc.					1,352	
VeriWave, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants				
					54	
		Preferred Stock Warrants			46	
Total VeriWave, Inc.					100	
<b>Total Electronics &amp; Computer Hardware (2.52%)*</b>					<b>15,645</b>	<b>8,536</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%	\$	3,269	3,269	3,269
		Convertible Senior Debt				
		Matures December 2011	\$	401	401	401
		Preferred Stock Warrants			69	382
		Preferred Stock			1,000	500
Total Aegerion Pharmaceuticals, Inc.					4,739	4,552
		See Notes to Consolidated Financial Statements				

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt			
		Matures October 2013			
		Interest rate Prime + 7.70% or			
		Floor rate of 10.95%	\$ 12,000	\$ 11,711	\$ 11,711
		Preferred Stock Warrants		309	245
<b>Total Althea Technologies, Inc.</b>				<b>12,020</b>	<b>11,956</b>
Chroma Therapeutics, Ltd. <sup>(5)</sup>	Specialty Pharmaceuticals	Senior Debt			
		Matures September 2013			
		Interest rate Prime + 7.75% or			
		Floor rate of 12.00%	\$ 10,000	9,610	9,610
		Preferred Stock Warrants		490	366
<b>Total Chroma Therapeutics, Ltd.</b>				<b>10,100</b>	<b>9,976</b>
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt			
		Matures October 2011			
		Interest rate Prime + 8.90% or			
		Floor rate of 12.15%	\$ 10,972	10,921	10,921
		Convertible Senior Debt			
		Matures March 2012	\$ 1,888	1,888	2,861
		Preferred Stock Warrants		220	
		Preferred Stock Warrants		307	
		Preferred Stock		750	
<b>Total Quatrx Pharmaceuticals Company</b>				<b>14,086</b>	<b>13,782</b>
<b>Total Specialty Pharmaceuticals (11.89%)*</b>				<b>40,945</b>	<b>40,266</b>
Annie s, Inc.	Consumer &	Preferred Stock Warrants		321	99

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

Business				
Products				
Total Annie s, Inc.			321	99
IPA Holdings, LLC <sup>(4)</sup>	Consumer & Business Products	Senior Debt		
		Matures November 2012		
		Interest rate Prime + 7.75% or		
		Floor rate of 12.0%	\$ 8,625	8,919
		Senior Debt		8,919
		Matures May 2013		
		Interest rate Prime + 10.75% or		
		Floor rate of 15.0%	\$ 6,500	6,873
		Revolving Line of Credit		6,873
		Matures November 2012		
	Interest rate Prime + 7.25% or			
	Floor rate of 11.50%	\$ 856	856	
	Preferred Stock Warrants		275	
	Common Stock		500	
Total IPA Holdings, LLC			17,423	16,648
	See Notes to Consolidated Financial Statements			

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		\$ 24	\$ 49
		Preferred Stock		500	306
<b>Total Market Force Information, Inc.</b>				<b>524</b>	<b>355</b>
OnTech Operations, Inc.	Consumer & Business Products	Preferred Stock Warrants		452	
		Preferred Stock Warrants		218	
		Preferred Stock		1,000	
<b>Total OnTech Operations, Inc.</b>				<b>1,670</b>	
Trading Machines, Inc.	Consumer & Business Products	Senior Debt			
		Matures January 2014			
		Interest rate Prime + 10.25% or			
		Floor rate of 13.50%	\$ 10,000	9,174	9,174
		Preferred Stock Warrants		879	751
		Preferred Stock		50	50
<b>Total Trading Machines, Inc.</b>				<b>10,103</b>	<b>9,975</b>
Velocity Technology Solutions, Inc.	Consumer & Business Products	Senior Debt			
		Matures February 2015			
		Interest rate LIBOR + 8% or			
		Floor rate of 11.00%	\$ 15,834	15,834	15,834
		Senior Debt			
		Matures February 2015			
		Interest rate LIBOR + 10% or			
		Floor rate of 13.00%	\$ 8,333	8,446	8,446

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

Total Velocity Technology Solutions, Inc.		24,280	24,280
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants	
		252	1,218
		Preferred Stock	265
Total Wageworks, Inc.		502	1,483
<b>Total Consumer &amp; Business Products (15.61%)*</b>		54,823	52,840
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants	157
Total Enpirion, Inc.			157
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	46
		Preferred Stock Warrants	51
		Preferred Stock Warrants	73
		Preferred Stock Warrants	458
		Preferred Stock	18
		490	362
Total iWatt, Inc.			1,118
	See Notes to Consolidated Financial Statements		382

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants		\$ 297	\$ 1,032
		Preferred Stock		277	704
Total NEXX Systems, Inc.				574	1,736
Quartics, Inc.	Semiconductors	Preferred Stock Warrants		53	
Total Quartics, Inc.				53	
Solarflare Communications, Inc.	Semiconductors	Preferred Stock Warrants		83	
		Common Stock		642	
Total Solarflare Communications, Inc.				725	
<b>Total Semiconductors (0.63%)*</b>				<b>2,627</b>	<b>2,118</b>
Alexza Pharmaceuticals, Inc. <sup>(4)</sup>	Drug Delivery	Senior Debt			
		Matures October 2013			
		Interest rate Prime + 6.5% or			
		Floor rate of 10.75%	\$ 15,000	14,459	14,459
Preferred Stock Warrants				645	570
Total Alexza Pharmaceuticals, Inc.				15,104	15,029
Labopharm USA, Inc. <sup>(5)</sup>	Drug Delivery	Senior Debt			
		Matures December 2012			
		Interest rate 10.95%	\$ 20,000	19,768	19,768
		Common Stock Warrants		635	368
Total Labopharm USA, Inc.				20,403	20,136
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		36	65
		Common Stock Warrants		51	30
		Common Stock		499	290
Total Transcept Pharmaceuticals, Inc.				586	385

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

<b>Total Drug Delivery (10.50%)*</b>			36,093	35,550
BARRX Medical, Inc.	Therapeutic	Senior Debt		
		Mature December 2011		
		Interest rate 11.00%	\$ 3,573	3,570
		Revolving Line of Credit		
		Matures May 2011		
		Interest rate 10.00%		
		Preferred Stock Warrants		76
		Preferred Stock		1,890
Total BARRX Medical, Inc.			5,146	5,526
EKOS Corporation	Therapeutic	Senior Debt		
		Matures November 2010		
		Interest rate Prime + 2.00%	\$ 496	502
		Preferred Stock Warrants		175
		Preferred Stock Warrants		153
Total EKOS Corporation			830	503
See Notes to Consolidated Financial Statements				

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></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	\$ 2,826	\$
		Preferred Stock Warrants		58	
Total Gelesis, Inc.				2,884	
Gyenesonics, Inc.	Therapeutic	Preferred Stock Warrants		18	5
		Preferred Stock		532	377
Total Gyenesonics, Inc.				550	382
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	26
Total Light Science Oncology, Inc.				99	26
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		71	1
		Preferred Stock Warrants		54	8
		Preferred Stock		1,000	1,359
Total Novasys Medical, Inc.				1,125	1,368
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt			
		Matures January 2015			
		Interest rate LIBOR + 8.0% or			
		Floor rate of 10.50%	\$ 6,750	6,750	6,750
		Senior Debt			
		Matures January 2015			
		Interest rate LIBOR + 10.50% or			
		Floor rate of 13.0%	\$ 5,900	6,042	6,042
Total Pacific Child & Family Associates, LLC				12,792	12,792
<b>Total Therapeutic (6.08%)*</b>				23,426	20,597



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

Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants			
				147	
		Preferred Stock		177	292
<b>Total Cozi Group, Inc.</b>				<b>324</b>	<b>292</b>
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants			
				56	73
		Preferred Stock Warrants		26	17
<b>Total Invoke Solutions, Inc.</b>				<b>82</b>	<b>90</b>
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants			
				43	36
<b>Total Prism Education Group, Inc.</b>				<b>43</b>	<b>36</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%	\$ 3,658	3,217	3,217
		Preferred Stock Warrants		13	
		Preferred Stock Warrants		28	
		Preferred Stock Warrants		1,183	
		Preferred Stock		1,000	
<b>Total RazorGator Interactive Group, Inc.</b>				<b>5,441</b>	<b>3,217</b>
Reply! Inc. <sup>(4)</sup>	Internet Consumer & Business Services	Senior Debt Matures June 2013 Interest rate Prime + 6.5% or Floor rate of 9.75%	\$ 5,000	5,000	5,000
<b>Total Reply! Inc.</b>				<b>5,000</b>	<b>5,000</b>
<b>Total Internet Consumer &amp; Business Services (2.55%)</b>				<b>10,890</b>	<b>8,635</b>

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		\$ 106	\$ 1
		Common Stock Warrants		49	
<b>Total Lilliputian Systems, Inc.</b>				<b>155</b>	<b>1</b>
<b>Total Energy (0.00%)*</b>				<b>155</b>	<b>1</b>
Box.net, Inc.	Information Services	Senior Debt			
		Matures May 2011			
		Interest rate Prime + 1.50% or			
		Floor rate of 7.50%	\$ 332	329	329
		Senior Debt			
		Matures September 2011			
		Interest rate Prime + 0.50% or			
		Floor rate of 6.50%	\$ 168	168	168
		Preferred Stock Warrants		73	182
		Preferred Stock		500	500
<b>Total Box.net, Inc.</b>				<b>1,070</b>	<b>1,179</b>
Buzznet, Inc.	Information Services	Preferred Stock Warrants		9	
		Preferred Stock		250	45
<b>Total Buzznet, Inc.</b>				<b>259</b>	<b>45</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	Preferred Stock Warrants		213	
		Preferred Stock		250	247
<b>Total hi5 Networks, Inc.</b>				<b>463</b>	<b>247</b>
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants		265	102

