

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form N-2

October 05, 2012

Table of Contents

As filed with the Securities and Exchange Commission on October 5, 2012

Securities Act File No. 333-

# U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)

Pre-Effective Amendment No.

Post-Effective Amendment No.

## HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Exact name of Registrant as specified in charter)

400 Hamilton Avenue, Suite 310

Palo Alto, CA 94301

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (650) 289-3060

**Manuel A. Henriquez**

**Chief Executive Officer**

**Hercules Technology Growth Capital, Inc.**

**400 Hamilton Avenue, Suite 310**

**Palo Alto, CA 94301**

(Name and address of agent for service)

***COPIES TO:***

**Cynthia M. Krus**

**Sutherland Asbill & Brennan LLP**

**1275 Pennsylvania Avenue, N.W.**

**Washington, DC 20004**

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):  when declared effective pursuant to section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Aggregate Offering Price<sup>(1)</sup></b>	<b>Amount of Registration Fee<sup>(1)</sup></b>
Common Stock, \$0.001 par value per share <sup>(2)</sup>			
Preferred Stock, \$0.001 par value per share <sup>(2)</sup>			
Warrants <sup>(2)</sup>			
Subscription Rights <sup>(3)</sup>			
Debt Securities <sup>(4)</sup>			
<b>TOTAL</b>		\$ 400,000,000 <sup>(5)</sup>	\$ 54,560

- (1) Estimated pursuant to Rule 457(o) solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$400,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$400,000,000.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.**

**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

PROSPECTUS (Subject to Completion)

October 5, 2012

**\$400,000,000**

**Common Stock**

**Preferred Stock**

**Warrants**

**Subscription Rights**

**Debt Securities**

This prospectus relates to the offer, from time to time, in one or more offerings or series, up to \$400,000,000 of shares of our common stock, par value \$0.001 per share, preferred stock, par value \$0.001 per share, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities, which we refer to, collectively, as the securities. The preferred stock, debt securities, subscription rights and warrants offered hereby may be convertible or exchangeable into shares of our common stock. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On May 30, 2012, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending May 30, 2013. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In the event we offer common stock, the offering price per share will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the holders of the majority of our voting securities and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission may permit. See Risk Factors for more information.

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, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for entrepreneurial venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments.

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

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol HTGC. On October 4, 2012, the last reported sale price of a share of our common stock on the NYSE, was \$11.09. The net asset value per share of our common stock at June 30, 2012 (the last date prior to the date of this prospectus on which we determined net asset value) was \$9.54.

**An investment in our securities may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 16 to read about risks that you should consider before investing in our securities, including the risk of leverage.**

Please read this prospectus before investing and keep it for future reference. It contains important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301 or by telephone calling collect at (650) 289-3060 or on our website at [www.herculestech.com](http://www.herculestech.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

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

**This prospectus may not be used to consummate sales of any securities unless accompanied by a prospectus supplement.**

The date of this prospectus is \_\_\_\_\_, 2012

**Table of Contents**

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

## TABLE OF CONTENTS

	Page
<u>Summary</u>	1
<u>Fees and Expenses</u>	12
<u>Selected Consolidated Financial Data</u>	14
<u>Risk Factors</u>	16
<u>Forward-Looking Statements</u>	49
<u>Use of Proceeds</u>	51
<u>Price Range of Common Stock and Distributions</u>	52
<u>Ratio of Earnings to Fixed Charges</u>	55
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
<u>Business</u>	97
<u>Portfolio Companies</u>	110
<u>Senior Securities</u>	131
<u>Management</u>	133
<u>Corporate Governance</u>	139
<u>Control Persons and Principal Stockholders</u>	168
<u>Certain Relationships and Related Transactions</u>	170
<u>Certain United States Federal Income Tax Considerations</u>	171
<u>Regulation</u>	180
<u>Determination of Net Asset Value</u>	187
<u>Sales of Common Stock Below Net Asset Value</u>	190
<u>Dividend Reinvestment Plan</u>	194
<u>Description of Capital Stock</u>	195
<u>Description of Our Preferred Stock</u>	202
<u>Description of Our Subscription Rights</u>	204
<u>Description of Warrants</u>	206
<u>Description of Our Debt Securities</u>	208
<u>Plan of Distribution</u>	221
<u>Brokerage Allocation and Other Practices</u>	223
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	223
<u>Legal Matters</u>	223
<u>Experts</u>	223
<u>Change in Independent Registered Public Accounting Firm</u>	224
<u>Available Information</u>	224
<u>Index to Financial Statements</u>	F-1

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Hercules Technology Growth Capital, Inc., our logo and other trademarks of Hercules Technology Growth Capital, Inc. mentioned in this prospectus are the property of Hercules Technology Growth Capital, Inc. All other trademarks or trade names referred to in this prospectus are the property of their respective owners.

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to \$400,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Please carefully read this prospectus and any such supplements together with the additional information described under **Where You Can Find Additional Information** in the **Summary** and **Risk Factors** sections before you make an investment decision.

A prospectus supplement may also add to, update or change information contained in this prospectus.



## Table of Contents

### SUMMARY

*This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus and the documents that are referenced in this prospectus, together with any accompanying supplements. In this prospectus, unless the context otherwise requires, the Company, Hercules Technology Growth Capital, we, us and our refer to Hercules Technology Growth Capital, Inc. and our wholly-owned subsidiaries.*

