

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

September 18, 2012

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**This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Filed Pursuant to Rule 497  
Registration Statement No. 333-179431**

**SUBJECT TO COMPLETION, DATED SEPTEMBER 18, 2012**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

**(To prospectus dated March 29, 2012)**

**\$40,000,000**

**% Senior Notes due 2019**

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

We are offering \$40,000,000 in aggregate principal amount of % senior notes due 2019, or the Notes. The Notes will mature on September 30, 2019. We will pay interest on the Notes on March 30, June 30, September 30 and December 30 of each year, beginning on December 30, 2012. We may redeem the Notes in whole or in part at any time or from time to time on or after September 30, 2015, at the redemption price set forth under Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

The Notes will be our direct senior unsecured obligations and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by Hercules Technology Growth Capital, Inc.

We intend to list the Notes on the New York Stock Exchange, or NYSE, and we expect trading in the Notes on the NYSE to begin within 30 days of the original issue date under the symbol HTGY. The Notes are expected to trade flat, which means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price. Currently, there is no public market for the Notes.

**An investment in the Notes involves risks that are described in the Supplementary Risk Factors section beginning on page S-17 in this prospectus supplement and the Risk Factors section beginning on page 16 of the accompanying prospectus.**

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

	Per Note	Total
Public offering price	%	\$
Sales load (underwriting discounts and commissions)	%	\$
Proceeds to us (before expenses) <sup>(1)</sup>	%	\$

<sup>(1)</sup> Before deducting expenses payable by us related to this offering, estimated at \$475,000.

The underwriters may also purchase up to an additional \$6,000,000 total aggregate principal amount of Notes offered hereby, to cover overallotments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$ , the total sales load (underwriting discounts and commissions) paid by us will be \$ , and total proceeds, before expenses will be \$ .

**THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

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

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about September , 2012.

*Joint Book-Running Managers*

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**Stifel Nicolaus Weisel**

**Credit Suisse**

**Goldman, Sachs & Co.**  
*Co-Managers*

**RBC Capital Markets**

**BB&T Capital Markets**   **Janney Montgomery Scott**   **JMP Securities**   **Sterne Agee**   **Stephens Inc.**   **Wunderlich Securities**  
The date of this prospectus supplement is September , 2012.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front cover of this prospectus supplement or such prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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*This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes in the accompanying prospectus under the heading "Description of Our Debt Securities" before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.*

Issuer	Hercules Technology Growth Capital, Inc.
Title of the securities	% Senior Notes due 2019
Initial aggregate principal amount being offered	\$40,000,000
Overallotment option	The underwriters may also purchase from us up to an additional \$6,000,000 aggregate principal amount of Notes to cover overallotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100.00% of the aggregate principal amount.
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on the New York Stock Exchange within 30 days of the original issue date under the symbol HTGY.
Interest rate	% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	September , 2012
Stated maturity date	September 30, 2019
Date interest starts accruing	September , 2012
Interest payment dates	Each March 30, June 30, September 30, and December 30, commencing December 30, 2012. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including September 30, 2012, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Regular record dates for interest	Each March 15, June 15, September 15 and December 15.

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Specified currency	U.S. Dollars
Place of payment	New York City
Ranking of Notes	<p>The Notes will be our direct unsecured obligations and will rank:</p> <p style="padding-left: 40px;"><i>pari passu</i> with our other outstanding and future senior unsecured indebtedness, including without limitation, the \$75 million 6.00% Convertible Senior Notes due 2016 (the Convertible Senior Notes ) and the approximately \$84.5 million 7.00% Senior Notes due 2019 (the 7.00% Notes );</p> <p style="padding-left: 40px;">senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;</p> <p style="padding-left: 40px;">effectively subordinated to all 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.</p> <p style="padding-left: 40px;">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 Wells Facility ).</p>
Denominations	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.
Optional redemption	<p>The Notes may be redeemed in whole or in part at any time or from time to time at our option 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.</p> <p>You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.</p>

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Any exercise of our option to redeem the Notes will be done in compliance with the Investment Company Act of 1940, as amended, and the rules, regulations and interpretations promulgated thereunder, which we collectively refer to as the 1940 Act, to the extent applicable.

If we redeem only some of the Notes, the Trustee or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with their standard operating procedures in accordance with the 1940 Act, to the extent applicable and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Under our credit facility with Union Bank, N.A. and Royal Bank of Canada (the Union Bank Facility ), we currently would not be permitted to exercise our optional redemption right without the consent of the lenders.

Sinking fund

The Notes will not be subject to any sinking fund.

Repayment at option of Holders

Holder will not have the option to have the Notes repaid prior to the stated maturity date.

Defeasance and covenant defeasance

The Notes are subject to defeasance by us.

The Notes are subject to covenant defeasance by us.

Under the Union Bank Facility, we currently would be prohibited from defeasing the Notes or effecting covenant defeasance under the Notes without the consent of the lenders.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company, or DTC, or its nominee. Except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.

Trustee, Paying Agent, Registrar and Transfer Agent

U.S. Bank National Association

Other covenants

In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the



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U.S. Securities and Exchange Commission (the "SEC"). These provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings.

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to any exemptive relief granted to us by the SEC. These provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

Modifications to events of default

The following event of default, as described in the prospectus attached to this prospectus supplement:

We do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within 5 days.

with respect to the Notes has been revised to read as follows:

We do not pay the principal of, or any premium on, any Note on its due date.

Global Clearance and Settlement Procedures

Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the issuer, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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Use of Proceeds

We estimate that the net proceeds we receive from the sale of the \$       million aggregate principal amount of Notes in this offering will be approximately \$       million (or approximately \$       million if the underwriters fully exercise their overallotment option), in each case assuming a public offering price of 100% par, after deducting the underwriting discount of \$       million (or approximately \$       million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$475,000 payable by us. We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.

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**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

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

the impact of investments that we expect to make;

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

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

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

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

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

our ability to operate as a business development company, a small business investment company and a regulated investment company, or RIC;

the adequacy of our cash resources and working capital;

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

the timing, form and amount of any dividend distributions;

the impact of fluctuations in interest rates on our business;

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

our ability to recover unrealized losses.