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

Total Jab Wireless, Inc.			265	102
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>
Intelligent Beauty, Inc.	Information Services	Senior Debt		
		Matures March 2013		
		Interest rate Prime + 8.0% or		
		Floor rate of 11.25%	\$ 6,000	6,000
				6,000
<b>Total Intelligent Beauty, Inc.</b>			<b>6,000</b>	<b>6,000</b>
Good Technologies, Inc.	Information Services	Common Stock	603	165
<b>Total Good Technologies, Inc.</b>			<b>603</b>	<b>165</b>
Coveroo, Inc.	Information Services	Preferred Stock Warrants	7	
<b>Total Coveroo, Inc.</b>			<b>7</b>	
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants	172	12
		Preferred Stock	500	254
<b>Total Zeta Interactive Corporation</b>			<b>672</b>	<b>266</b>
<b>Total Information Services (2.64%)</b>			<b>10,565</b>	<b>8,934</b>
Novadaq Technologies, Inc. <sup>(5)</sup>	Diagnostic	Common Stock	1,415	670
<b>Total Novadaq Technologies, Inc.</b>			<b>1,415</b>	<b>670</b>

See Notes to Consolidated Financial Statements

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt			
		Matures June 2011			
		Interest rate 10.25%	\$ 5,136	\$ 5,083	\$ 5,083
		Preferred Stock Warrants		760	
		Preferred Stock		3,656	2,759
Total Optiscan Biomedical, Corp.				9,499	7,842
<b>Total Diagnostic (2.51%)*</b>				<b>10,914</b>	<b>8,512</b>
Kamada, LTD. <sup>(5)</sup>	Biotechnology Tools	Preferred Stock Warrants		159	108
		Common Stock		752	1,382
Total Kamada, LTD.				911	1,490
Labcyte, Inc.	Biotechnology Tools	Senior Debt			
		Matures May 2013			
		Interest rate Prime + 8.6% or			
		Floor rate of 11.85%	\$ 4,000	3,876	3,876
		Common Stock Warrants		192	
Total Labcyte, Inc.				4,068	3,876
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants		45	284
		Preferred Stock Warrants		33	19
		Preferred Stock		500	500
Total NuGEN Technologies, Inc.				578	803
Solace Pharmaceuticals, Inc. <sup>(4) (8)</sup>	Biotechnology Tools	Senior Debt	\$ 813	810	367

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

		Matures August 2012		
		Interest rate Prime + 4.25% or		
		Floor rate of 9.85%		
		Senior Debt		
		Matures August 2012		
		Interest rate 8.0%	\$ 250	250
		Preferred Stock Warrants		42
		Preferred Stock Warrants		54
<b>Total Solace Pharmaceuticals, Inc.</b>			<b>1,156</b>	<b>367</b>
<b>Total Biotechnology Tools (1.93%)*</b>			<b>6,713</b>	<b>6,536</b>
<b>Crux Biomedical, Inc.</b>	<b>Surgical Devices</b>			
		Preferred Stock Warrants		37
		Preferred Stock		250
				5
				14
<b>Total Crux Biomedical, Inc.</b>			<b>287</b>	<b>19</b>
<b>Transmedics, Inc. (4)</b>	<b>Surgical Devices</b>	<b>Senior Debt</b>		
		Matures February 2014		
		Interest rate Prime + 9.70% or		
		Floor rate of 12.95%	\$ 8,375	8,295
		Preferred Stock Warrants		225
		Preferred Stock		1,100
				8,295
				146
				1,100
<b>Total Transmedics, Inc.</b>			<b>9,620</b>	<b>9,541</b>
<b>Total Surgical Devices (2.82%)*</b>			<b>9,907</b>	<b>9,560</b>
<b>Glam Media, Inc.</b>	<b>Media/Content/Info</b>			
		Preferred Stock Warrants		482
				283
<b>Total Glam Media, Inc.</b>			<b>482</b>	<b>283</b>
		See Notes to Consolidated Financial Statements		

**Table of Contents****HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****September 30, 2010****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment <sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Waterfront Media, Inc. (Everyday Health)	Media/Content/Info	Preferred Stock Warrants		\$ 60	\$ 188
		Preferred Stock		1,000	713
Total Everyday Health				1,060	901
<b>Total Media/Content/Info (0.35%)*</b>				<b>1,542</b>	<b>1,184</b>
Calera, Inc.	Clean Tech	Senior Debt			
		Matures July 2013			
		Interest rate Prime + 7.0% or			
		Floor rate of 10.25%	\$ 3,621	3,135	3,135
		Preferred Stock Warrants		513	470
Total Calera, Inc.				3,648	3,605
Propel Biofuels, Inc.	Clean Tech	Senior Debt			
		Matures September 2013			
		Interest rate 11.0%	\$ 1,030	863	863
		Preferred Stock Warrants		211	172
Total Propel Biofuels, Inc.				1,074	1,035
Solexel, Inc.	Clean Tech	Preferred Stock Warrants		670	624
Total Solexel, Inc.				670	624
Trilliant, Inc.	Clean Tech	Senior Debt			
		Matures May 2013			
		Interest rate Prime + 6.75% or			
		Floor rate of 10.0%	\$ 10,000	9,927	9,927
		Preferred Stock Warrants		89	83
		Preferred Stock Warrants		73	68
Total Trilliant, Inc.				10,089	10,078

<b>Total Clean Tech (4.53%)*</b>	15,481	15,342
Total Investments	427,796	407,501

\* 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 and \$16,329, \$36,621 and \$20,292 respectively. The tax cost of investments is \$430,088.
- (3) Except for warrants in nine publicly traded companies and common stock in four publicly traded companies, all investments are restricted at September 30, 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 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 September 30, 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****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(3)</sup></b>
Accelaron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		\$ 69	\$ 1,157
		Preferred Stock Warrants		35	215
		Preferred Stock		1,243	2,508
Total Accelaron 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			
		Floor rate of 12.5%	\$ 8,067	8,067	8,067
Total Elixir Pharmaceuticals, Inc.				8,284	8,067
EpiCept Corporation	Drug Discovery	Common Stock Warrants		8	38
		Common Stock Warrants		40	201



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

Total EpiCept Corporation			48	239
Horizon Therapeutics, Inc.	Drug Discovery	Senior Debt		
		Matures July 2011		
		Interest rate Prime + 1.50%	\$ 4,699	4,638
		Preferred Stock Warrants		231
Total Horizon Therapeutics, Inc.			4,869	4,638
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	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****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(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

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

Total Affinity Videonet, Inc.			4,980	4,961	
E-Band Communications Corp. <sup>(6)</sup>	Communications & Networking	Preferred Stock	2,880	2,274	
Total E-Band Communications Corp.			2,880	2,274	
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	
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****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(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	Senior Debt			
	& Networking	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	Senior Debt			
	& Networking	Matures September 2010			
		Interest rate Prime + 10.75% or			
		Floor rate of 14.00%	\$ 1,875	1,875	1,875
		Revolving Line of Credit	\$ 9,908	10,238	10,238
		Matures July 2011			

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

Interest rate Prime + 10.75% or

Floor rate of 14.00%  
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 Senior Debt  
& Networking Matures November 2013  
Interest rate Libor + 5.25% \$ 24,750 24,750 24,317

Total Zayo Bandwidth, Inc. 24,750 24,317

**Total Communications & Networking (15.85%)\* 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

Total Atrenta, Inc. 481 665

See Notes to Consolidated Financial Statements

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

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(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

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

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			
		Interest rate 12.00%	\$ 5,500	5,500	5,500
		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****(unaudited)****(dollars in thousands)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Type of Investment<sup>(1)</sup></b>	<b>Principal Amount</b>	<b>Cost<sup>(2)</sup></b>	<b>Value<sup>(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	\$ 5,000	5,220	5,220



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

		Matures October 2012			
		Interest rate Prime + 5.50%			
		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 & Computer Hardware	Senior Debt			
		Matures December 2010			
		Interest rate Prime + 2.50%	\$ 1,867	1,858	1,858
		Preferred Stock Warrants		63	119
Total Shocking Technologies, Inc.				1,921	1,977
Spatial Photonics, Inc.	Electronics & Computer Hardware	Senior Debt			
		Matures April 2011			
		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)**

<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>
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 (4.83%)*</b>				<b>18,757</b>	<b>17,701</b>
Aegerion Pharmaceuticals, Inc. <sup>(4)</sup>	Specialty	Senior Debt Matures September 2011 Interest rate Prime + 2.50% or Floor rate of 11.00%	\$ 5,481	5,482	5,482
	Pharmaceuticals	Convertible Senior Debt Matures December 2010	\$ 279	279	279
		Preferred Stock Warrants		69	253
		Preferred Stock		1,000	1,019
<b>Total Aegerion Pharmaceuticals, Inc.</b>				<b>6,830</b>	<b>7,033</b>
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	
<b>Total QuatRx Pharmaceuticals Company</b>				<b>18,464</b>	<b>18,160</b>
<b>Total Specialty Pharmaceuticals (6.87%)*</b>				<b>25,294</b>	<b>25,193</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	6,060	6,060
		Preferred Stock Warrants		321	113
<b>Total Annie s, Inc.</b>				<b>6,381</b>	<b>6,173</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%	\$ 9,500	9,633	9,633
			\$ 6,500	6,625	6,625

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

	Senior Debt			
	Matures May 2013			
	Interest rate Prime + 11.25% or			
	Floor rate of 15.5%			
	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)

Portfolio Company	Industry	Type of Investment <sup>(1)</sup>	Principal Amount	Cost <sup>(2)</sup>	Value <sup>(3)</sup>
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	3,000
		Matures June 2010			
		Interest rate Prime + 8.00% or			