### Our Company

We are a specialty finance company focused on providing senior secured loans to entrepreneurial venture capital and private equity-backed companies in technology-related markets at all stages of development, including technology, biotechnology, life science, healthcare services and cleantech industries. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of June 30, 2012, our total assets were approximately \$802.0 million, of which, our investments comprised \$722.8 million at fair value and \$743.7 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately \$647.1 million, \$28.1 million and \$47.6 million, respectively, or 89.5%, 3.9% and 6.6% of total investments, respectively. At June 30, 2012, total investments at fair value in foreign companies were approximately \$11.6 million or 1.6% of total assets. During the six month period ended June 30, 2012 we made debt and equity commitments to new and existing portfolio companies, including restructured loans, totaling \$240.3 million. Debt commitments for the six month period ended June 30, 2012 included commitments of approximately \$134.7 million to seventeen new portfolio companies and \$88.7 million to eleven existing companies. Equity commitments for the six month period ended June 30, 2012 included commitments of approximately \$14.6 million to two new portfolio companies and \$2.3 million to two existing portfolio companies. Since inception through June 30, 2012, we have made debt and equity commitments of approximately \$2.9 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company ( SBIC ) subsidiaries, Hercules Technology II, L.P. ( HT II ) and Hercules Technology III, L.P. ( HT III ). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of June 30, 2012, we held investments in HT II in 52 companies with a fair value of approximately \$179.7 million. HT II s portfolio companies accounted for approximately 24.9% of our total portfolio at June 30, 2012. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately \$140.3 million. HT III s portfolio accounted for approximately 19.4% of our total portfolio at June 30, 2012.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of June 30, 2012, our proprietary structured query language (SQL)-based database system included over 29,000 technology-related companies and approximately 7,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including, technology, biotechnology, life

## **Table of Contents**

science, healthcare services and cleantech companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

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

Our 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 including the right to convert some portion of our debt into equity in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

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

As of June 30, 2012, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 28 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

## Table of Contents

### **Our Market Opportunity**

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

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

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

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

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

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

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

***Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies.*** Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In the first six months of 2012, venture capital-backed companies received, in approximately 1,595 transactions, equity financing in an aggregate amount of approximately \$15.3 billion, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the six month period ended June 30, 2012 was approximately \$5.0 million. We believe the number of venture-backed companies receiving financing provides us an opportunity to provide debt financing to these companies. Overall, seed- and first-round deals made up 46% of the deal flow in the six months ended June 30, 2012 and later-stage deals made up roughly 54% of the deal activity in the quarter.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The

## **Table of Contents**

venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

### **Our Business Strategy**

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

***Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals.*** We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies.

***Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities.*** We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash and the continued support from a venture capital or private equity firm at the time we make our investment.

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

***Invest at Various Stages of Development.*** We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies, including select publicly listed companies and select lower middle market companies and established-stage companies.

***Benefit from Our Efficient Organizational Structure.*** We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds.

## **Table of Contents**

***Deal Sourcing Through Our Proprietary Database.*** We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of June 30, 2012, our proprietary SQL-based database system included over 29,000 technology-related companies and over 7,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

### **Dividend Reinvestment Plan**

We have adopted an opt-out dividend reinvestment plan through which distributions are paid to stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash. See **Dividend Reinvestment Plan**. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

### **Taxation**

Prior to 2006, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended, which we refer to in this prospectus as the Code. We elected to be treated for federal income tax purposes as a regulated investment company (a RIC) under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election was effective as of January 1, 2006. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. See **Certain United States Federal Income Tax Considerations**. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. There is no assurance that we will meet these tests and be able to maintain our RIC status. If we do not qualify as a RIC, we would be taxed as a C corporation.

### **Use of Proceeds**

We intend to use the net proceeds from selling our securities for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

### **Leverage**

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See **Risk Factors**. As of September 28, 2012, we had \$430.8 million outstanding in total borrowings, including \$200.3 million in SBIC debentures outstanding. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage for senior indebtedness as of June 30, 2012 was 654.3% excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 246.2% at June 30, 2012. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. See **Management's Discussion and Analysis of Financial Condition and Results of Operations** for additional information.

## **Table of Contents**

### **Distributions**

As a RIC, we are required to distribute annually to our stockholders at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. We are not subject to corporate level income taxation on income we timely distribute to our stockholders as dividends. See **Certain Material United States Federal Income Tax Considerations**. We pay regular quarterly dividends based upon an estimate of annual taxable income available for distribution to shareholders and the amount of taxable income carried over from the prior year for distribution in the current year.

### **Principal Risk Factors**

Investing in our common stock may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. In addition, we expect that our portfolio will continue to consist primarily of securities issued by privately-held technology-related companies, which generally require additional capital to become profitable. These investments may involve a high degree of business and financial risk, and they are generally illiquid. Our portfolio companies typically will require additional outside capital beyond our investment in order to succeed or to fully repay the amounts owed to us. A large number of entities compete for the same kind of investment opportunities as we seek.

We borrow funds to make our investments in portfolio companies. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings magnify the potential for gain and loss on amounts invested and, therefore increase the risks associated with investing in our common stock. Also, we are subject to certain risks associated with valuing our portfolio, changing interest rates, accessing additional capital, fluctuating quarterly results, and operating in a regulated environment. See **Risk Factors** for a discussion of factors you should carefully consider before deciding whether to invest in our securities.

### **Certain Anti-Takeover Provisions**

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

### **Recent Developments**

#### ***New Investments Since June 30, 2012***

As of September 10, 2012, we have originated commitments of approximately \$93.0 million to new and existing portfolio companies, including approximately \$24.5 million in commitments to existing portfolio companies. See **Management's Discussion and Analysis of Financial Condition and Results of Operations** in this prospectus supplement for more information relating to our commitments. Our new investments included:

\$10.5 million commitment to Oraya Therapeutics, Inc., a company that develops innovative and non-invasive therapies.

\$8.0 million commitment to Clickfox, Inc., a company that delivers Customer Behavior Intelligence software to large and mid-sized businesses.

\$5.3 million commitment to SCIEnergy, Inc., a leading provider of energy efficiency and system optimization solutions for the \$5 billion commercial building market.

## **Table of Contents**

\$500,000 commitment to Box.net, Inc., an online storage and sharing service that gives users access to their files from anywhere.

\$71,000 commitment to Gynesonics, Inc., a medical device company committed to improving women's health.

\$22,000 commitment to Novasys Medical, Inc., dedicated to the development of innovative therapies in women's health.

\$30.5 million commitment to EducationDynamics, LLC, higher education's leading marketing information and technology services company dedicated to helping institutions find, enroll and retain students.