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

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**Industry and Market Data**

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

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

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement 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 supplement and the accompanying prospectus and the documents that are referenced in this prospectus supplement and the accompanying prospectus, together with any accompanying supplements. In this prospectus supplement and the accompanying 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

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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 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.

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### **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



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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 stage 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.

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***Deal Sourcing Through Our Proprietary Database.*** We have developed a proprietary and comprehensive SQL-based 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.

### **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.

\$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

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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.

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

In August 2012, we received a milestone payment of approximately \$825,000 from Covidien PLC's acquisition of our portfolio company, BARRX 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.

### ***New BDC Legislation***

On June 8, 2012, legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to business development companies, or BDCs. The legislation provides for (i) increasing the amount of funds BDCs may borrow by reducing asset to debt limitations from 2:1 to 3:2, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries.

There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

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***Liquidity and Capital Resources***

***7.00% Senior Notes Due 2019***

On July 6, 2012 we re-opened our 7.00% Senior Notes due 2019 (the "7.00% Notes") and issued approximately \$38.8 million in aggregate principal amount of the 7.00% 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 7.00% Notes. We granted the underwriters an option to purchase up to an additional \$5.8 million in aggregate principal amount of the 7.00% Notes to cover overallotments, if any. Pursuant to this option, approximately \$2.7 million in aggregate principal amount of the additional 7.00% Notes were issued and sold on July 12, 2012. The sale of the additional 7.00% Notes generated net proceeds to us, before expenses and excluding accrued interest, of approximately \$40.2 million.

The 7.00% 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 7.00% 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 7.00% Notes. The additional 7.00% Notes were offered under the same Indenture.

The 7.00% 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 7.00% 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 7.00% 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 Notes offered hereby; (ii) senior to any of our future indebtedness that expressly provides that it is subordinated to the 7.00% 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 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 7.00% 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

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Trustee or the holders of 25% in aggregate principal amount of the outstanding 7.00% Notes in a series may declare such 7.00% 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.

### *Dividend Declaration*

On July 30, 2012, our Board of Directors declared a cash dividend of \$0.24 per share that will be payable on August 24, 2012 to shareholders of record as of August 17, 2012. This dividend represents our twenty-eighth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to \$7.40 per share.

### *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.

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### ***Chief Financial Officer***

Effective March 27, 2012, our board of directors appointed Jessica T. Baron as our permanent Chief Financial Officer. In connection with such appointment, Ms. Baron will receive an annual base salary of \$235,000 subject to review and adjustment at least annually by our Board of Directors or compensation committee. Ms. Baron also will be awarded 25,000 shares of restricted common stock, \$0.001 par value per share (the Common Stock ), under our 2004 Equity Incentive Plan pursuant to which such restricted stock awards vest subject to continued employment one-fourth on the one year anniversary of the date of grant and ratably over the succeeding 36 months.

Ms. Baron, age 37, joined the Company in October 2006 as Corporate Controller and was promoted to Vice President of Finance in October 2010. Effective June 1, 2011, the Board of Directors appointed Ms. Baron as Vice President of Finance and Interim Chief Financial Officer. See Management Directors, Executive Officers and Key Employees Non-director executive officers in the accompanying prospectus for additional information regarding Ms. Baron.

### ***Chief Compliance Officer and Secretary***

Effective August 20, 2012, H. Scott Harvey's employment as our Chief Legal Officer, Chief Compliance Officer and Secretary ended, and K. Nicholas Martitsch was appointed as our Associate General Counsel, Chief Compliance Officer and Secretary.

### ***Re-Election of Director***

On May 30, 2012, at the Company's 2012 Annual Meeting of Stockholders, Allyn C. Woodward Jr. was re-elected to serve as a member of the Company's Board of Directors until the 2015 Annual Meeting of Stockholders.

## **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, Massachusetts, Boulder, Colorado and McLean, Virginia. 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.

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**SUPPLEMENTARY RISK FACTORS**

*Investing in our securities involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected which could materially adversely affect our ability to repay principal and interest on the Notes. In addition, the market price of the Notes and our net asset value could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in our securities, including the Notes, as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.*

***The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.***

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of September 10, 2012, we had no borrowings outstanding under our Union Bank Facility, which is secured by debt investments in our portfolio companies and related assets or our Wells Facility, which is secured by loans in the borrowing base for the Wells Facility.

***The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The Notes are obligations exclusively of Hercules Technology Growth Capital, Inc. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. A significant portion of the indebtedness required to be consolidated on our balance sheet is held through our SBIC subsidiaries. For example, as of June 30, 2012, HT II had issued \$100.7 million of SBA-guaranteed debentures and HT III had issued \$100.0 million of SBA-guaranteed debentures. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the Notes. See Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources in this prospectus supplement and in the accompanying prospectus for more detail on the SBA-guaranteed debentures.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including trade creditors) and holders of preferred stock, if any, of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness and other liabilities (including trade payables) of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. As of September 10, 2012, we had no borrowings outstanding under our Wells Facility and \$200.7 million of



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indebtedness outstanding incurred by our SBIC subsidiaries, HT II and HT III. All of such indebtedness would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

*The indenture under which the Notes will be issued will contain limited protection for holders of the Notes.*

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings);

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.



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Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. See **Risk Factors**. In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends in the accompanying prospectus. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

### ***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). We have agreed in the covenant in the indenture governing the Notes not to violate this section of the 1940 Act, whether or not we continue to be subject to such provision, but giving effect, in either case, to any exemptive relief granted to us by the SEC. 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%. See **Prospectus Supplement Summary Recent Developments New BDC Legislation** for more information with respect to this legislation. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in the Notes may increase.