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

	Floor rate of 13.25%			
	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>				187	134
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>				905	181
<b>Total Semiconductors (3.13%)*</b>				12,353	11,481
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>				20,405	21,025
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>				587	468
<b>Total Drug Delivery (5.86%)*</b>				20,992	21,493
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>				8,050	8,887
EKOS Corporation	Therapeutic	Senior Debt Matures November 2010 Interest rate Prime + 2.00%	\$ 2,677	2,629	2,630
		Preferred Stock Warrants		175	
		Preferred Stock Warrants		153	

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

Total EKOS Corporation			2,957	2,630
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
Total Gelesis, Inc.			2,872	
Gynesonics, Inc.	Therapeutic	Preferred Stock Warrants	18	5
		Preferred Stock	250	627
Total Gynesonics, Inc.			268	632
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>
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>				<b>15,665</b>	<b>13,470</b>
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants Preferred Stock		148 177	7
Total Cozi Group, Inc.				325	7
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants Preferred Stock Warrants	\$ 56	129 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% Preferred Stock Warrants	\$ 801	789 43	790 104
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% Preferred Stock Warrants Preferred Stock Warrants Preferred Stock	\$ 10,000	10,000 14 28 1,000	10,000 223 33 1,037
Total RazorGator Interactive Group, Inc.				11,042	11,293



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

Spa Chakra, Inc. <sup>(8)</sup>	Internet Consumer & Business Services	Senior Debt Matures from December 2009 to October 2011 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	
		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 Networks, 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	
		Preferred Stock Warrants		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%		6,719	6,719
		Preferred Stock Warrants	\$ 6,484	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

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

		Senior Debt			
		Matures November 2010			
		Interest rate Prime + 1.70% or			
		Floor rate of 6.75%	\$ 442	442	442
		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>				<b>8,924</b>	<b>9,669</b>
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. (4)(8)	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
Total Glam Media, Inc.				482	283
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 (101.7%)*</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****(Unaudited dollars in thousands, except per share data)**

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	2010	2009	2010	2009
<b>Investment income:</b>				
Interest income				
Non Control/Non Affiliate investments	\$ 13,356	\$ 13,008	\$ 35,649	\$ 43,945
Affiliate investments				153
Control investments	766	1,605	2,487	4,347
<b>Total interest Income</b>	<b>14,122</b>	<b>14,613</b>	<b>38,136</b>	<b>\$ 48,445</b>
<b>Fees</b>				
Non Control/Non Affiliate investments	1,524	2,218	4,285	7,923
Affiliate investments				19
Control investments		850	246	1,224
<b>Total fees</b>	<b>1,524</b>	<b>3,068</b>	<b>4,531</b>	<b>9,166</b>
<b>Total investment income</b>	<b>15,646</b>	<b>17,681</b>	<b>42,667</b>	<b>57,611</b>
<b>Operating expenses:</b>				
Interest				
Loan fees	2,139	2,050	6,237	7,315
General and administrative	333	308	936	1,583
Employee compensation:	1,680	2,105	5,220	5,455
Compensation and benefits	2,594	2,401	7,691	8,113
Stock-based compensation	752	470	1,959	1,418
<b>Total employee compensation</b>	<b>3,346</b>	<b>2,871</b>	<b>9,650</b>	<b>9,531</b>
<b>Total operating expenses</b>	<b>7,498</b>	<b>7,334</b>	<b>22,043</b>	<b>23,884</b>
Net investment income	8,148	10,347	20,624	33,727
Net realized gain (loss) on investments	(18,865)	(14,173)	(15,144)	(19,506)
Net increase (decrease) in unrealized appreciation on investments	2,894	17,516	(12,218)	(9,108)
<b>Net realized and unrealized gain (loss)</b>	<b>(15,971)</b>	<b>3,343</b>	<b>(27,362)</b>	<b>(28,614)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (7,823)</b>	<b>\$ 13,690</b>	<b>\$ (6,738)</b>	<b>\$ 5,113</b>
<b>Net investment income before investment gains and losses per common share:</b>				
Basic	\$ 0.23	\$ 0.30	\$ 0.57	\$ 0.98

Change in net assets per common share:



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

Basic	\$	(0.23)	\$	0.39	\$	(0.20)	\$	0.14
Diluted	\$	(0.23)	\$	0.38	\$	(0.20)	\$	0.14

Weighted average shares outstanding

Basic	35,208	34,981	35,227	34,282
Diluted	35,208	35,576	35,227	34,607

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 Appreciation on Investments	Accumulated Realized Gains(Losses) on Investments	Distributions	Provision for Income Taxes on Investment Gains	Net Assets
	Shares	Par Value				Investment Income		
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				(9,108)	(19,506)	33,727		5,113
Issuance of common stock	5		36					36
Issuance of common stock under restricted stock plan	307							
Issuance of common stock as stock dividend	2,138	2	11,449					11,451
Dividends declared						(31,824)		(31,824)
Stock-based compensation			1,488					1,488
Balance at September 30, 2009	35,546	\$ 35	\$ 408,733	\$ (20,405)	\$ (15,600)	\$ (3,699)	\$ (342)	\$ 368,722
Balance at December 31, 2009	35,634	\$ 35	\$ 409,036	\$ (10,029)	\$ (28,129)	\$ (4,056)	\$ (342)	\$ 366,515
Net increase in net assets resulting from operations				(12,218)	(15,144)	20,624		(6,738)
Issuance of common stock	413		1,856					1,856
Issuance of common stock under restricted stock plan	488	1						1
Acquisition of common stock under repurchase plan	(403)		(3,699)					(3,699)
Issuance of common stock as stock dividend	140		1,332					1,332
Retired shares from net issuance	(114)		(1,160)					(1,160)
Dividends declared						(21,582)		(21,582)
Stock-based compensation			2,024					2,024
Balance at September 30, 2010	36,158	\$ 36	\$ 409,389	\$ (22,247)	\$ (43,273)	\$ (5,014)	\$ (342)	\$ 338,549

See notes to Consolidated Financial Statements (unaudited).

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ (6,738)	\$ 5,113
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by operating activities:		
Purchase of investments	(289,734)	(77,719)
Principal payments received on investments	223,383	218,317
Proceeds from sale of investments	7,295	3,841
Net unrealized depreciation on investments	12,218	9,108
Net realized loss on investments	15,144	19,506
Accretion of paid-in-kind principal	(2,366)	(2,066)
Accretion of loan discounts	(3,026)	(4,385)
Accretion of loan exit fees	(956)	(2,359)
Depreciation	298	274
Stock-based compensation	553	1,488
Amortization of restricted stock grants	1,471	
Common stock issued in lieu of Director compensation		36
Amortization of deferred loan origination revenue	(2,137)	(3,894)
Change in operating assets and liabilities:		
Interest receivable	(347)	796
Prepaid expenses and other assets	541	2,311
Accounts payable	(103)	(146)
Income tax payable	8	(196)
Accrued liabilities	(5,891)	(3,439)
Deferred loan origination revenue	4,745	229
Net cash provided by (used in) operating activities	(45,642)	166,815
<b>Cash flows from investing activities:</b>		
Purchases of capital equipment	(218)	(68)
Other long-term assets	(137)	(41)
Net cash used in investing activities	(355)	(109)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net	1,856	
Stock repurchase program	(3,699)	
Forfeiture of Stock due to Employee Option Exercises	(1,160)	
Dividends paid	(20,250)	(20,372)
Borrowings of credit facilities	29,400	80,842
Repayments of credit facilities		(167,024)
Fees paid for credit facilities and debentures	(1,967)	(147)
Net cash provided by (used in) financing activities	4,180	(106,701)
Net increase (decrease) in cash	(41,817)	60,005

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

Cash and cash equivalents at beginning of period	124,828	17,242
Cash and cash equivalents at end of period	\$ 83,011	\$ 77,247

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 stages of development, 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 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 5).

The Company formed Hercules Technology II, L.P. ( HT II ), which was licensed on September 27, 2006, and Hercules Technology III, L.P. ( HT III ), which was licensed on May 26, 2010 to operate as small business investment companies ( SBIC ) under the authority of the Small Business Administration ( SBA ). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. The Company also formed Hercules Technology SBIC Management, LLC ( HTM ), a limited liability company. HTM is a wholly-owned subsidiary of the Company. The Company is the manager and member of HT II and HT III and HTM is the general partner of HT II and HT III (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**

The Company's investments are carried at fair value in accordance with the Investment Company Act of 1940 (the "1940 Act") and Accounting Standards Codification ("ASC") topic 820 *Fair Value Measurements and Disclosures*. At September 30, 2010, approximately 80.8% 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 a substantial portion of 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.

The Board of Directors may from time to time engage an independent valuation firm to provide us with valuation assistance with respect to certain of the Company's portfolio investments. The Company intends to continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio investments. The scope of the services rendered by an independent valuation firm is at the discretion of the Board of Directors. The Board of Directors is ultimately and solely responsible for determining the fair value of the Company's investments in good faith.

The Company adopted ASC 820 on January 1, 2008. ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but 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 market, the most advantageous market.

## **Table of Contents**

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 publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date.

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

**Table of Contents**

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 BlackScholes 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.