\$20.0 million commitment to Fulcrum BioEnergy, Inc., a leader in the development of next-generation ethanol production in the United States.

\$15.0 million commitment to Coronado Biosciences, Inc., (Nasdaq: CND) a company focused on the development of novel immunotherapy agents for the treatment of autoimmune diseases and cancer.

\$3.0 million commitment to EndPlay, Inc., a leading provider of SaaS content management, engagement and monetization solutions delivered in the cloud.

\$100,000 commitment to Loku, Inc., a company that enables users to tap into the local scene.

### ***Principal Repayments***

As of September 10, 2012, we received approximately \$40.0 million in principal repayments, of which approximately \$5.6 million were unscheduled early repayments. In addition, in July 2012 we received a payment of \$2.0 million for our total debt investments in MaxVision Holding, L.L.C. As of June 30, 2012, we valued these debt investments, which had a total cost basis of approximately \$7.1 million, at a fair value of approximately \$169,000. These investments were accounted for on a non-accrual basis. In the third quarter of 2012, we will record a realized loss of \$5.1 million and a reversal of previously recorded unrealized depreciation of \$6.9 million for the MaxVision debt investments.

### ***Unfunded Commitments***

As of September 10, 2012, we had unfunded debt commitments of approximately \$69.8 million. Since these commitments may expire without being drawn upon, unfunded commitments do not necessarily represent future cash requirements or future earning assets. Approximately \$35.0 million of these unfunded commitments are dependent upon the portfolio company reaching certain milestones before our debt commitment would become available.

### ***Signed Term Sheets***

As of September 10, 2012, we had approximately \$141.5 million of signed non-binding term sheets subject to completion of definitive documentation with prospective portfolio companies, which generally convert to contractual commitments within approximately 45 to 60 days. Non-binding term sheets are subject to completion of our due diligence, investment committee approval, legal review, and negotiation of definitive documentation. Not all signed non-binding term sheets are expected to close and do not necessarily represent any future cash requirements.

### ***Filed IPOs***

As of September 10, 2012, we had warrants or equity positions in three portfolio companies which had filed Form S-1 Registration Statements with the SEC in contemplation of a potential IPO. There can be no assurances that these companies will complete their respective IPOs in a timely manner or at all.

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On September 19, 2012, Trulia, Inc. completed its initial public offering of 6,000,000 shares of common stock at a price to the public of \$17.00 per share.



## **Table of Contents**

### ***Portfolio Company Developments***

In August 2012, we received a milestone payment of approximately \$825,000 from Covidien PLC's acquisition of our portfolio company, BÂRRX Medical, Inc. in the first quarter of 2012, which will result in the recognition of approximately \$825,000 of realized gains in the third quarter of 2012. Under the terms of the acquisition agreement, additional milestone payments may be received within sixty days of the eighteen month and second anniversaries of the closing. These milestone payments are subject to performance factors and, therefore, their future receipt cannot be reasonably assured at this time.

### ***Liquidity and Capital Resources***

#### ***September 2019 Notes***

On September 24, 2012, we issued approximately \$75.0 million in aggregate principal amount of our 7.00% Senior Notes due 2019 (the September 2019 Notes) pursuant to an underwriting agreement among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named therein, relating to the issuance, offer and sale of the September 2019 Notes. We granted the underwriters an option to purchase up to an additional amount of approximately \$11.3 million, of which \$10.0 million was exercised and closed on October 2, 2012. The sale of the September 2019 Notes generated net proceeds to us, before expenses, of approximately \$82.5 million, including the exercise of the overallotment option.

On September 24, 2012, we and U.S. Bank National Association, as Trustee (the Trustee) entered into a Second Supplemental Indenture (the Second Supplemental Indenture) to the Indenture (the Base Indenture, and together with the First Supplemental Indenture, dated as of April 17, 2012, and the Second Supplemental Indenture, the Indenture), between us and U.S. Bank National Association, as Trustee (the Trustee), dated as of March 6, 2012, relating to the issuance, offer and sale of the September 2019 Notes.

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012.

The September 2019 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation the \$75.0 million Convertible Senior Notes and April 2019 Notes (as defined herein); (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the September 2019 Notes (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

The Indenture, contains certain covenants including covenants requiring us to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the September 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements

## Table of Contents

under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the First Supplemental Indenture and Second Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

### *April 2019 Notes*

On July 6, 2012 we re-opened our 7.00% Senior Notes due 2019 (the April 2019 Notes ) and issued approximately \$38.8 million in aggregate principal amount of additional April 2019 Notes pursuant to an underwriting agreement among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named therein, relating to the issuance, offer and sale of the additional April 2019 Notes. We granted the underwriters an option to purchase up to an additional \$5.8 million in aggregate principal amount of the April 2019 Notes to cover overallocments, if any. Pursuant to this option, approximately \$2.7 million in aggregate principal amount of the additional April 2019 Notes were issued and sold on July 12, 2012. The sale of the additional April 2019 Notes generated net proceeds to us, before expenses and excluding accrued interest, of approximately \$40.2 million.

The additional April 2019 Notes are a further issuance of, rank equally in right of payment with, and form a single series for all purposes under the Indenture (as defined below) including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the \$43.0 million aggregate principal amount of the April 2019 Notes initially issued by us on April 17, 2012.

On April 17, 2012, we and U.S. Bank National Association, as Trustee (the Trustee ) entered into the First Supplemental Indenture (the First Supplemental Indenture ) to the Indenture (the Base Indenture, and together with the First Supplemental Indenture, the Indenture ), between us and U.S. Bank National Association, as Trustee (the Trustee ), dated March 6, 2012, relating to the issuance, offer and sale of the April 2019 Notes. The additional April 2019 Notes were offered under the same Indenture.

The additional April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The additional April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012.