### ***An active trading market for the Notes may not develop or be maintained, which could limit the market price of the Notes or your ability to sell them.***

The Notes are a new issue of debt securities for which there currently is no trading market. We intend to list the Notes on the NYSE within 30 days of the original issue date. Although we expect the Notes to be listed on the NYSE, we cannot provide any assurances that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

### ***If we Default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.***

Any default under the agreements governing our indebtedness, including a default under the Wells Facility, the Union Bank Facility, the Convertible Senior Notes and the 7.00% Notes or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are

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otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or the required holders of our Convertible Senior Notes or 7.00% Notes or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Wells Facility, Union Bank Facility, the Convertible Senior Notes, the 7.00% Notes or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Wells Facility or Union Bank Facility or the Convertible Senior Notes or other debt, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Wells Facility and the Union Bank Facility, could proceed against the collateral securing the debt. Because the Wells Facility, the Union Bank Facility and the Convertible Senior Notes have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Wells Facility, Union Bank Facility, the Convertible Senior Notes or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due. See Description of the Notes.

***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 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.

***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

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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.

***In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes and 7.00% Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes or the 7.00% 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 and the Union Bank Facility and the Convertible Senior Notes and 7.00% 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 and 7.00% Notes, could accelerate repayment under the facilities or the Convertible Senior Notes or 7.00% 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.

***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 June 30, 2012, we had unfunded commitments of approximately \$92.7 million. Approximately \$32.6 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from the Convertible Senior Notes, the 7.00% Notes and the 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.

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

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

(in thousands)	June 30, 2012	
	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%

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.

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*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 investment strategy focuses on technology-related companies, which are subject to many risks, including volatility, intense competition, shortened product life cycles and changes in regulatory and governmental programs, 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.

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.

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***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 (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.

***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 to the success of such portfolio companies. The success of new product offerings will depend on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to



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intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

Further, the development of products by drug discovery companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement in the US and abroad, or gain and maintain market approval of products. In addition, regulatory review processes by U.S. and foreign agencies may extend longer than anticipated as a result of decreased funding and tighter fiscal budgets. Further, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, the failure to establish or maintain intellectual property rights, or the infringement of intellectual property rights of others.

***Future legislation, and/or regulations and policies adopted by the FDA or other U.S. or foreign regulatory authorities may increase the time and cost required by some of our portfolio companies to conduct and complete clinical trials for the product candidates that they develop, and there is no assurance that these companies will obtain regulatory approval to market and commercialize their products in the U.S. and in foreign countries***

The FDA has established regulations, guidelines and policies to govern the drug development and approval process, as have foreign regulatory authorities, which affect some of our portfolio companies. Any change in regulatory requirements due to the adoption by the FDA and/or foreign regulatory authorities of new legislation, regulations, or policies may require some of our portfolio companies to amend existing clinical trial protocols or add new clinical trials to comply with these changes. Such amendments to existing protocols and/or clinical trial applications or the need for new ones, may significantly impact the cost, timing and completion of the clinical trials.

In addition, increased scrutiny by the U.S. Congress of the FDA's and other authorities approval processes may significantly delay or prevent regulatory approval, as well as impose more stringent product labeling and post-marketing testing and other requirements. Foreign regulatory authorities may also increase their scrutiny of approval processes resulting in similar delays. Increased scrutiny and approvals processes may limit the ability of our portfolio companies to market and commercialize their products in the U.S. and in foreign countries.

***Changes in healthcare laws and other regulations applicable to some of our portfolio companies' businesses may constrain their ability to offer their products and services.***

Changes in healthcare or other laws and regulations applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies.

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***Economic recessions or slowdowns could impair the ability of our portfolio companies to repay loans, which, in turn, could increase our non-performing assets, decrease the value of our portfolio, reduce our volume of new loans and have a material adverse effect on our results of operations.***

Many of our portfolio companies may be susceptible to economic slowdowns or recessions in both the U.S. and foreign countries and may be unable to repay our loans during such periods. In such periods, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company's loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if a portfolio company goes bankrupt, even though we may have structured our investment as senior debt or secured debt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance, if any, to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. These events could materially adversely affect our financial condition and operating results.

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

***The business, financial condition and results of operations of our portfolio companies could be adversely affected by worldwide economic conditions, as well as political and economic conditions in the countries in which they conduct business.***

The business and operating results of our portfolio companies may be impacted by worldwide economic conditions. Although the U.S. economy has in recent quarters shown signs of recovery from the 2008-2009 global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. For instance, a number of recent reports indicate that growth in China and other emerging markets may be slowing relative to historical growth rates. The significant debt in U.S. and European countries is expected to hinder growth in those countries for the foreseeable future. Multiple factors relating to the international operations of some of our portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations.

Some of the products of our portfolio companies are developed, manufactured, assembled, tested or marketed outside the U.S. Any conflict or uncertainty in these countries, including due to natural disasters, public health concerns, political unrest or safety concerns, could harm their business, financial condition and results of operations. In addition, if the government of any country in which their products are developed, manufactured or sold sets technical or regulatory standards for products developed or manufactured in or imported into their country that are not widely shared, it may lead some of their customers to suspend imports of their products into that country, require manufacturers or developers in that country to manufacture or develop products with different technical or regulatory standards and disrupt cross-border manufacturing, marketing or business relationships which, in each case, could harm their businesses.

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*Some of our portfolio companies may need additional capital, which may not be readily available and may be needed if necessary regulatory review processes are extended or approvals not obtained.*

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other requirements, and in most instances to service the interest and principal payments on our investments. Each round of venture financing is typically intended to provide a company with only enough capital to reach the next stage of development. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms unfavorable to us, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or traditional lenders. This may have a significant impact if the companies are unable to obtain certain federal, state or foreign agency approval for their products or the marketing thereof, or if regulatory review processes extend longer than anticipated, and the companies need continued funding for their operations during these times. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are able to utilize traditional credit sources.

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**USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of the \$        million aggregate principal amount of Notes in this offering will be approximately \$        million (or approximately \$        million if the underwriters fully exercise their overallotment option), in each case assuming a public offering price of 100% par, after deducting the underwriting discount of \$        million (or approximately \$        million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$475,000 payable by us.