**Table of Contents**

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 September 30, 2010 (unaudited) and as of December 31, 2009:

		<b>Investments at Fair Value as of September 30, 2010</b>			
(in thousands)		<b>9/30/2010</b>	<b>Quoted Prices In Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Description</b>	<b>9/30/2010</b>				
Senior secured debt	\$ 349,133				\$ 349,133
Preferred stock	22,713				22,713
Common stock	16,689	9,964	5,680		1,045
Warrants	18,966		7,124		11,842
	<b>\$ 407,501</b>	<b>\$ 9,964</b>	<b>\$ 12,804</b>		<b>\$ 384,733</b>

		<b>Investments at Fair Value as of December 31, 2009</b>			
(in thousands)		<b>12/31/2009</b>	<b>Quoted Prices In Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Description</b>	<b>12/31/2009</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
	<b>\$ 370,437</b>	<b>\$ 1,986</b>	<b>\$ 11,825</b>		<b>\$ 356,626</b>

**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 nine months ended September 30, 2010 (unaudited) and for the year ended 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, September 30, 2010
Senior Debt	\$ 314,842	\$ (3,363)	\$ (5,384)	\$ 43,540	\$ (502)	\$ 349,133
Senior Debt-Second Lien	6,060			(6,060)		
Preferred Stock	22,875		(3,870)	3,206	502	22,713
Common Stock	1,773		(15,765)	15,037		1,045
Warrants	11,076	(514)	2,893		(1,613)	11,842
Total	\$ 356,626	\$ (3,877)	\$ (22,126)	\$ 55,723	(1,613)	\$ 384,733

(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.

## Table of Contents

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

At September 30, 2010, the Company's investment in InfoLogix, Inc. was classified as a Control Investment and categorized as a Level 1 investment under ASC 820. Approximately \$796,000 and \$2.4 million in investment income was derived from our debt investment in this Software and Internet Consumer portfolio company during the three and nine month periods ended September 30, 2010, respectively. Approximately \$2.5 million of realized gains and \$1.4 million of net unrealized depreciation was recognized on this control investment during the nine-month period ended September 30, 2010.

On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of InfoLogix's non-compliance with the minimum \$2.5 million stockholders' equity requirement, set forth in Nasdaq Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. In October, Hercules made \$2.9 million of additional debt investments in InfoLogix.

Our Control Investment in Spa Chakra Acquisition Corporation, a company that was a Control Investment as of July 1, 2010, was a realized loss during the third quarter. We recognized investment income during the nine-month period of approximately \$285,000 from this portfolio company and a realized loss of approximately \$18.9 million in the third quarter of 2010. The elimination of this investment from our portfolio resulted in a reversal of unrealized depreciation in the third quarter of approximately \$17.8 million. As of September 30, 2009, no portfolio companies were deemed to be Control Investments.

At September 30, 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 September 30, 2009, the Company had two portfolio companies deemed to be Affiliates. Income derived from the Company's investments in these portfolio companies was less than \$500,000 since these portfolio companies became Affiliates. One company that was an Affiliate as of September 30, 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 nine months ended September 30, 2010 and 2009, we recognized net unrealized appreciation of approximately \$572,000 and \$7.3 million, respectively, related to Affiliates.

**Table of Contents**

A summary of the composition of the Company's investment portfolio as of September 30, 2010 (unaudited) and December 31, 2009 at fair value is shown as follows:

(in thousands)	September 30, 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	\$ 302,870	74.3%	\$ 229,454	61.9%
Senior secured debt	65,229	16.0%	99,725	26.9%
Preferred stock	22,713	5.6%	22,875	6.2%
Senior debt-second lien with warrants		0.0%	6,173	1.7%
Common Stock	16,689	4.1%	12,210	3.3%
	\$ 407,501	100.0%	\$ 370,437	100%

A summary of the Company's investment portfolio, at value, by geographic location as of September 30, 2010 (unaudited) and as of December 31, 2009 is shown as follows:

(in thousands)	September 30, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 375,231	92.1%	\$ 344,984	93.1%
Canada	20,805	5.1%	21,567	5.8%
England	9,976	2.4%		0.0%
Israel	1,489	0.4%	1,310	0.4%
Netherlands		0.0%	2,576	0.7%
	\$ 407,501	100.0%	\$ 370,437	100%

**Table of Contents**

The following table shows the fair value of our portfolio by industry sector (excluding unearned income) at September 30, 2010 (unaudited) and December 31, 2009:

(in thousands)	September 30, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Software	\$ 87,620	21.5%	\$ 61,647	16.6%
Consumer & Business Products	52,840	13.0%	25,467	6.9%
Drug Discovery	51,360	12.6%	51,848	14.0%
Communications & Networking	49,909	12.2%	58,088	15.7%
Specialty Pharma	40,265	9.9%	25,193	6.8%
Drug Delivery	35,550	8.7%	21,493	5.8%
Therapeutic	20,597	5.1%	13,470	3.6%
Clean Tech	15,343	3.8%	0	0.0%
Surgical Devices	9,560	2.3%	2,410	0.7%
Information Services	8,934	2.2%	37,740	10.2%
Internet Consumer & Business Services	8,635	2.1%	20,352	5.5%
Electronics & Computer Hardware	8,536	2.1%	17,701	4.8%
Diagnostic	8,512	2.1%	11,399	3.1%
Biotechnology Tools	6,536	1.6%	9,669	2.6%
Semiconductors	2,118	0.5%	11,481	3.1%
Media/Content/Info	1,185	0.3%	2,375	0.6%
Energy	1	0.0%	104	0.0%
	\$ 407,501	100%	\$ 370,437	100%

During the three and nine-month periods ended September 30, 2010, the Company made investments in debt securities, including restructured loans totaling approximately \$55.7 million and \$286.0 million, respectively. The Company funded equity investments, including restructured loans totaling approximately \$187,000 and \$18.0 million, respectively, in the three and nine-month periods ended September 30, 2010. During the three and nine-month periods ended September 30, 2009, the Company funded investments in debt securities totaling approximately \$8.2 million and \$76.4 million, respectively. The Company funded equity investments of approximately \$444,000 and \$816,000, respectively, in the three and nine-month periods ended September 30, 2009.

During the nine months ended September 30, 2010, we recognized net realized gains of approximately \$3.6 million from the sale of common stock in its public portfolio companies, approximately \$465,000 from mergers of private portfolio companies and realized losses of approximately \$19.2 million from equity and warrant investments in portfolio companies that have been liquidated. During the three months ended September 30, 2010 we recognized realized losses of approximately \$18.9 million from equity and loan investments in portfolio companies that have been liquidated.

During the three and nine-month periods ended September 30, 2009, the Company recognized net realized gains of approximately \$533,000 and \$200,000, respectively, from the sale of common stock in public companies, approximately \$5,000 and \$119,000 from mergers of private portfolio companies and realized losses of approximately \$14.7 million and \$19.8 million, respectively, from equity, loan and warrant investments in portfolio companies that have been liquidated.

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 \$5.0 million and \$2.4 million of unamortized fees at September 30, 2010 and December 31, 2009, respectively, and approximately \$7.5 million and \$6.6 million in exit fees receivable at September 30, 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

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

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 \$552,000 and \$1.7 million in PIK income in the three and nine-month periods ended September 30, 2010, respectively. The Company recorded approximately \$836,000 and \$2.1 million in the same periods ended September 30, 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 September 30, 2010, approximately 69% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 27.5% of portfolio company loans were prohibited from pledging or encumbering their intellectual property, 2.6% of portfolio company loans had a custom lien structure and 0.9% of portfolio company loans had an equipment only lien.

**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 \$175.5 million, compared to the carrying amount of \$160.0 million as of September 30, 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 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 were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the 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 \$335,000 as of September 30, 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 investments and additional contributions to regulatory capital. As of September 30, 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 \$75.0 million in HT II as of September 30, 2010, HT II has fully drawn its capacity to issue a total of \$150.0 million of SBA guaranteed debentures, as of September 30, 2010. As of September 30, 2010, HT II has paid the SBA commitment fees of approximately \$1.5 million. As of September 30, 2010, the Company held investments in HT II in 53 companies with a fair value of approximately \$167.8 million. HT II's portfolio companies accounted for approximately 41.2% of the Company's total portfolio at September 30, 2010.

---

**Table of Contents**

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).

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2010, HT III had the potential to borrow up to \$75.0 million of SBA-guaranteed debentures under the SBIC program. With the Company's net investment of \$25.0 million in HT III as of September 30, 2010, HT III the capacity to issue a total of \$ 50.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$10.0 million had been issued as of September 30, 2010. As of September 30, 2010, HT III has paid the SBA commitment fees of approximately \$750,000. In order to have access to the remaining \$25.0 million leverage, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million. There is no assurance that HT III will be able to draw up to the maximum limit available under the SBIC program. As of September 30, 2010, the Company held investments in HT III in three companies with a fair value of approximately \$22.8 million. HT III's portfolio accounted for approximately 5.6% of the Company's total portfolio at September 30, 2010.

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

The rates of borrowings under various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT II was approximately \$144.3 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT III was approximately \$5.2 million with an average interest rate of approximately 3.215%. 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.

***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 \$50.0 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility ). The Wells Facility has the capacity to increase to \$300 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 0.3% annually. 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. 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 September 30, 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 \$250.0 million, contingent upon our total commitments under all lines of credit not exceeding \$250 million. To the extent our total commitment exceeds \$250.0 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. The Company was in compliance with all covenants at September 30, 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 September 30, 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 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

At September 30, 2010 (unaudited) and December 31, 2009, the Company had the following borrowing capacity and outstanding borrowings:

(in thousands)	September 30, 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 <sup>(1)</sup>	225,000	160,000	150,000	130,600
Total	\$ 295,000	\$ 160,000	\$ 200,000	\$ 130,600

<sup>(1)</sup> The Company has the ability to borrow \$40.0 million in SBA debentures under HT III, subject to SBA approval. In order to have access to an additional \$25.0 million, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million in HT III.