The additional April 2019 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the \$75.0 million of Convertible Senior Notes and the September 2019 Notes; (ii) senior to any of our future indebtedness that expressly provides that it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Wells Facility.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants that requires us to comply with (regardless of whether it is subject to) the asset coverage requirements

## **Table of Contents**

set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, and to provide financial information to the holders of the April 2019 Notes and the Trustee if we should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

### *Wells Facility*

In August 2012, we amended the Wells Facility with Wells Fargo Capital Finance, LLC ( WFCF ) under which WFCF has committed \$75.0 million in initial credit capacity under a \$300.0 million accordion credit facility. We can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders who may join the facility and with the agreement of WFCF and subject to other customary conditions. There can be no assurances that additional lenders will join the Wells Facility.

The Wells Facility has an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. We paid an amendment fee of \$375,000.

Borrowings under the Wells Facility will continue to be at an interest rate per annum equal to LIBOR plus 3.50%, consistent with prior facilities while the floor has been lowered from 5.00% to 4.25%, a 75 basis point reduction. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, the maturity date was extended by one year to August 2015, and the unused line fee was reduced. The amendment also increased the minimum tangible net worth when added to outstanding subordinated indebtedness from in excess of \$314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011 to in excess of \$362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. The amendment was effective as of August 1, 2012.

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 Wells Facility also includes various financial and operating covenants applicable to us and our subsidiaries. The covenants require, among other things, that we maintain certain financial ratios and a minimum tangible net worth.

### *Union Bank Facility*

On September 17, 2012, we entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, the Company is permitted to increase its unsecured indebtedness by an aggregate original principal amount not to exceed \$200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

### ***Renewal of Stock Repurchase Plan***

On July 25, 2012, we approved the extension of the stock repurchase plan as previously approved under the same terms and conditions that allows us to repurchase up to \$35.0 million of our common stock. Unless renewed, the stock repurchase plan will expire on February 26, 2013.

**Table of Contents**

**General Information**

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Boston, MA, Boulder, CO and McLean, VA. We maintain a website on the Internet at [www.herculestech.com](http://www.herculestech.com). Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC's public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

**Table of Contents****FEES AND EXPENSES**

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

<b>Stockholder Transaction Expenses (as a percentage of the public offering price):</b>	
Sales load (as a percentage of offering price) <sup>(1)</sup>	%
Offering expenses	%(2)
Dividend reinvestment plan fees	%(3)
<b>Total stockholder transaction expenses (as a percentage of the public offering price)</b>	<b>%(4)</b>
<b>Annual Expenses (as a percentage of net assets attributable to common stock):<sup>(11)</sup></b>	
Operating expenses	5.2%(5)(6)
Interest payments on borrowed funds	3.5%(7)
Fees paid in connection with borrowed funds	0.8%(8)
Acquired fund fees and expenses <sup>(9)</sup>	0.0%
<b>Total annual expenses</b>	<b>9.5%(10)</b>

- (1) In the event that our securities are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) In the event that we conduct an offering of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses.
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan.
- (4) Total stockholder transaction expenses may include sales load and will be disclosed in a future prospectus supplement, if any.
- (5) Operating expenses represent our estimated operating expenses estimated by annualizing our operating expenses incurred for the six months ended June 30, 2012, including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2011 was 5.8%. See Management's Discussion and Analysis and Results of Operations, Management, and Management Compensation of Directors and Corporate Governance Executive Compensation.
- (6) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (7) Interest payments on borrowed funds represents estimated interest payments on borrowed funds by annualizing our actual interest and credit facility expenses incurred for the six months ended June 30, 2012, including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the April 2019 Notes, the Citigroup Warrant Participation Agreement and the SBA debentures, each of which is defined herein. This percentage for the year ended December 31, 2011 was 3.2%. See Summary Recent Developments and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.
- (8) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds by annualizing actual fees paid in connection with borrowed funds for the six months ended June 30, 2012, including our Wells Facility, Union Bank Facility, Convertible Senior Notes, the April 2019 Notes, the Citigroup Warrant Participation Agreement and the SBA debentures. This percentage for the year ended December 31, 2011 was approximately 0.6%.
- (9) As of June 30, 2012 and for the year ended December 31, 2011, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.
- (10) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds. This percentage for the year ended December 31, 2011 was 4.6%.
- (11) Net assets attributable to common stock equals the weighted estimated net assets as of June 30, 2012, which is approximately \$477.4 million.

**Table of Contents****Example**

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

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 common stock investment, assuming a 5% annual return	\$ 152	\$ 328	\$ 487	\$ 815

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

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2009, 2008, and 2007 and the selected statement of operations data for fiscal 2009, 2008 and 2007 have been derived from our audited financial statements for these years, which have been audited by Ernst & Young LLP, our former independent registered public accounting firm. The selected balance sheet data as of the end of fiscal 2011 and 2010 and the financial statement of operations data for fiscal 2011 and 2010 have been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period. The selected financial and other data for the six months ended June 30, 2012 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

	Six Months Ended (unaudited)		For the year ended December 31,				
	June 30, 2012	June 30, 2011	2011	2010	2009	2008	2007
Investment income:							
Interest	41,439	34,522	\$ 70,346	\$ 54,700	\$ 62,200	\$ 67,283	\$ 48,757
Fees	4,786	5,449	9,509	4,774	12,077	8,552	5,127
Total operating income	46,225	39,971	79,855	59,474	74,277	75,835	53,884
Operating expenses:							
Interest	8,403	5,394	13,252	8,572	9,387	13,121	4,404
Loan fees	1,808	1,612	2,635	1,259	1,880	2,649	1,290
General and administrative	3,681	4,536	7,992	7,086	7,281	6,899	5,437
Employee Compensation:							
Compensation and benefits	6,647	6,615	13,260	10,474	10,737	11,595	9,135
Stock-based compensation	2,002	1,649	3,128	2,709	1,888	1,590	1,127
Total employee compensation	8,649	8,264	16,388	13,183	12,625	13,185	10,262
Total operating expenses	22,541	19,806	40,267	30,100	31,173	35,854	21,393
Net investment income before provision for income taxes and investment gains and losses	23,684	20,165	39,588	29,374	43,104	39,981	32,491
Provision for income taxes							2
Net investment income	23,684	20,165	39,588	29,374	43,104	39,981	32,489
Net realized gain (loss) on investments	11,140	5,029	2,741	(26,382)	(30,801)	2,643	2,791
Provision for Excise Tax						(203)	(139)
Net increase (decrease) in unrealized appreciation on investments	(17,671)	(2,054)	4,607	1,990	1,269	(21,426)	7,268
Net realized and unrealized gain (loss)	(6,531)	2,975	7,348	(24,392)	(29,532)	(18,986)	9,920
Net increase (decrease) in net assets resulting from operations	17,153	23,140	\$ 46,936	\$ 4,982	\$ 13,572	\$ 20,995	\$ 42,409
	\$ 0.47	\$ 0.44	\$ 0.88	\$ 0.80	\$ 1.26	\$ 1.32	\$ 1.20