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

We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within three to six months, depending on market conditions. We anticipate that the remainder will be used for working capital and general corporate purposes, including potential payments or distributions to shareholders. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective.

The amount of net proceeds may be more or less than the amount described in this preliminary prospectus supplement depending on the amount of Notes we sell in the offering, which will be determined at pricing. To the extent that we receive more than the amount described in this preliminary prospectus supplement, we intend to use the net proceeds for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. To the extent we receive less, the amount we have available for such purposes will be reduced.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

For the six month period ended June 30, 2012 and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, our ratio of earnings to fixed charges, computed as set forth below, were as follows:

	<b>For the six month period ended June 30, 2012</b>	<b>For the year ended December 31, 2011</b>	<b>For the year ended December 31, 2010</b>	<b>For the year ended December 31, 2009</b>	<b>For the year ended December 31, 2008</b>	<b>For the year ended December 31, 2007</b>
Earnings to Fixed Charges <sup>(1)</sup>	1.68	2.95	0.51	1.20	1.33	7.45

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders' equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

- (1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

**Table of Contents****CAPITALIZATION**

The following table sets forth (i) our actual capitalization as of June 30, 2012, and (ii) our capitalization as adjusted to give effect to the sale of \$ million aggregate principal amount of Notes in this offering (assuming no exercise of the overallotment option), in each case assuming a public offering price of 100% par, after deducting the underwriting discounts and commissions of \$ million payable by us and estimated offering expenses of approximately \$475,000 payable by us. You should read this table together with the Use of Proceeds section and our statement of assets and liabilities included elsewhere in this prospectus supplement.

	As of June 30, 2012	
	Actual (in thousands)	As Adjusted (in thousands)
Investments at fair value	\$ 722,813	\$
Cash and cash equivalents	\$ 56,140	\$
Debt:		
Wells Facility <sup>(1)</sup>	3,130	
Union Bank Facility		
Long-term SBA debentures	200,750	
Convertible Senior Notes	75,000	
7.00% Notes	43,000	
Total debt <sup>(2)</sup>	\$ 321,880	\$
Stockholders' equity:		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; and outstanding	shares issued \$ 50	\$
Capital in excess of par value	534,165	
Unrealized appreciation (depreciation) on investments	(21,102)	
Accumulated realized gains (losses) on investments	(31,902)	
Distributions in excess of investment income	(6,430)	
Total stockholders' equity	\$ 474,781	\$
Total capitalization	\$ 796,661	\$

(1) As of September 10, 2012, there were no borrowings outstanding under the Wells Facility.

(2) Does not take into account the issuance of approximately \$41.5 million in aggregate principal amount of the 7.00% Notes, which includes exercise of an over-allotment option, in July 2012. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Subsequent Events in this prospectus supplement for more information with respect to the 7.00% Notes.

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

*The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus supplement. In addition to historical information, the following discussion and other parts of this prospectus supplement contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Supplemental Risk Factors, Risk Factors and Forward-Looking Statements appearing elsewhere herein.*

**Overview**

We are a specialty finance firm 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. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as through additional offices in Boston, 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 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 some or all of the assets of the portfolio companies.

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

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with

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certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of income, asset diversification and income distribution requirements. The income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as good income. Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

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

We regularly engage in discussions with third parties in respect of various potential transactions. We may acquire an investment or a portfolio of investments or an entire company or sell a portion of our portfolio on an opportunistic basis. We or our subsidiaries may also agree to manage certain other funds that invest in debt, equity or provide other financing or services to companies in a variety of industries for which we may earn management or other fees for our services. We may also invest in the equity of these funds, along with other third parties, from which we would seek to earn a return and/or future incentive allocations. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors and required regulatory or third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated. Any of these transactions or funds may require significant management resources either during the transaction phase or on an ongoing basis depending on the terms of the transaction.

### **Portfolio and Investment Activity**

The total value of our investment portfolio was \$722.8 million at June 30, 2012 as compared to \$652.9 million at December 31, 2011.

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 \$223.4 million and \$16.9 million, respectively. Debt commitments for the six-month period ended June 30, 2012 included commitments of approximately \$134.7 million to 17 new portfolio companies and \$88.7 million, including restructured loans, to 11 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 companies.

During the three and six-month periods ended June 30, 2012, we funded investments in debt securities, totaling approximately \$106.9 million and \$169.8 million, respectively. During the three and six-month periods ended June 30, 2012, we funded equity investments of approximately \$5.0 million and \$7.1 million, respectively. During the six-month period ended June 30, 2012, the Company converted approximately \$356,000 of debt to equity in one portfolio company, and the investment in Facebook, Inc. of approximately \$9.6 million was transferred from Other Assets to Investments.

At June 30, 2012, we had unfunded contractual commitments of approximately \$92.7 million to 22 new and existing companies. Approximately \$32.6 million of these unfunded origination activity commitments are dependent upon the portfolio company reaching certain milestones before the Hercules debt commitment becomes available.



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These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we have approximately \$48.0 million of non-binding term sheets outstanding to six new and existing companies at June 30, 2012. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the loan portfolio at June 30, 2012 was approximately \$647.1 million, compared to a fair value of approximately \$411.6 million at June 30, 2011. The fair value of the equity portfolio at June 30, 2012 and 2011 was approximately \$47.6 million and \$31.1 million, respectively. The fair value of our warrant portfolio at June 30, 2012 and 2011 was approximately \$28.1 million and \$32.5 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the six month period ended June 30, 2012, we received approximately \$99.6 million of principal repayments, including normal principal amortization repayments of approximately \$37.1 million, and early repayments of approximately \$62.5 million. During the six month period ended June 30, 2012, we restructured our debt investments in two portfolio companies for approximately \$49.1 million and converted \$356,000 of debt to equity.

During the three-month period ended June 30, 2012, two of our portfolio companies completed initial public offerings. On May 10, 2012, WageWorks, Inc. completed its initial public offering of 6,500,000 shares of common stock at a price to the public of \$9.00 per share, and on May 18, 2012, Facebook Inc. completed its initial public offering of 421,233,615 shares of common stock at a price to the public of \$38.00 per share.