**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 unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized.



## **Table of Contents**

Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

For the quarter ended September 30, 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. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. If the Company had determined the tax attributes of its distributions year-to-date as of September 30, 2010, approximately 95% would be from ordinary income and spill over earnings from 2009 and 5% 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 nine-month period ended September 30, 2010 was approximately \$19.3 million or \$0.55 per share. Taxable net realized losses for the same period were \$11.1 million or approximately \$0.32 per share. Taxable income for the nine-month period ended September 30, 2009 was approximately \$30.8 million or \$0.89 per share. Taxable net realized losses for the same period were approximately \$17.8 million or approximately \$0.51 loss 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.

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 three and nine-month periods ended September 30, 2010, the Company repurchased zero and 402,833 shares of its common stock at a total cost of approximately \$3.7 million.

The Company has issued stock options and warrants subject to future issuance of common stock for a total of 4,656,395 and 4,924,405 common shares at September 30, 2010 and December 31, 2009, respectively.

**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 nine months ended September 30, 2010 and 2009 is as follows:

**Table of Contents**

	For the Nine Month Period Ended September 30,			
	2010		2009	
	Common Stock Options	Five-Year Warrants	Common Stock Options	Five-Year Warrants
Outstanding at Beginning of Period	4,924,405		3,931,527	10,692
Granted	368,250		1,200,500	
Exercised	(413,337)			
Cancelled	(222,923)		(306,620)	(10,692)
Outstanding at End of Period	4,656,395		4,825,407	
Weighted-average exercise price	\$ 11.28	\$	\$ 10.75	\$

**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 September 30, 2010, options for approximately 3.5 million shares were exercisable at a weighted average exercise price of approximately \$12.50 per share with a weighted average remaining contractual term of 3.05 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the nine-month periods ended September 30, 2010 and 2009 was approximately \$652,000 and \$486,000 respectively. During the three-month periods ended September 30, 2010 and 2009, approximately \$182,000 and \$233,000 of share-based cost due to stock option grants was expensed, respectively. During the nine-month periods ended September 30, 2010 and 2009, approximately \$538,000 and \$752,000 of share-based cost due to stock option grants was expensed, respectively. As of September 30, 2010, there was approximately \$921,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.97 years. The fair value of options granted is based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the nine-month periods ended September 30, 2010 and 2009:

	<b>For the Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Expected Volatility	46.39%	31.5% - 37.2%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	1.10% - 2.51%	1.77% - 2.22%

The following table summarizes stock options outstanding and exercisable at September 30, 2010:

(Dollars in thousands, except exercise price)

Range of exercise prices	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
\$4.21 - \$6.74	716,833	5.45	\$ 4,226	\$ 4.21	168,376	5.39	\$ 993	\$ 4.21
\$8.49 - \$12.84	2,007,299	4.37	153	11.59	1,438,722	3.72	21	12.02
\$13.00 - \$15.00	1,932,263	2.36	0	13.58	1,924,669	2.34	0	13.58
\$4.21 - \$15.00	4,656,395	3.70	\$ 4,379	\$ 11.28	3,531,767	3.05	\$ 1,014	\$ 12.50

During the nine months ended September 30, 2010 and 2009, the Company granted approximately 491,500 and 311,500 shares respectively, 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-month periods ended September 30, 2010 and 2009, the Company expensed approximately \$582,000 and \$265,000 compensation expense related to restricted stock, respectively. During the nine-month periods ended September 30, 2010, and 2009, the Company expensed approximately \$1.5 million and \$736,000 related to restricted stock.

The Securities and Exchange Commission, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company's common stock to pay for the exercise price and applicable taxes with respect to an option exercise ( net issuance exercise ). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of Hercules stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make, and does not preclude the participant from electing to make, a cash payment at the time of option exercise or to pay taxes on restricted stock.

**8. Earnings Per Share**

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

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**

(in thousands, except per share data)	Three months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	2010	2009	2010	2009
<b>Numerator</b>				
Net increase in net assets resulting from operations	\$ (7,823)	\$ 13,690	\$ (6,738)	\$ 5,113
Less: Dividends declared-common and restricted shares	(7,197)	10,635	(21,582)	31,825
Undistributed earnings	(15,020)	3,055	(28,320)	(26,712)
Undistributed earnings-common shares	(15,020)	3,013	(28,320)	(26,712)
Add: Dividend declared-common shares	7,034	10,486	21,152	31,451
<b>Numerator for basic and diluted change in net assets per common share</b>	<b>(7,986)</b>	<b>13,499</b>	<b>(7,168)</b>	<b>4,739</b>
<b>Denominator</b>				
<b>Basic weighted average common shares outstanding</b>	<b>35,208</b>	<b>34,981</b>	<b>35,227</b>	<b>34,282</b>
Common shares issuable		595		325
<b>Weighted average common shares outstanding assuming dilution</b>	<b>35,208</b>	<b>35,576</b>	<b>35,227</b>	<b>34,607</b>
<b>Change in net assets per common share</b>				
Basic	\$ (0.23)	\$ 0.39	\$ (0.20)	\$ 0.14
Diluted	\$ (0.23)	\$ 0.38	\$ (0.20)	\$ 0.14



**Table of Contents**

The calculation of change in net assets per common share assuming dilution, excludes all anti-dilutive shares. For the three and nine-month periods ended September 30, 2010, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, were approximately 4.0 million and 3.9 million shares, respectively. For the three and nine-month periods ended September 30, 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, were approximately 3.8 million and 4.0 million shares. For the three and nine-month periods ended September 30, 2010 approximately 672,000 and 742,000 shares were anti-dilutive due to net assets decreasing during these periods as a result of operations.

**9. Related-Party Transactions**

In connection with the Company's sales of public equity investments, during the nine-month period ended September 30, 2010, the Company paid JMP Securities LLC approximately \$34,600 in brokerage commissions. The Company paid JMP Securities LLC approximately \$12,000 and \$48,000 for the three and nine-month periods ended September 30, 2009.

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

Following is a schedule of financial highlights for the nine months ended September 30, 2010 (unaudited) and 2009:

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

	Nine Months Ended September 30,	
	2010	2009
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 10.29	\$ 11.56
Net investment income	0.59	0.98
Net realized gain (loss) on investments	(0.43)	(0.57)
Net unrealized appreciation (depreciation) on investments	(0.35)	(0.27)
Total from investment operations	(0.19)	0.14
Net increase/(decrease) in net assets from capital share transactions	(0.19)	(0.45)
Distributions	(0.61)	(0.92)
Stock-based compensation expense included in investment income (1)	0.06	0.04
Net asset value at end of period	\$ 9.36	\$ 10.37
<b>Ratios and supplemental data:</b>		
Per share market value at end of period	\$ 10.11	\$ 9.82
Total return	(0.65%) <sup>(2)</sup>	27.63%
Shares outstanding at end of period	36,158	35,546
Weighted average number of common shares outstanding	35,208	34,282
Net assets at end of period	\$ 338,549	368,722
Ratio of operating expense to average net assets (annualized)	7.01%	8.34%
Ratio of net investment income before investment gains and losses to average net assets (annualized)	7.62%	11.78%
Average debt outstanding	\$ 223,766	153,124
Weighted average debt per common share	\$ 6.36	\$ 4.42
Portfolio turnover	1.72%	0.95%

(1) 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. 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.

(2) 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 unfunded commitments to extend credit at September 30, 2010 totaled approximately \$122.3 million. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately \$70.1 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 \$268,000 and \$765,000 during the three and nine-month periods ended September 30, 2010, respectively. There was approximately \$224,000 and \$728,000 of rent expenses recorded in the same periods ended September 30, 2009.

Future commitments under the credit facility and operating leases as of September 30, 2010 (unaudited) 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>	\$ 160,000	\$	\$	\$	\$ 160,000
Operating Lease Obligations <sup>(4)</sup>	3,641	1,192	2,363	85	
<b>Total</b>	<b>\$ 163,641</b>	<b>\$ 1,192</b>	<b>\$ 2,363</b>	<b>\$ 85</b>	<b>\$ 160,000</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 September 30, 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 of the Level 3 disclosure requirement on our consolidated financial statements of adopting ASU 2010-06.

**13. Subsequent Events**

The Board of Directors declared a cash dividend of \$0.20 per share that will be payable on December 17, 2010 to shareholders of record as of November 10, 2010. This dividend would represent the Company's twenty-first consecutive dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.81 per share.

As of November 2, 2010, the Company has:

1. Closed commitments of \$44.0 million to new portfolio companies and funded approximately \$26.4 million since the close of the third quarter.
2. Pending commitments (signed term sheets) of over \$103.0 million.
3. The table below summarizes the Company's year-to-date closed and pending commitments as follows:

**2010 Closed Commitments and Pending Commitments (in millions)**

1st Half 2010 Closed Commitments <sup>(a)</sup>	\$ 253.3
Q3-10 Closed Commitments <sup>(a)</sup>	\$ 67.8
<b>Year to Date, through Q3-10 Closed Commitments<sup>(a)</sup></b>	<b>\$ 321.1</b>
Q4-10 Closed Commitments (as of 11-02-2010)	\$ 44.0
<b>Total 2010 Closed Commitments<sup>(b)</sup></b>	<b>\$ 365.1</b>
Pending Commitments (as of 11-02-2010) <sup>(c)</sup>	\$ 103.3
<b>Total</b>	<b>\$ 468.4</b>

- a. Year to Date Closed Commitments excludes \$74.2 million of existing credit restructures and renewals.
- b. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
- c. Not all pending commitments (signed non-binding term sheets) are expected to close and do not necessarily represent any future cash requirements.

In October 2010, Aegerion Pharmaceuticals, Inc. (NASDAQ:AEGR) completed its IPO of 5,000,000 shares of its common stock at \$9.50 per share, before underwriting discounts and commissions. As of November 2, 2010 the Company has an unrealized gain of approximately \$1.0 million based on the close price of \$10.25, which is not reflected in the third quarter and will change based on future market conditions.