Cash and stock dividends declared per  
common share



**Table of Contents**

(\$ in thousands, except per share data)	As of June 30,		As of December 31,			
	2012 (unaudited)	2011	2010	2009	2008	2007
<b>Balance sheet data:</b>						
Investments, at value	\$ 722,813	\$ 652,870	\$ 472,032	\$ 374,669	\$ 578,211	\$ 525,492
Cash and cash equivalents	\$ 56,140	64,474	107,014	124,828	17,242	7,856
Total assets	\$ 801,872	747,394	591,247	508,967	608,672	541,943
Total liabilities	\$ 327,091	316,354	178,716	142,452	226,214	141,206
Total net assets	\$ 474,781	431,041	412,531	366,515	382,458	400,737
<b>Other Data:</b>						
Total debt investments, at value	647,068	\$ 585,767	\$ 401,618	\$ 325,134	\$ 536,964	\$ 477,643
Total warrant investments, at value	28,116	30,045	23,690	14,450	17,883	21,646
Total equity investments, at value	47,629	37,058	46,724	35,085	23,364	26,203
Unfunded commitments	92,651	168,196	117,200	11,700	82,000	130,602
Net asset value per share <sup>(1)</sup>	\$ 9.54	\$ 9.83	\$ 9.50	\$ 10.29	\$ 11.56	\$ 12.31

(1) Based on common shares outstanding at period end.

The following tables set forth certain quarterly financial information for each of the ten quarters up to and ending June 30, 2012. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(Amounts in thousands, except per share data)	For the Quarter End (unaudited)	
	June 30, 2012	March 31, 2012
<b>Selected Quarterly Data (unaudited)</b>		
Total investment income	23,858	22,367
Net investment income before provision for income taxes and investment gains and losses	12,310	11,375
Net increase (decrease) in net assets resulting from operations	48	17,105
Net increase (decrease) in net assets resulting from operations per common share (basic)	\$	\$ 0.36

(Amounts in thousands, except per share data)	For the Quarter End			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
<b>Selected Quarterly Data (unaudited):</b>				
Total investment income	\$ 21,200	\$ 18,684	\$ 20,820	\$ 19,152
Net investment income before provision for income taxes and investment gains and losses	10,831	8,593	10,360	9,804
Net increase (decrease) in net assets resulting from operations	17,574	6,223	24,317	(1,177)
Net increase (decrease) in net assets resulting from operations per common share (basic)	\$ 0.25	\$ 0.14	\$ 0.24	\$ 0.23

(Amounts in thousands, except per share data)	For the Quarter End			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
<b>Selected Quarterly Data (unaudited):</b>				
Total investment income	\$ 16,807	\$ 15,646	\$ 14,501	\$ 12,520
Net investment income before provision for income taxes and investment gains and losses	8,751	8,148	6,863	5,612

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Net increase (decrease) in net assets resulting from operations	11,721	(7,823)	(4,630)	5,714
Net increase (decrease) in net assets resulting from operations per common share (basic)	\$ 0.30	\$ (0.23)	\$ (0.14)	\$ 0.16

## **Table of Contents**

### **RISK FACTORS**

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

#### **Risks Related to our Business Structure**

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

The 1940 Act and the Code impose numerous constraints on the operations of BDCs and RICs. For example, under the 1940 Act, BDCs are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Moreover, qualification for taxation as a RIC under subchapter M of the Code requires satisfaction of source-of-income and diversification requirements and our ability to avoid corporate level taxes on our income and gains depends on our satisfaction of distribution requirements. The failure to comply with these provisions in a timely manner could prevent us from qualifying as a BDC or RIC or could force us to pay unexpected taxes and penalties, which could be material. These constraints, among others, may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective. Our experience operating under these constraints is limited to the period since our inception.

*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 NYSE, 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.

*We have and may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.*

Under applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than

## **Table of Contents**

the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We previously determined to pay a portion of our first quarter 2009 dividend in shares of newly issued common stock, and we may in the future determine to distribute taxable dividends that are payable in part in our common stock.

***We are dependent upon key management personnel for their time availability and our future success, particularly Manuel A. Henriquez, and if we are not able to hire and retain qualified personnel, or if we lose any member of our senior management team, our ability to implement our business strategy could be significantly harmed.***

We depend upon the members of our senior management, particularly Mr. Henriquez, as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships on which we rely to implement our business plan. If we lose the services of Mr. Henriquez, or of any other senior management members, we may not be able to operate the business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer. Furthermore, we do not have an employment agreement with Mr. Henriquez and our senior management is not restricted from creating new investment vehicles subject to compliance with applicable law. We believe our future success will depend, in part, on our ability to identify, attract and retain sufficient numbers of highly skilled employees. If we do not succeed in identifying, attracting and retaining such personnel, we may not be able to operate our business as we expect.

***Our business model depends to a significant extent upon strong referral relationships with venture capital and private equity fund sponsors, and our inability to develop or maintain these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.***

We expect that members of our management team will maintain their relationships with venture capital and private equity firms, and we will rely to a significant extent upon these relationships to provide us with our deal flow. If we fail to maintain our existing relationships, our relationships become strained as a result of enforcing our rights with respect to non-performing portfolio companies in protecting our investments or we fail to develop new relationships with other firms or sources of investment opportunities, then we will not be able to grow our investment portfolio. In addition, persons with whom members of our management team have relationships are not obligated to provide us with investment opportunities and, therefore, there is no assurance that such relationships will lead to the origination of debt or other investments.