As of June 30, 2012, we held warrants or equity positions in three companies which filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Glori Energy, Inc., iWatt, Inc., and one company that filed a registration statement confidentially under the JOBS Act. During the second quarter of 2012, BrightSource Energy, Inc. withdrew its registration statement for its initial public offering. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all.

Total portfolio investment activity as of June 30, 2012 (unaudited) and for the year ended December 31, 2011 is as follows:

(in millions)	June 30, 2012	December 31, 2011
Beginning Portfolio	\$ 652.9	\$ 472.0
Purchase of debt investments	169.8	433.4
Equity Investments	7.1	2.1
Sale of Investments	(5.6)	(18.6)
Principal payments received on investments	(37.1)	(65.2)
Early pay-offs and recoveries	(62.5)	(182.1)
Accretion of loan discounts and paid-in-kind principal	6.2	6.6
Net change in unrealized depreciation in investments	(17.7)	4.7
Net change in unrealized appreciation (depreciation) in Citigroup participation	0.1	(0.2)
Conversion of Other Assets to Equity	9.6	0.2
Restructure fundings		16.1
Restructure payoffs		(16.1)
Ending Portfolio	\$ 722.8	\$ 652.9

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The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2012 (unaudited) and December 31, 2011 (excluding unearned income).

(in thousands)	June 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 570,551	78.9%	\$ 482,268	73.9%
Senior secured debt	104,633	14.5%	133,544	20.4%
Preferred stock	29,507	4.1%	30,181	4.6%
Common Stock	18,122	2.5%	6,877	1.1%
	\$ 722,813	100.0%	\$ 652,870	100.0%

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

(in thousands)	June 30, 2012		December 31, 2011	
	Investments at Fair Value	Total Percentage of Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 711,181	98.4%	\$ 634,736	97.2%
England	6,819	0.9%	8,266	1.3%
Iceland	4,708	0.7%	4,970	0.7%
Ireland	105	0.0%	3,842	0.6%
Canada		0.0%	672	0.1%
Israel		0.0%	384	0.1%
	\$ 722,813	100.0%	\$ 652,870	100.0%

Our portfolio companies are primarily privately held expansion-and established-stage companies in the drug discovery, internet consumer and business services, clean technology, drug delivery, media/content/info, software, specialty pharmaceuticals, healthcare services, communications and networking, information services, consumer and business products, therapeutic, medical device and equipment, semiconductors, surgical devices, biotechnology tools, diagnostic, and electronics and computer hardware industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

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The following table shows the fair value of our portfolio by industry sector at June 30, 2012 (unaudited) and December 31, 2011:

(in thousands)	June 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 136,872	18.9%	\$ 131,428	20.1%
Software	87,953	12.2%	27,850	4.3%
Clean Tech	83,807	11.6%	64,587	9.9%
Drug Delivery	70,186	9.7%	62,665	9.6%
Internet Consumer & Business Services	68,521	9.5%	117,542	18.0%
Media/Content/Info	47,750	6.6%	38,476	5.9%
Communications & Networking	41,271	5.7%	28,618	4.4%
Healthcare Services, Other	38,484	5.3%		0.0%
Information Services	34,058	4.7%	45,850	7.0%
Therapeutic	19,236	2.7%	35,911	5.5%
Diagnostic	17,287	2.4%	15,158	2.3%
Medical Device & Equipment	13,292	1.9%		0.0%
Specialty Pharma	13,188	1.8%	39,384	6.0%
Consumer & Business Products	13,175	1.8%	4,186	0.6%
Surgical Devices	12,285	1.7%	11,566	1.8%
Biotechnology Tools	12,228	1.7%	18,693	2.9%
Semiconductors	8,017	1.1%	9,733	1.5%
Electronics & Computer Hardware	5,203	0.7%	1,223	0.2%
Energy		0.0%		0.0%
	\$ 722,813	100.0%	\$ 652,870	100.0%

The largest portfolio companies vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies. As of June 30, 2012 and December 31, 2011, our ten largest portfolio companies represented approximately 37.1% and 37.9%, respectively, of the total fair value of our investments in portfolio companies. At June 30, 2012 and December 31, 2011, we had six and seven investments, respectively, that represented 5% or more of our net assets. At June 30, 2012, we had five equity investments representing approximately 61.7% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2011, we had seven equity investments which represented approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

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.

As of June 30, 2012, over 99.0% of our debt investments were in a senior secured first lien position, and more than 94.9% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20%

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of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round at the time of issuance. As of June 30, 2012, we held warrants in 115 portfolio companies, with a fair value of approximately \$28.1 million. The fair value of the warrant portfolio has decreased by approximately 6.3% as compared to the fair value of \$30.0 million at December 31, 2011. The decrease was primarily driven by the realized gain and exit from two of our portfolio companies during the second quarter of 2012. These warrant holdings would require us to invest approximately \$74.6 million to exercise such warrants.

Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company's performance and overall market conditions. Of the warrants which have monetized since inception, we have realized warrant and equity gain multiples in the range of approximately 1.04x to 10.17x based on the historical rate of return on our investments. However, our current warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests. The value of our senior secured debt (without warrants) at June 30, 2012 was approximately \$104.6 million compared to approximately \$133.5 million at December 31, 2011. The increase in 2011 was primarily attributable to two new investments in lower middle market technology companies, which typically do not have equity enhancement features.