In October 2010, PSS Systems was acquired by IBM (NYSE: IBM) for an undisclosed amount. The PSS investment generated a total internal rate of return of 13.5%.

In October, 2010, Aveo Pharmaceuticals announced the execution of a securities purchase agreement for a private placement, or PIPE, financing. Upon the closing of the PIPE financing, AVEO will receive gross proceeds of approximately \$61 million resulting from the sale of

4.5 million shares of common stock.

On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of InfoLogix's non-compliance with the minimum \$2.5 million stockholders' equity requirement, set forth in NASDAQ Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. The closing price on September 30, 2010 was \$4.22. Furthermore, the Company advanced an additional \$2.9 million in October. InfoLogix continues to explore strategic options as previously disclosed by the company.

**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 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, clean 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 \$407.5 million at September 30, 2010 as compared to \$370.4 million at December 31, 2009. During the three and nine-month periods ended September 30, 2010 we made debt commitments totaling \$82.7 million and \$391.9 million and funded approximately \$55.7 million and \$286.0 million, respectively. Debt commitments for the nine-month period ended September 30, 2010 included commitments of approximately \$266.1 million to eighteen new portfolio companies and \$125.8 million to nineteen existing companies. During the three and nine-month periods ended September 30, 2010 we made and funded equity commitments of approximately \$187,000 and \$18.0 million to six and eight companies, respectively. These commitments further diversify our portfolio by stage and industry sector. During the three and nine-month periods ended September 30, 2009, we made debt commitments totaling \$15.8 million and \$150.6 million and funded approximately \$8.2 million and \$76.4 million, respectively. During the three and nine-month periods ended September 30, 2009, we made an equity investment of approximately \$444,000 in one existing portfolio company and approximately \$816,000 in two existing portfolio companies.

At September 30, 2010, we had unfunded contractual commitments of \$122.3 million to 22 portfolio companies. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we had approximately \$70.1 million of non-binding term sheets outstanding to six new and existing companies at September 30, 2010. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at September 30, 2010 was approximately \$349.1 million, compared to a fair value of approximately \$369.5 million at September 30, 2009. The fair value of the equity portfolio at September 30, 2010 and 2009 was approximately \$39.4 million and \$31.1 million, respectively. The fair value of our warrant portfolio at September 30, 2010 and 2009 was approximately \$19.0 million and \$14.2 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the nine-month period ended September 30, 2010, we received normal principal amortization repayments of \$69.2 million, and early repayments and working line of credit pay-downs totaling \$154.2 million. Total portfolio investment activity (exclusive of unearned income) as of the nine-month periods ended September 30, 2010 and 2009 is as follows:

(in millions)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Beginning Portfolio	\$ 370.4	\$ 581.3
Purchase of debt investments	286.8	76.7
Equity Investments	3.0	1.0
Sale of Investments	(24.3)	(23.3)
Principal payments received on investments	(69.2)	(68.7)
Early pay-offs and recoveries	(154.2)	(149.6)
Accretion of loan discounts and paid-in-kind principal	5.4	6.5
Net change in unrealized depreciation in investments	(10.4)	(9.1)

Ending Portfolio	\$	407.5	\$	414.8
------------------	----	-------	----	-------

**Table of Contents**

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

(in thousands)	September 30, 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	\$ 302,870	74.3%	\$ 229,454	61.9%
Senior secured debt	65,229	16.0%	99,725	26.9%
Preferred stock	22,713	5.6%	22,875	6.2%
Senior debt-second lien with warrants		0.0%	6,173	1.7%
Common Stock	16,689	4.1%	12,210	3.3%
	\$ 407,501	100.0%	\$ 370,437	100%

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

(in thousands)	September 30, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 375,231	92.1%	\$ 344,984	93.1%
Canada	20,805	5.1%	21,567	5.8%
England	9,976	2.4%		0.0%
Israel	1,489	0.4%	1,310	0.4%
Netherlands		0.0%	2,576	0.7%
	\$ 407,501	100.0%	\$ 370,437	100%

Our portfolio companies are primarily privately held expansion and established-stage companies in the biopharmaceutical, clean technology, 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 the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.

**Table of Contents**

At September 30, 2010, the Company's investment in InfoLogix, Inc. was classified as a Control Investment. Approximately \$796,000 in investment income was derived from our debt investment in this Software and Internet Consumer portfolio company during the three month period, and approximately \$2.4 million during the nine-month period ended September 30, 2010. Approximately \$2.5 million of realized gains and net unrealized depreciation of approximately \$1.4 million on this control investment were recognized during the nine-month period ended September 30, 2010.

InfoLogix, Inc., a public company, is a provider of enterprise mobility and radio frequency identification (RFID) solutions. Our investment in InfoLogix, Inc. represents 6.3% and 8.3% of our total investments at cost and value, respectively at September 30, 2010. We currently have a greater than 60% equity interest in InfoLogix, Inc. and have representation on its board of directors. We also have a total debt investment of approximately \$17.9 million at fair value in InfoLogix, Inc. On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of InfoLogix's non-compliance with the minimum \$2.5 million stockholders equity requirement, set forth in Nasdaq Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. In October, Hercules made \$2.9 million of additional debt investments in InfoLogix. InfoLogix continues to explore strategic options as previously disclosed by the company. Our financial results could be negatively affected if this company encounters financial difficulty and fails to repay its obligations or to perform as expected.

Our investments in Spa Chakra Acquisition Corporation, a company that was a Control Investment as of July 1, 2010, was a realized loss during the quarter. We recognized investment income during the nine-month period of approximately \$285,000 and a realized loss of approximately \$18.9 million in the third quarter of 2010 in this portfolio company prior to the disposal of the investment. The elimination of this investment from our portfolio resulted in a reversal of unrealized depreciation in the third quarter of approximately \$17.8 million. During the nine-month period ended September 30, 2009, no portfolio companies were deemed to be Control Investments.

**Table of Contents**

At September 30, 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 September 30, 2009, we had investments in two portfolio companies deemed to be affiliates. Income derived from our investments in these portfolio companies was less than \$500,000 since these investments became affiliates. We recognized a realized loss of approximately \$4.0 million during the three and nine-month periods ended September 30, 2009 in a portfolio company that was an affiliate prior to the disposal of the investment.

**Table of Contents**

The following table shows the fair value of our portfolio by industry sector at September 30, 2010 and December 31, 2009 (excluding unearned income):

(in thousands)	September 30, 2010		December 31, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Software	\$ 87,620	21.5%	\$ 61,647	16.6%
Consumer & Business Products	52,840	13.0%	25,467	6.9%
Drug Discovery	51,360	12.6%	51,848	14.0%
Communications & Networking	49,909	12.2%	58,088	15.7%
Specialty Pharma	40,265	9.9%	25,193	6.8%
Drug Delivery	35,550	8.7%	21,493	5.8%
Therapeutic	20,597	5.1%	13,470	3.6%
Clean Tech	15,343	3.8%	0	0.0%
Surgical Devices	9,560	2.3%	2,410	0.7%
Information Services	8,934	2.2%	37,740	10.2%
Internet Consumer & Business Services	8,635	2.1%	20,352	5.5%
Electronics & Computer Hardware	8,536	2.1%	17,701	4.8%
Diagnostic	8,512	2.1%	11,399	3.1%
Biotechnology Tools	6,536	1.6%	9,669	2.6%
Semiconductors	2,118	0.5%	11,481	3.1%
Media/Content/Info	1,185	0.3%	2,375	0.6%
Energy	1	0.0%	104	0.0%
	\$ 407,501	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 September 30, 2010 and December 31, 2009.

(in thousands)	September 30, 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	\$ 11,961	3.4%	\$ 15,777	4.9%
2	254,608	72.9%	147,520	46.0%
3	71,822	20.6%	108,716	33.9%
4	10,374	3.0%	38,384	12.0%
5	368	0.1%	10,505	3.2%
	\$ 349,133	100.0%	\$ 320,902	100.0%

As of September 30, 2010, our investments had a weighted average investment grading of 2.34 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 September 30, 2010, 6 portfolio





**Table of Contents**

companies were graded 3, 2 portfolio companies were graded 4, and 4 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 period ended September 30, 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 September 30, 2010, there were four portfolio companies on non-accrual status with a fair value of approximately \$368,000. There were five loans on non-accrual status as of December 31, 2009 with a fair value of approximately \$10.5 million. The significant decrease in this balance is related to the elimination of Spa Chakra Acquisition Corporation from our investment portfolio during the third quarter of 2010.

The effective yield on our debt investments for the three month periods ended September 30, 2010 and 2009 was 16.2% and 15.1%, respectively. This yield was higher period over period due to higher interest rate yield enhancers on new loans originated in 2010 relative to the loans that have been paid off or have amortized.

The overall weighted average yield to maturity of our loan obligations was approximately 13.8% and 13.6% at September 30, 2010 and December 31, 2009. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$30.0 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 September 30, 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 September 30, 2010, approximately 69.0% of the Company's portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 27.5% of portfolio company loans were prohibited from pledging or encumbering their intellectual property, 2.6% of the portfolio loans had a custom lien structure and 0.9% of portfolio company loans were equipment only liens. 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 September 30, 2010, we held warrants in 91 technology and life science portfolio companies, with a fair value of approximately \$19.0 million. These warrant holdings would require us to invest approximately \$64.3 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 and Nine-month Periods Ended September 30, 2010 and 2009*

***Investment Income***

Interest income totaled approximately \$14.1 and \$38.1 million for the three and nine-month periods ended September 30, 2010, compared with \$14.6 million and \$48.4 million for the three and nine-month periods ended September 30, 2009, respectively. Income from commitment, facility and loan related fees totaled approximately \$1.5 million and \$4.5 million for the three and nine-month periods ended September 30, 2010, compared with \$3.1 million and \$9.2 million for the same periods ended September 30, 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 improvement in credit performance in the portfolio and due to a lower average interest earning investment portfolio.