***We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.***

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and/or access to funding sources that are not available to us. This may enable some competitors to make commercial loans with interest rates that are comparable to or lower than the rates that we typically offer. We may lose prospective portfolio companies if we do not match competitors' pricing, terms and structure. If we do match competitors' pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company.

## **Table of Contents**

or that the Code would impose on us as a RIC. If we are not able to compete effectively, our business, financial condition, and results of operations will be adversely affected. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities that we identify, or that we will be able to fully invest our available capital.

***Because we intend to distribute substantially all of our income to our stockholders in order to qualify as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.***

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we generally will not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. In addition, our results of operations and financial condition could be adversely affected.

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

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. Our secured credit facilities with Wells Fargo Capital Finance LLC and RBC Capital Markets and Union Bank, N.A. and RBC Capital Markets, our Convertible Senior Notes, and our April 2019 Notes and September 2019 Notes contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As of June 30, 2012, we did not have any outstanding borrowings under our credit facility with Union Bank and approximately \$3.0 million outstanding under our credit facility with Wells Fargo. In addition, as of June 30,

**Table of Contents**

2012, we had approximately \$225.0 million of indebtedness outstanding incurred by our SBIC subsidiaries, \$75.0 million of Convertible Senior Notes payable, approximately \$41.5 million of March 2019 Notes and approximately \$83.4 million of September 2019 Notes. 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.

As a business development company, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of June 30, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 654.3%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 246.2% at June 30, 2012.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholder <sup>(1)</sup>	(39.6%)	(23.8%)	(8.1%)	7.6%	23.4%

(1) Assumes \$801.9 million in total assets, \$317.8 million in debt outstanding, \$474.8 million in stockholders' equity, and an average cost of funds of 6.5%, which is the approximate average cost of funds of the SBA debentures for the period ended June 30, 2012. Actual interest payments may be different.

***Pending legislation may allow us to incur additional leverage.***

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

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

Under our borrowings and credit facilities, including the Union Bank Facility and the Wells Facility, current lenders have, and any future lender or lenders may have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. Our current credit facilities and borrowings also subject us to various financial and operating covenants, including, but not limited to, maintaining certain financial ratios and minimum tangible net worth amounts. Future credit facilities and borrowings will likely subject us to similar or additional covenants. In addition, we may grant a securities interest in our assets in connection with any such credit facilities and borrowings.

Our current credit facilities generally contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, such credit facilities require or are expected to require the repayment of all outstanding debt on the maturity

**Table of Contents**

which may disrupt our business and potentially the business of our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under the facilities and accelerated maturity dates for all amounts outstanding under the facilities, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through the facilities. This could reduce our revenues and, by delaying any cash payment allowed to us under our facilities until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

The terms of future available financing may place limits on our financial and operation flexibility. If we are unable to obtain sufficient capital in the future, we may be forced to reduce or discontinue our operations, not be able to make new investments, or otherwise respond to changing business conditions or competitive pressures.

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

At June 30, 2012, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 90.1% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

There is no single standard for determining fair value in good faith. We value these securities at fair value as determined in good faith by our Board of Directors, based on the recommendations of our Valuation Committee. The Valuation Committee uses its best judgment in arriving at the fair value of these securities. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while applying a valuation process for the types of investments we make which includes, but is not limited to, deriving a hypothetical exit price. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at June 30, 2012 that represent greater than 5% of net assets:

(in thousands)	June 30, 2012 (unaudited)	
	Fair Value	Percentage of Net Assets
Box.net, Inc.	\$ 43,093	9.1%
BrightSource Energy, Inc.	\$ 35,487	7.5%
Aveo Pharmaceuticals, Inc.	\$ 29,071	6.1%
Women's Marketing, Inc.	\$ 27,447	5.8%
Tectura Corporation	\$ 26,451	5.6%
Anthera Pharmaceuticals, Inc.	\$ 24,099	5.1%

## **Table of Contents**

Box.net Inc. is an online storage and sharing service that gives users access to their files from anywhere.

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

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

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

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

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

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.

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

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt securities that we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, changes in our portfolio composition, the degree to which we encounter competition in our markets, market volatility in our publicly traded securities and the securities of our portfolio companies, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

***Our investments may be in portfolio companies which may have limited operating histories and financial resources.***

We expect that our portfolio will continue to consist of investments that may have relatively limited operating histories. These companies may be particularly vulnerable to U.S. and foreign economic downturns such as the current recession and European financial crisis may have more limited access to capital and higher funding costs, may have a weaker financial position and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from companies with greater financial, technical and marketing resources. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us, and may adversely affect the return on, or the recovery of, our investment in these companies. We cannot assure you that any of our investments in our portfolio companies will be successful. Our portfolio companies compete with larger, more established companies with greater access to, and resources for, further development in these new technologies. We may lose our entire investment in any or all of our portfolio companies.

***Our equity ownership in a portfolio company may represent a control investment. Our ability to exit an 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



## **Table of Contents**

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.

***Regulations governing our operations as a business development company may affect our ability to, and the manner in which, we raise additional capital, which may expose us to risks.***

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have an asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders and the issuance of preferred stock could have the effect of delaying, deferring, or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

To the extent that we are constrained in our ability to issue debt or other senior securities, we will depend on issuances of common stock to finance operations. Other than in certain limited situations such as rights offerings, as a business development company, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on favorable terms or at all.

In addition to issuing securities to raise capital as described above, we anticipate that, in the future, we may securitize our loans to generate cash for funding new investments. The securitization market has effectively shut down with the recent financial market collapse and we cannot assure you that we will be able to securitize our loans in the near future, or at all. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy.

***When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.***

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

## **Table of Contents**

***If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a business development company or be precluded from investing according to our current business strategy.***

As a business development company, we may not acquire any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See Regulation.

We believe that most of the senior loans we make will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

***A failure on our part to maintain our qualification as a business development company would significantly reduce our operating flexibility.***

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see Regulation.