As required by the 1940 Act, we classify our investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that we are deemed to control. Generally, under the 1940 Act, we are deemed to control a company in which we have invested if we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of us, as defined in the 1940 Act, which are not control investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more but less than 25% of the voting securities of such company. Non-control/ non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and six-months ended June 30, 2012 and June 30, 2011:

(in thousands)

Portfolio Company	Type	Three months ended June 30, 2012					Six months ended June 30, 2012				
		Fair Value at June 30, 2012	Investment Income	Unrealized Depreciation/ Appreciation	Reversal of Unrealized Depreciation/ Appreciation	Realized Gain/ (Loss)	Investment Income	Unrealized Depreciation/ Appreciation	Reversal of Unrealized Depreciation/ Appreciation	Realized Gain/ (Loss)	
MaxVision Holding, LLC.	Control	\$ 169	\$ 13	\$ (313)	\$	\$	\$ 26	\$ (287)	\$	\$	
E-Band Communications, Corp.	Non-Controlled Affiliate	1,504		411		5	1,486				
Gelesis	Non-Controlled Affiliate	5,693	205	672		445	891				
Total		\$ 7,366	\$ 218	\$ 770	\$	\$ 476	\$ 2,090	\$	\$		

(in thousands)

Portfolio Company	Type	Three months ended June 30, 2011					Six months ended June 30, 2011				
		Fair Value at June 30, 2011	Investment Income	Unrealized Depreciation/ Appreciation	Reversal of Unrealized Depreciation/ Appreciation	Realized Gain/ (Loss)	Investment Income	Unrealized Depreciation/ Appreciation	Reversal of Unrealized Depreciation/ Appreciation	Realized Gain/ (Loss)	
MaxVision Holding, LLC.	Control	\$ 3,037	\$ 446	\$ (2,060)	\$	\$	\$ 852	\$ (3,560)	\$	\$	
E-Band Communications, Corp.	Non-Controlled Affiliate	53	3	(2,334)		3	(3,372)				
Total		\$ 3,090	\$ 449	\$ (4,394)	\$	\$ 855	\$ (6,932)	\$	\$		



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We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of June 30, 2012 (unaudited) and December 31, 2011, respectively.

(in thousands)	June 30, 2012		December 31, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
<b>Investment Grading</b>				
1	\$ 119,727	18.5%	\$ 104,516	17.8%
2	389,607	60.2%	403,114	68.8%
3	128,396	19.9%	70,388	12.0%
4	9,169	1.4%	6,722	1.2%
5	169	0.0%	1,027	0.2%
	\$ 647,068	100.0%	\$ 585,767	100.0%

As of June 30, 2012, our investments had a weighted average investment grading of 2.08 as compared to 2.01 at December 31, 2011. The downgrade in investment grading is primarily attributable to eight companies being downgraded from a 2 to a 3, one company being downgraded from a 3 to a 4, one company being downgraded from a 1 to a 3 and one company being downgraded from a 2 to a 4. This overall downgrade was partially offset by four companies being upgraded from a 3 to a 2, four companies being upgraded from a 2 to a 1 and the complete payoffs of one rated 1, four rated 2, one rated 3 and one rated 4 as of June 30, 2012. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until their funding is complete or their operations improve. At June 30, 2012, 46 portfolio companies were graded 2, 18 portfolio companies were graded 3, three portfolio companies were graded 4, and one portfolio company was graded 5 as compared to 43 portfolio companies that were graded 2, 12 portfolio companies that were graded 3, two portfolio companies that were grade 4, and two portfolio companies that were graded 5 at December 31, 2011.

At June 30, 2012, there was one portfolio company on non-accrual status with a fair value of \$169,000. There was one portfolio company on non-accrual status as of December 31, 2011 with a fair value of approximately \$1.0 million.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to approximately 13.9% as of June 30, 2012. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately \$2.9 million and \$4.5 million of unamortized fees at June 30, 2012 and December 31, 2011, respectively, and approximately \$4.8 million and \$4.4 million in exit fees receivable at June 30, 2012 and December 31, 2011, respectively. We recognize nonrecurring fees amortized

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over the remaining term of the loan relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount (OID) related to early loan pay-off or material modification of the specific debt outstanding.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$569,000 and \$1.1 million in PIK income in the six month periods ended June 30, 2012 and 2011. In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the six month period ended June 30, 2012.

In some cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company's assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property. At June 30, 2012, approximately 63.1% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 33.8% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, 2.3% of portfolio company loans had a first priority security in only their intellectual property, and 0.8% of portfolio company loans had an equipment only lien.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

The effective yield on our debt investments for the three-month periods ended June 30, 2012 and 2011 was 15.2% and 18.4%, respectively. This yield was lower period over period due to fewer fee accelerations attributed to early payoffs and one-time events during the current year as compared to the prior year. The effective yield excluding payoffs on our debt investments for the three month periods ended June 30, 2012 and 2011 was 13.3% and 15.7%, respectively. The decline in this rate is due primarily to the repayments of debt investments that had higher effective yields than the debt investments made in the past three to four quarters.

The overall weighted average yield to maturity of our loan investments was approximately 12.6% at both June 30, 2012 and December 31, 2011. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

**Results of Operations**

**Comparison of the three and six month periods ended June 30, 2012 and 2011**

***Investment Income***

Total investment income for the three and six-month periods ended June 30, 2012 totaled approximately \$23.9 million and \$46.2 million, respectively, compared to \$20.8 million and \$40.0 million for the three and six-month periods ended June 30, 2011, respectively.

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Interest income for the three and six-month periods ended June 30, 2012 totaled approximately \$21.1 million and \$41.4 million, respectively, compared to \$18.1 million and \$34.5 million for the three and six-month periods ended June 30, 2011, respectively. The increase in interest income is attributable to an increase of loan interest income and back end interest income of approximately \$4.0 million and \$8.5 million for the three and six-month periods ended June 30, 2012, respectively, partially offset by decreases in default interest income, OID interest income and PIK interest income of approximately \$849,000 and \$1.4 million for the three and six-month periods ended June 30, 2012, respectively.

Income from commitment, facility and loan related fees for the three and six-month periods ended June 30, 2012 totaled approximately \$2.7 million and \$4.8 million, respectively, compared to \$2.8 million and \$5.4 million for the three and six-month periods ended June 30, 2011, respectively. The decrease in income from commitment, facility and loan related fees is primarily the result of a decrease in facility fees, one time fees and amendment revenue of approximately \$319,000 and \$1.0 million for the three and six-month periods ended June 30, 2012, respectively, partially offset by an increase in commitment fees of approximately \$216,000 and \$327,000 for the three and six-month periods ended June 30, 2012, respectively.