***Operating Expenses***

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately \$7.5 million and \$7.3 million during the three month periods ended September 30, 2010 and 2009, respectively. Operating expenses totaled approximately \$22.0 million and \$23.9 million for the nine-month periods ended September 30, 2010 and 2009, respectively.

Interest and fees totaled approximately \$2.5 million and \$2.4 million during the three month periods ended September 30, 2010 and 2009 and \$7.2 million and \$8.9 million for the nine-month periods ended September 30, 2010 and 2009, respectively. This \$1.7 million year over year decrease is primarily attributable to the interest expense and one time fees on the Citigroup Credit Facility that was paid off in full in March of 2009.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to \$1.7 million from \$2.1 million for the three month periods ended September 30, 2010 and 2009, respectively, and expenses decreased to \$5.2 million from \$5.5 million for the nine-month periods ended September 30, 2010 and 2009, respectively, primarily due to lower workout related expenses.

Employee compensation and benefits totaled approximately \$2.6 million and \$2.4 million during the three month periods ended September 30, 2010 and 2009, respectively. This increase is primarily due to an increase in headcount as compared to the same period of 2009. Employee compensation and benefits totaled approximately \$7.7 million and \$8.1 million for the nine-month periods ended September 30, 2010 and 2009, respectively. This decrease is primarily due to a lower bonus accrual during the nine-month period ended September 30, 2010 as compared to the same period of 2009. Stock-based compensation totaled approximately \$752,000 and \$470,000 during the three month periods ended September 30, 2010 and 2009, respectively, and \$2.0 million and \$1.4 million for the nine-month periods ended September 30, 2010 and 2009, respectively. These increases were due to the expense on restricted stock grants issued in the first quarter of 2010.

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

Net investment income per share was \$0.23 for the quarter ended September 30, 2010 compared to \$0.30 per share in the quarter ended September 30, 2009. Net investment income before investment gains and losses for the three and nine-month periods ended September 30, 2010 totaled \$8.1 million and \$20.6 million, respectively as compared to \$10.3 million and \$33.7 million in the three and nine-month periods ended September 30, 2009, respectively. The changes are made up of the items described above under Investment Income and Operating Expenses.

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

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

During the nine months ended September 30, 2010, we recognized net realized gains of approximately \$3.6 million from the sale of common stock in our public portfolio companies, approximately \$465,000 from mergers of private portfolio companies and realized losses of

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

approximately \$19.2 million from equity and warrant investments in portfolio companies that have been liquidated. During the three months ended September 30, 2010 we recognized realized losses of approximately \$18.9 million from equity and loan investments in portfolio companies that have been liquidated including Spa Chakra Acquisition Corporation.

During the three and nine-month periods ended September 30, 2009, the Company recognized net realized gains of approximately \$533,000 and \$200,000, respectively, from the sale of common stock in public companies, approximately \$5,000 and \$119,000 from mergers of private portfolio companies and realized losses of approximately \$14.7 million and \$19.8 million, respectively, from equity, loan and warrant investments in portfolio companies that have been liquidated.

**Table of Contents**

A summary of realized gains and losses for the three and nine-month periods ended September 30, 2010 and 2009 is as follows:

( in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Realized gains	\$	\$ 0.5	\$ 4.4	\$ 2.1
Realized losses		(18.9)	(19.5)	(21.6)
Net realized gains (losses)	\$	\$ (18.9)	\$ (15.1)	\$ (19.5)

During the three months period ended September 30, 2010 and September 30, 2009, net unrealized appreciation totaled approximately \$2.9 million and \$17.5 million, respectively. During the nine-months period ended September 30, 2010 and September 30, 2009, net unrealized depreciation totaled approximately \$12.2 million and \$9.2 million, respectively.

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors. This net unrealized depreciation was primarily comprised of decreases in the fair value of our portfolio companies due to company performance and market conditions. For the three month period ended September 30, 2010 approximately \$4.3 million and \$2.7 million of the net unrealized depreciation recognized was attributable to debt and warrant investments based on company performance, respectively and \$11.2 million of net unrealized appreciation on our equity investments. Included in these amounts are unrealized appreciation of approximately \$2.8 million and \$15.0 million in debt and equity investments attributable to the reversal of prior period net unrealized depreciation upon being realized as a loss. For the nine month period ended September 30, 2010 approximately \$5.4 million, \$3.1 million and \$1.9 million of the net unrealized depreciation recognized was attributable to debt, warrant and equity investments, respectively. As of September 30, 2010, the net unrealized appreciation recognized by the Company was increased by approximately \$177,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

The following table itemizes the change in net unrealized depreciation of investments for the three and nine-month periods ended September 30, 2010 and 2009:

(in thousands)	Three Months Ended September 30,	
	2010 Amount	2009 Amount
Gross unrealized appreciation on portfolio investments	\$ 4,565	\$ 16,387
Gross unrealized depreciation on portfolio investments	(15,824)	(13,326)
Reversal of prior period net unrealized appreciation upon realization	(3,912)	(500)
Reversal of prior period net unrealized depreciation upon realization	17,888	15,051
Citigroup Warrant Participation	177	(96)
Net unrealized appreciation (depreciation) on portfolio investments	\$ 2,894	\$ 17,516

(in thousands)	Nine Months Ended September 30,	
	2010 Amount	2009 Amount
Gross unrealized appreciation on portfolio investments	\$ 26,369	\$ 29,008
Gross unrealized depreciation on portfolio investments	(52,867)	(58,728)
Reversal of prior period net unrealized appreciation upon realization	(3,902)	(1,542)
Reversal of prior period net unrealized depreciation upon realization	18,048	22,300
Citigroup Warrant Participation	134	(146)

Net unrealized appreciation (depreciation) on portfolio investments	\$ (12,218)	\$ (9,108)
---	-------------	------------

## **Table of Contents**

### ***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 and nine months ended September 30, 2010, the net decrease in net assets resulting from operations totaled approximately \$7.8 million and \$6.7 million, respectively. For the three and nine months ended September 30, 2009, the net increase in net assets resulting from operations totaled approximately \$13.7 million and \$5.1 million, respectively. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share for the three and nine-month periods ended September 30, 2010 was \$(0.23) and \$(0.20), respectively, as compared to basic and fully diluted change in net assets per common share of \$0.39 and \$0.38 for the three month period and \$0.14 for the nine-month period ended September 30, 2009, respectively.

### ***Financial Condition, Liquidity, and Capital Resources***

At September 30, 2010, we had approximately \$83.0 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 \$65.0 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

As of September 30, 2010, net assets totaled \$338.5 million, with a net asset value per share of \$9.36. 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 2010 Annual Shareholder Meeting held on June 9, 2010, our shareholders authorized the Company, with the approval of its Board of Directors, 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 September 30, 2010 was 0%, excluding SBA leverage, based on our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when excluding the SEC exemptive order is approximately 47.3% at September 30, 2010.

**Table of Contents**

At September 30, 2010 and December 31, 2009, we had the following borrowing capacity and outstanding amounts:

(in thousands)	September 30, 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 <sup>(1)</sup>	225,000	160,000	150,000	130,600
Total	\$ 295,000	\$ 160,000	\$ 200,000	\$ 130,600

<sup>(1)</sup> The Company has the ability to borrow \$40.0 million in SBA debentures under HT III, subject to SBA approval. In order to have access to an additional \$25.0 million, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million in HT III.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III 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 investments and additional contributions to regulatory capital. The Company is the sole limited partner of HT II and HT III and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. The portfolios of HT II and HT III accounted for approximately 46.8% of our total portfolio at September 30, 2010.

With our net investment of \$75.0 million in HT II as of September 30, 2010, HT II has the current capacity to issue a total of \$150.0 million of SBA guaranteed debentures, of which \$150.0 million was outstanding. As of September 30, 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 September 30, 2010, we hold investments in HT II in 53 companies with a fair value of approximately \$167.8 million. HT II's portfolio accounted for approximately 41.2% of our total portfolio at September 30, 2010.

As of September 30, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. As of September 30, 2010, HT III had the potential to borrow up to \$75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$25.0 million in HT III as of September 30, 2010, HT III has the capacity to issue a total of \$ 50.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$10.0 million was outstanding at September 30, 2010. As of September 30, 2010, HT III has paid the SBA commitment fees of approximately \$750,000. As of September 30, 2010, we hold investments in HT III in three companies with a fair value of approximately \$22.8 million. HT III's portfolio accounted for approximately 5.6% of our total portfolio at September 30, 2010.

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

The U.S. capital and credit markets have been experiencing 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 contraction 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 the remainder of 2010 as the economic environment recovers from the recession of the past 21 months. Due to the economic slowdown and reduced venture capital investment activity in 2009, we determined that was 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 into 2010, 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. As a result, we have once again commenced making investments in new and existing portfolio companies. To the extent that we are able, we intend to continue to seek new investment opportunities; however, we remain cautious in our investment and credit management strategies as the pace of economic recovery continues to improve.

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 September 30, 2010, we had unfunded commitments of approximately \$122.3 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 and typically only fund 70-80% of the committed amount. 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.

In addition, we had approximately \$70.1 million of non-binding term sheets outstanding, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term from prior release are subject to completion of 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.

**Contractual Obligations**

The following table shows our contractual obligations as of September 30, 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>	\$ 160,000	\$	\$	\$	\$ 160,000
Operating Lease Obligations <sup>(4)</sup>	3,641	1,192	2,363	85	
<b>Total</b>	<b>\$ 163,641</b>	<b>\$ 1,192</b>	<b>\$ 2,363</b>	<b>\$ 85</b>	<b>\$ 160,000</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 September 30, 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.