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

In accordance with generally accepted accounting principles and tax requirements, we include in income certain amounts that we have not yet received in cash, such as contracted payment-in-kind interest, which represents contractual interest added to a loan balance and due at the end of such loan's term. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees or prepayment fees. The increases in loan balances as a result of contracted payment-in-kind arrangements are included in income for the period in which such payment-in-kind interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income certain other amounts prior to receiving the related cash.

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in original issue discount for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with Internal Revenue Service requirements, to satisfy such distribution requirements.

Other features of the debt instruments that we hold may also cause such instruments to generate an original issue discount, resulting in a dividend distribution requirement in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may

## **Table of Contents**

have difficulty meeting the RIC tax requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level income tax on all our income. See Certain United States Federal Income Tax Considerations.

***There is a risk that you may not receive distributions or that our distributions may not grow over time.***

We intend to make distributions on a quarterly basis to our stockholders. We cannot assure you that we will achieve investment results, or our business may not perform in a manner that will allow us to make a specified level of distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, our credit facilities limit our ability to declare dividends if we default under certain provisions.

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

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

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

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt securities that we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, changes in our portfolio composition, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

***Fluctuations in interest rates may adversely affect our profitability.***

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

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

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**Table of Contents**

rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may produce. We may, but will not be required to, hedge against the risk of adverse movement in interest rates in our short-term and long-term borrowings relative to our portfolio of assets. If we engage in hedging activities, it may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition, and results of operations.

***Our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.***

Citigroup, a former credit facility provider to Hercules, has an equity participation right through a warrant participation agreement on the pool of loans and certain warrants formerly collateralized under its then existing credit facility (the Citigroup Facility). Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. As a result, Citigroup is entitled to 10% of the realized gains on certain warrants until the realized gains paid to Citigroup pursuant to the agreement equals \$3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup Facility is terminated until the Maximum Participation Limit has been reached.

During the year ended December 31, 2011, the Company recorded an increase on participation liability and decreased its unrealized gains by a net amount of approximately \$217,000 for Citigroup's participation. Since inception of the agreement, we have paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing our realized gains. In addition, our realized gains will be reduced by the amounts owed to Citigroup under the warrant participation agreement. The value of Citigroup's participation right on unrealized gains in the related equity investments since inception of the agreement was approximately \$715,000 at December 31, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at December 31, 2011. Citigroup's rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

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

Under our borrowings and credit facilities, including our Union Bank and Wells credit facilities, current lenders have, and any future lender or lenders may have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. Our current credit facilities and borrowings also subject us to various financial and operating covenants, including, but not limited to, maintaining certain financial ratios and minimum tangible net worth amounts. Future credit facilities and borrowings will likely subject us to similar or additional covenants. In addition, we may grant a securities interest in our assets in connection with any such credit facilities and borrowings.

Our current credit facilities generally contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, such credit facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially the business of our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under the facilities and accelerated maturity dates for all amounts outstanding under the facilities, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through the facilities. This could reduce our revenues and, by delaying any cash payment allowed to us under our facilities until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

## **Table of Contents**

The terms of future available financing may place limits on our financial and operation flexibility. If we are unable to obtain sufficient capital in the future, we may be forced to reduce or discontinue our operations, not be able to make new investments, or otherwise respond to changing business conditions or competitive pressures.

*In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes, the April 2019 Notes and September 2019 Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes, the April 2019 Notes or the September 2019 Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends.*

The credit agreements governing the Wells Facility, Union Bank Facility, the Convertible Senior Notes, the April 2019 Notes and the September 2019 Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under the Wells Facility and the Union Bank Facility or the trustee or holders under the Convertible Senior Notes, the April 2019 Notes and the September 2019 Notes, could accelerate repayment under the facilities or the Convertible Senior Notes, the April 2019 Notes or the September 2019 Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. In addition, holders of the Convertible Senior Notes will have the right to require us to repurchase the Convertible Senior Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See Management's Discussion and Analysis of Results of Operations and Financial Condition Borrowings.

*Two of our wholly-owned subsidiaries are licensed by the U.S. Small Business Administration, and as a result, we will be subject to SBA regulations.*

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. As of June 30, 2012, HT II's and HT III's portfolio companies accounted for approximately 24.9% and 19.4%, respectively, of our total portfolio. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC's compliance with the relevant SBA regulations.

Under current SBA regulations, a licensed SBIC can provide capital to those entities that have a tangible net worth not exceeding \$18.0 million and an average annual net income after Federal income taxes not exceeding \$6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must devote 25.0% of its investment activity to those entities that have a tangible net worth not exceeding \$6.0 million and an average annual net income after Federal income taxes not exceeding \$2.0 million for the two most recent fiscal years. The 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 factors such as the number of employees and gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations.

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval,

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**Table of Contents**

a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail 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. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2011 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations.

***Our wholly-owned SBIC subsidiaries may be unable to make distributions to us that will enable us to meet or maintain RIC status, which could result in the imposition of an entity-level tax.***

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our net ordinary income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. We will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us. See Regulation Small Business Administration Regulations.

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

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 June 30, 2012, HT II had the potential to borrow up to \$125.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$75.0 million in HT II as of June 30, 2012, HT II has the capacity to issue a total of \$125.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$100.7 million is outstanding as of June 30, 2012.

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 June 30, 2012, HT III had the potential to borrow up to \$100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$50.0 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of \$100.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$100.0 million was outstanding as of June 30, 2012.

As of June 30, 2012, there was \$200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Access to the remaining leverage is subject to SBA approval and compliance with SBA regulations.

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

***If we are unable to satisfy Code requirements for qualification as a RIC, then we will be subject to corporate-level income tax, which would adversely affect our results of operations and financial condition.***

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to

## **Table of Contents**

comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we are otherwise required to distribute, and we cannot pass such net operating losses through to our stockholders. In addition, net operating losses that we carry over to a taxable year in which we qualify as a RIC normally cannot offset ordinary income or capital gains.

### ***Changes in laws or regulations governing our business could negatively affect the profitability of our operations.***

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, SBICs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, then we may have to incur significant expenses in order to comply or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, then we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business results of operations or financial condition.