The following table shows the PIK-related activity for the six months ended June 30, 2012 and 2011, at cost:

(in thousands)	Six months ended June 30,	
	2012	2011
Beginning PIK loan balance	\$ 2,041	\$ 3,955
PIK interest capitalized during the period	584	1,431
Payments received from PIK loans		(3,222)
PIK converted to other securities		(440)
Realized Loss		
Ending PIK loan balance	\$ 2,625	\$ 1,724

The decrease in payments received from PIK loans and PIK interest capitalized during the six months ended June 30, 2012 is due to approximately \$1.4 million, \$894,000, \$207,000 and \$166,000 of PIK collected in conjunction with the sale of our investment in Infologix, Inc. and the early payoffs of IPA Holdings, LLC., Unify Corporation and Velocity Technology Solutions, Inc., respectively, in the six-months ended June 30, 2011. The decrease in PIK converted to other securities during the six months June 30, 2012 is due to approximately \$440,000 related to the conversion of MaxVision Holding, LLC. debt to equity in six months period ended June 30, 2011.

In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the three and six-month periods ended June 30, 2012 and 2011, respectively.

**Operating Expenses**

Operating expenses, which are comprised of interest and fees on borrowings, general and administrative and employee compensation, totaled approximately \$11.5 million and \$10.5 million during the three month periods ended June 30, 2012 and 2011, respectively. Operating expenses totaled approximately \$22.5 million and \$19.8 million during the six month periods ended June 30, 2012 and 2011, respectively.

Interest and fees on borrowings totaled approximately \$5.2 million and \$10.2 million during the three and six-month periods ended June 30, 2012, respectively, and approximately \$3.8 million and \$7.0 million during the three and six months periods ended June 30, 2011, respectively. The increase is primarily attributed to interest



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and fee expenses of \$1.1 million and \$2.3 million during the three and six-month periods ended June 30, 2012, respectively, related to the \$75.0 million of Convertible Senior Notes issued on April 15, 2011 and approximately \$668,000 related to the \$43.0 million of the 7.00% Senior Notes due 2019 (the 2019 Note ) issued on April 17, 2012. Additionally, we incurred approximately \$271,000 and \$541,000 of non-cash interest expense during the three and six-month periods ended June 30, 2012, respectively, and \$225,000 during both the three and six-month periods ended June 30, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. Additionally, we recognized an acceleration of approximately \$457,000 of unamortized fees in connection with the pay down of \$24.3 million SBA debentures in February 2012.

We had a weighted average cost of debt comprised of interest and fees of approximately 6.7% at June 30, 2012, as compared to 6.6% during the second quarter of 2011. The increase was primarily attributed to the weighted average cost of debt on the 2019 Notes of 7.6%, which closed in April 2012, offset by a lower weighted average cost of debt on outstanding SBA debentures of 4.9% in the second quarter of 2012 versus 5.6% in the second quarter of 2011.

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to \$1.9 million from \$2.3 million for the three month periods ended June 30, 2012 and 2011, respectively. These decreases were primarily due to decreases of approximately \$222,000, \$162,000 and \$132,000 in outside services, SEC printing expenses and legal disbursements, respectively, partially offset by an increase in public relations expenses of approximately \$118,000 for the three month period ended June 30, 2012.

Expenses decreased to \$3.7 million from \$4.5 million for the six month periods ended June 30, 2012 and 2011, respectively. These decreases were primarily due to decreases of approximately \$241,000, \$187,000, \$185,000, \$141,000 and \$134,000 in auditing fees, outside services, legal disbursements, workout related expenses and SEC printing expenses, respectively, partially offset by an increase in public relations expenses of approximately \$183,000 for the six month period ended June 30, 2012.

Employee compensation and benefits totaled approximately \$3.3 million and \$6.6 million during the three and six-month periods ended June 30, 2012, respectively. Employee compensation and benefits totaled approximately \$3.4 million and \$6.6 million during the three and six-month periods ended June 30, 2011, respectively. Stock-based compensation totaled approximately \$1.2 million and \$927,000 during the three-month periods ended June 30, 2012 and 2011, respectively, and approximately \$2.0 million and \$1.6 million during the six-month periods ended June 30, 2012 and 2011, respectively. These increases were due primarily to the expense on restricted stock grants of approximately 672,000 shares issued in the first quarter of 2012. See Financial Condition, Liquidity, and Capital Resources for disclosure of additional expenses.

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

Net investment income per share was \$0.25 for the quarter ended June 30, 2012 compared to \$0.24 per share in the quarter ended June 30, 2011, based on 48,615,780 and 42,970,747 weighted average shares outstanding, respectively. Net investment income before investment gains and losses for the three and six-month periods ended June 30, 2012 totaled approximately \$12.3 million and \$23.7 million, respectively, as compared to \$10.4 million and \$20.2 million in the three and six-month periods ended June 30, 2011, respectively. The changes are made up of the items described above under Investment Income and Operating Expenses.

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

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

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During the three and six month periods ended June 30, 2012, we recognized net realized gains of approximately \$8.3 million and \$11.1 million on the portfolio, respectively. During the quarter ended June 30, 2012, we recorded approximately \$5.3 million, \$2.4 million and \$862,000 of realized gains from the sale of equity in NEXX Systems, Inc., Annie's, Inc. and Bullhorn, Inc., respectively. These gains were partially offset by realized losses due to the expiration of warrants in three private portfolio companies that had a cost basis of approximately \$222,000.

During the three and six-months ended June 30, 2011 we recognized total net realized gains of approximately \$497,000 for the sale of equity in Aegerion Pharmaceuticals, Inc. and \$10.1 million from the sale of common stock in its public portfolio companies and realized gains of approximately \$162,000 and realized losses of approximately \$5.1 million from equity, loan, and warrant investments in portfolio companies that have been liquidated.