**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 were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the 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 \$335,000 as of September 30, 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,

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

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 and on May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to

**Table of Contents**

regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of September 30, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150 million, subject to periodic adjustments by the SBA. With our net investment of \$75.0 million in HT II as of September 30, 2010, HT II has the current capacity to issue up to a total of \$150 million of SBA guaranteed debentures, of which \$150.0 million was outstanding. Currently, HT II has paid commitment fees of approximately \$1.5 million. As of September 30, 2010, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. As of September 30, 2010, HT III had the potential to borrow up to \$75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$25.0 million in HT III as of September 30, 2010, HT III has the capacity to issue a total of \$50.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$10.0 million was outstanding at September 30, 2010. Currently, HT III has paid commitment fees of approximately \$750,000. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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

HTII and HT III are periodically examined and audited by the SBA's staff to determine its compliance with SBIC regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II/III are our wholly owned subsidiaries. As of September 30, 2010, HT III could draw up to \$75.0 million of additional leverage from 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 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT II was approximately \$144.3 million with an average interest rate of approximately 5.11%. The average amount of debentures outstanding for the quarter ended September 30, 2010 for HT III was approximately \$5.2 million with an average interest rate of approximately 3.215%. 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.

*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. We continue to be in discussions with various other potential lenders to join the facility; however, there is no assurance that additional lenders may join the facility. The Wells Facility expires in August 2011.

**Table of Contents**

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 0.3% annually. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at September 30, 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 September 30, 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 September 30, 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 September 30, 2010 and December 31, 2009, the Company had the following borrowing capacity and outstanding borrowings:

(in thousands)	September 30, 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 <sup>(1)</sup>	225,000	160,000	150,000	130,600
<b>Total</b>	<b>\$ 295,000</b>	<b>\$ 160,000</b>	<b>\$ 200,000</b>	<b>\$ 130,600</b>

<sup>(1)</sup> The Company has the ability to borrow \$40.0 million in SBA debentures under HT III, subject to SBA approval. In order to have access to an additional \$25.0 million, which would be subject to SBA approval and compliance with SBIC regulations, the Company would have to make an additional net investment of \$12.5 million in HT III.

**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
August 2, 2010	August 12, 2010	September 17, 2010	0.200
November 4, 2010	November 10, 2010	December 17, 2010	0.200
			\$ 5.805

\* Dividend paid in cash and stock.

On November 4, 2010, the Board of Directors announced a cash dividend of \$0.20 per share to be paid on December 17, 2010 to shareholders on record as of November 10, 2010. This is the Company's twenty-first consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.81 per share.

During 2010 and as recently updated, our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 - 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend or fifth dividend; such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable.

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 our distributions year-to-date as of September 30, 2010, approximately 95% would be from ordinary income and spill over earnings from 2009 and approximately 5% 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 our 2010 distributions to stockholders will actually be.



**Table of Contents**

*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 September 30, 2010 approximately 80.8% 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 of Directors 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 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.

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 may from time to time engage an independent valuation firm to provide us with valuation assistance with respect to certain of our portfolio investments. We intend to continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of the services rendered by an independent valuation firm is at the discretion of the Board of Directors. Our Board of Directors is ultimately and solely responsible for determining the fair value of our investments in good faith. No valuation assistance was provided during the third quarter of 2010.

*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. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of September 30, 2010, we had four portfolio companies on non-accrual status with a fair value of approximately \$368,000. There were four loans on non-accrual status with a fair value of approximately \$2.4 million as of September 30, 2009.

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

Contractual paid-in-kind ( PIK ) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the three-month periods ended September 30, 2010 and 2009, approximately \$1.7 million and \$2.2 million, respectively in PIK and end of term income was recorded. There was approximately \$5.2 million and \$6.4 million in PIK and end of term income recorded for the nine-month periods ended September 30, 2010 and 2009, respectively.

*Fee Income.*

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

*Stock-Based Compensation.*

We have issued and may, from time to time, issue additional stock options and restricted 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 one 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**

The Board of Directors declared a cash dividend of \$0.20 per share that will be payable on December 17, 2010 to shareholders of record as of November 10, 2010. This dividend would represent the Company's twenty-first consecutive dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to \$5.81 per share.

As of November 2, 2010, we have:

1. Closed commitments of \$44.0 million to new portfolio companies and funded approximately \$26.4 million since the close of the third quarter.
2. Pending commitments (signed term sheets) of over \$103.0 million.
3. The table below summarizes our year-to-date closed and pending commitments as follows:

**2010 Closed Commitments and Pending Commitments (in millions)**

1st Half 2010 Closed Commitments <sup>(a)</sup>	\$ 253.3
Q3-10 Closed Commitments <sup>(a)</sup>	\$ 67.8
<b>Year to Date, through Q3-10 Closed Commitments<sup>(a)</sup></b>	<b>\$ 321.1</b>
Q4-10 Closed Commitments (as of 11-02-2010)	\$ 44.0
<b>Total 2010 Closed Commitments<sup>(b)</sup></b>	<b>\$ 365.1</b>
Pending Commitments (as of 11-02-2010) <sup>(c)</sup>	\$ 103.3
<b>Total</b>	<b>\$ 468.4</b>

- a. Year to Date Closed Commitments excludes \$74.2 million of existing credit restructures and renewals.
- b. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
- c. Not all pending commitments (signed non-binding term sheets) are expected to close and do not necessarily represent any future cash requirements.

In October 2010, Aegerion Pharmaceuticals, Inc. (NASDAQ:AEGR) completed its IPO of 5,000,000 shares of its common stock at \$9.50 per share, before underwriting discounts and commissions. As of November 2, 2010 we have an unrealized gain of approximately \$1.0 million based on a close price of \$10.25, which is not reflected in the third quarter and will change based on future market conditions.

In October 2010, PSS Systems was acquired by IBM (NYSE: IBM) for an undisclosed amount. The PSS investment generated a total internal rate of return of 13.5%.

In October, 2010, Aveo Pharmaceuticals announced the execution of a securities purchase agreement for a private placement, or PIPE, financing. Upon the closing of the PIPE financing, AVEO will receive gross proceeds of approximately \$61 million resulting from the sale of 4.5 million shares of common stock.

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

On October 21, 2010, InfoLogix received notice that the NASDAQ Listing Qualifications Panel had determined to delist its common stock from the NASDAQ Stock Market and suspended trading of its common stock effective with the open of trading on October 21, 2010, as a result of InfoLogix's non-compliance with the minimum \$2.5 million stockholders' equity requirement, set forth in NASDAQ Listing Rule 5550(b)(2). The closing price of InfoLogix's common stock on October 20, 2010 was \$4.28 compared to a closing price of \$2.40 on October 21, 2010. The closing price on September 30, 2010 was \$4.22. Furthermore, we advanced an additional \$2.9 million in October. InfoLogix continues to explore strategic options as previously disclosed by the company.

**Table of Contents**

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

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

As of September 30, 2010, approximately 84.8% of our portfolio loans were at floating rates or floating with a floor and 15.2% 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.

**Table of Contents**

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 nine-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 3.22% to 5.73%. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of

## **Table of Contents**

the date that the leverage was drawn by the SBIC. The annual fee on HT II debentures that pooled on September 22, 2010 were 0.406% and 0.29%, depending upon the year the underlying commitment was closed in. 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. There were no borrowings outstanding under this facility at September 30, 2010. The facility expires in August 2011.

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 September 30, 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 September 30, 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 were 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, 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 continue to experience an increase in new investment origination activities which commenced in the fourth quarter of 2009 and has continued throughout 2010, and we would expect it to continue as the venture capital community continues to accelerate its own pace of new investments. To the extent that we are able, we intend to continue to seek new investment opportunities; however, we remain cautious in our investment and credit management strategies as the pace of economic recovery continues to improve.

*Our business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that could adversely affect our business and financial results.*

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the Nasdaq Stock Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as say on pay and proxy access. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities.

*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 September 30, 2010 that represent greater than 5% of net assets:

(in thousands)	September 30, 2010	
	Fair Value	Percentage of Net Assets
Infologix, Inc.	33,935	10.02%
Unify Corporation	27,563	8.14%
Aveo Pharmaceuticals, Inc.	25,879	7.64%
Velocity Technology Solutions	24,280	7.17%
Labopharm USA, Inc.	20,135	5.95%
Tectura Corporation	18,292	5.40%

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 September 30, 2010 we owned a controlling interest in this portfolio company. See [Managements Discussion and Analysis of Financial Condition and Results of Operations](#) [Subsequent Events](#) for more information regarding InfoLogix.

Unify Corporation is a global provider of application development, data management and migration solutions.

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

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

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

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

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

*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 Company Activities, our net asset value could decrease and our level of distributions and liquidity could be affected adversely.*

As of September 30, 2010, we had no outstanding borrowings under the Wells Facility or the Union Bank Facility and \$160.0 million of SBA guaranteed debentures under the SBA debenture program.

As of September 30, 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.

*The impact of recent financial reform legislation on us is uncertain.*

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

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act institutes a wide range of reforms that will have an impact on all financial institutions. Many of these provisions are subject to rule making procedures and studies that will be conducted in the future. Accordingly, we cannot predict the effect the Act or its implementing regulations will have on our business, results of operations or financial condition.

## **Table of Contents**

***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 September 30, 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 9, 2010, 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 the nine months ended September 30, 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 18 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**

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

Table of Contents

**SIGNATURES**

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

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Registrant)

Dated: November 4, 2010

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

Dated: November 4, 2010

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

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit 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