### ***Results may fluctuate and may not be indicative of future performance.***

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, changes in the accrual status of our debt investments, variations in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions.

### **Risks Related to Current Economic and Market Conditions**

***Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.***

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate in the future. During such market disruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints.

## **Table of Contents**

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

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

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 Dodd-Frank 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 Dodd-Frank Act or its implementing regulations will have on our business, results of operations or financial condition.

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

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

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.

As of December 31, 2011, we did not have any outstanding borrowings under the Union Bank Facility and had approximately \$10.2 million of borrowings outstanding under the Wells Facility. In addition, as of December 31, 2011, we had approximately \$225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries and \$75.0 million of Senior Convertible Notes payable. Available borrowing capacity under these facilities as of December 31, 2011 was \$119.8 million and subject to terms and conditions and approvals of the SBA.

### ***Depending on funding requirements, we may need to raise additional capital to meet our unfunded commitments either through equity offerings or through additional borrowings.***

As of September 10, 2012, we had unfunded debt commitments of approximately \$69.8 million. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements or future earning assets. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from the Convertible Senior Notes, the April 2019 Notes and September 2019 Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.



## **Table of Contents**

### **Risks Related to Our Investments**

*Our investments are concentrated in certain industries and in a number of technology-related companies, which subjects us to the risk of significant loss if any of these companies default on their obligations under any of their debt securities that we hold, or if any of the technology-related industry sectors experience a downturn.*

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we will be subject as a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies.

As of June 30, 2012, approximately 61.9% of the fair value of our portfolio was composed of investments in five industries: 18.9% was composed of investments in the drug discovery and development industry, 12.2% was composed of investments in the software industry, 11.6% was composed of investments in the clean technology industry, 9.7% was composed of investments in the internet drug delivery industry; and 9.5% was composed of investments in the internet consumer and business services industry.

*Our investments may be in portfolio companies which may have limited operating histories and financial resources.*

We expect that our portfolio will continue to consist of investments that may have relatively limited operating histories. These companies may be particularly vulnerable to economic downturns such as the current recession, may have more limited access to capital and higher funding costs, may have a weaker financial position and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from companies with greater financial, technical and marketing resources. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us, and may adversely affect the return on, or the recovery of, our investment in these companies. We cannot assure you that any of our investments in our portfolio companies will be successful. Our portfolio companies compete with larger, more established companies with greater access to, and resources for, further development in these new technologies. We may lose our entire investment in any or all of our portfolio companies.

*Our investment strategy focuses on technology-related companies, which are subject to many risks, including volatility, intense competition, shortened product life cycles, changes in regulatory and governmental programs and periodic downturns, and you could lose all or part of your investment.*

We have invested and will continue investing primarily in technology-related companies, many of which may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses), and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related markets are generally characterized by abrupt business cycles and intense competition. Overcapacity in technology-related industries, together with cyclical economic downturns, may result in substantial decreases in the market capitalization of many technology-related companies. While such valuations have recovered to some extent, such decreases in market capitalization may occur again, and any future decreases in technology-related company valuations may be substantial and may not be temporary in nature. Therefore, our portfolio companies may face considerably more risk of loss than do companies in other industry sectors.

## **Table of Contents**

Because of rapid technological change, the average selling prices of products and some services provided by technology-related companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by technology-related companies may decrease over time, which could adversely affect their operating results, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect our business, financial condition and results of operations.

A natural disaster may also impact the operations of our portfolio companies, including our technology-related portfolio companies. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change. A portion of our technology-related portfolio companies rely on items assembled or produced in areas susceptible to natural disasters, and may sell finished goods into markets susceptible to natural disasters. A major disaster, such as an earthquake, tsunami, flood or other catastrophic event could result in disruption to the business and operations of our technology-related portfolio companies.

We will invest in technology-related companies that are reliant on U.S. and foreign regulatory and governmental programs. Any material changes or discontinuation, due to change in administration or U.S. Congress or otherwise could have a material adverse effect on the operations of a portfolio company in these industries and, in turn, impair our ability to timely collect principal and interest payments owed to us to the extent applicable.

***We have invested in and may continue investing in technology-related companies that do not have venture capital or private equity firms as equity investors, and these companies may entail a higher risk of loss than do companies with institutional equity investors, which could increase the risk of loss of your investment.***

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Portfolio companies that do not have venture capital or private equity investors may be unable to raise any additional capital to satisfy their obligations or to raise sufficient additional capital to reach the next stage of development. Portfolio companies that do not have venture capital or private equity investors may be less financially sophisticated and may not have access to independent members to serve on their boards, which means that they may be less successful than portfolio companies sponsored by venture capital or private equity firms. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are sponsored by venture capital or private equity firms.

***Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.***

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases.

## **Table of Contents**

A change in prices in these energy products could reduce demand for alternative energy. Our investments in cleantech companies also face potential litigation, including significant warranty and product liability claims, as well as class action and government claims arising from the increased attention to the industry from the failure of Solyndra. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies. There is also particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the clean technology companies in our portfolio.

***Cleantech companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.***

As part of our investment strategy, we plan to invest in portfolio companies in Cleantech sectors that may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns. Furthermore, if any of our portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Our portfolio companies may be subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace.

In addition, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for Cleantech companies. Without such regulatory policies, investments in Cleantech companies may not be economical and financing for Cleantech companies may become unavailable, which could materially adversely affect the ability of our portfolio companies to repay the debt they owe to us. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay the debt they owe to us.

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

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

**Table of Contents**

*Our investments in the drug discovery industry are subject to numerous risks, including competition, extensive government regulation, product liability and commercial difficulties.*

Our investments in the drug discovery industry are subject to numerous risks. The successful and timely implementation of the business model of our drug discovery portfolio companies depends on their ability to adapt to changing technologies and introduce new products. As competitors continue to introduce competitive products, the development and acquisition of innovative products and technologies that improve efficacy, safety, patient s and clinician s ease of use and cost-effectiveness are important