A summary of realized gains and losses for the three and six month periods ended June 30, 2012 and 2011 is as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized gains	\$ 8,485	\$ 665	\$ 12,175	\$ 10,264
Realized losses	(222)	(6)	(1,035)	(5,235)
Net realized gains (losses)	\$ 8,263	\$ 659	\$ 11,140	\$ 5,029

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors.

The following table itemizes the change in net unrealized appreciation/depreciation of investments for the three and six-month periods ended June 30, 2012 and 2011:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 Amount	2011 Amount	2012 Amount	2011 Amount
Gross unrealized appreciation on portfolio investments	\$ 6,353	\$ 23,676	\$ 25,534	\$ 30,016
Gross unrealized depreciation on portfolio investments	(19,991)	(9,521)	(32,343)	(27,410)
Reversal of prior period net unrealized appreciation upon a realization	(7,081)	(455)	(11,590)	(9,901)
Reversal of prior period net unrealized depreciation upon a realization	190		619	5,606
Citigroup Warrant Participation	4	(402)	108	(365)
Net unrealized appreciation (depreciation) on portfolio investments	\$ (20,525)	\$ 13,298	\$ (17,672)	\$ (2,054)

During the three month period ended June 30, 2012, we recorded approximately \$20.5 million of net unrealized depreciation from our loans, warrant and equity investments. Approximately \$5.0 million and \$5.8 million is attributed to net unrealized depreciation on equity and warrants, respectively, of which approximately \$5.2 million and \$1.7 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain. Additionally, we recorded approximately \$500,000 of unrealized depreciation attributed to reduced expectations of escrow proceeds previously anticipated to be collected.

We recorded approximately \$9.2 million net unrealized depreciation on our debt investments related to decreases in fair value adjustments made as a result of an increase in current quarter effective yield.

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The following table itemizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the three month period ended June 30, 2012.

(in millions)	Three Months Ended June 30, 2012				
	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	\$ (0.6)				\$ (0.6)
Reversals due to Loan Payoffs & Warrant/Equity sales	(0.3)	(1.7)	(5.2)	(0.5)	(7.7)
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets		(3.9)	0.4		(3.5)
Level 3 Assets	(8.3)	0.6	(1.0)		(8.7)
Total Fair Value Market/Yield Adjustments	(8.3)	(3.3)	(0.6)		(12.2)
Total Unrealized Appreciation/(Depreciation)	\$ (9.2)	\$ (5.0)	\$ (5.8)	\$ (0.5)	\$ (20.5)

\* Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC 820.

During the six month period ended June 30, 2012, we recorded approximately \$17.7 million of net unrealized depreciation from our loans, warrant and equity investments. Approximately \$2.3 million and \$4.2 million is attributed to net unrealized depreciation on equity and warrants, respectively, of which approximately \$6.4 million and \$4.6 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain. Additionally, we recorded approximately \$500,000 of unrealized depreciation attributed to reduced expectations of escrow proceeds previously anticipated to be collected.

We recorded approximately \$10.7 million net unrealized depreciation on our debt investments related to fluctuations in current market interest rates.

The following table itemizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the six month period ended June 30, 2012.

(in millions)	Six Months Ended June 30, 2012				
	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	\$ (0.6)				\$ (0.6)
Reversals due to Loan Payoffs & Warrant/Equity sales	1.0	(4.6)	(6.4)	(0.5)	(10.5)
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets		(4.2)	1.5		(2.7)
Level 3 Assets	(11.1)	6.5	0.7		(3.9)
Total Fair Value Market/Yield Adjustments	(11.1)	2.3	2.2		(6.6)
Total Unrealized Appreciation/(Depreciation)	\$ (10.7)	\$ (2.3)	\$ (4.2)	\$ (0.5)	\$ (17.7)

\* Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC 820.

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As of June 30, 2012, the net unrealized depreciation recognized by us was increased by approximately \$108,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

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During the three month period ended June 30, 2011, we recorded approximately \$13.3 million of net unrealized appreciation from our loans, warrant and equity investments. During the six month period ended June 30, 2011, we recorded approximately \$2.1 million of net unrealized depreciation from our loans, warrant and equity investments.

### ***Income and Excise Taxes***

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

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

For the three and six months ended June 30, 2012, the net increase in net assets resulting from operations totaled approximately \$48,000 and \$17.2 million, respectively. For the three and six months ended June 30, 2011, the net decrease in net assets resulting from operations totaled approximately \$24.3 million and \$23.1 million, respectively. These changes are made up of the items previously described.

There was no net change in net assets per common share for the three month period ended June 30, 2012 and basic and fully diluted net change in net assets per common share for the six-month period ended June 30, 2012 was \$0.35. The basic and fully diluted net change in net assets per common share was \$0.56 and \$0.53, respectively, for the three and six-month periods ended June 30, 2011.

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

Our liquidity and capital resources are derived from our credit facilities, SBA debentures, Convertible Senior Notes, 2019 Notes and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the rotation of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing, including from the SBA through our SBIC subsidiaries.

At June 30, 2012, we had \$75.0 million of Convertible Senior Notes payable, \$43.0 million of 2019 Notes and approximately \$200.7 million of SBA debentures payable. We had approximately \$3.1 million outstanding to the Wells Facility and no borrowings outstanding under the Union Bank Facility. In July 2012, we re-opened our 2019 Notes, and issued an additional amount of approximately \$41.5 million in aggregate principal amount, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately \$84.5 million in aggregate principal amount.

During the six months ended June 30, 2012, our operating activities used \$42.7 million of cash and cash equivalents, compared to \$20.3 million provided during the six months ended June 30, 2011. The \$63.0 million decrease in cash provided by operating activities resulted primarily from a reduction of principal payments received on investments of approximately \$78.4 million, partially offset by an increase in net unrealized appreciation of \$15.6 million and a decrease in purchase of investments of \$12.1 million during the six month period ended June 30, 2012. During the six months ended June 30, 2012, our financing activities provided \$34.4 million of cash, compared to \$70.9 million provided during the six months ended June 30, 2011. This \$36.5 million decrease in cash provided by financing activities was primarily attributed to net proceeds from the issuance of common stock of \$46.7 million, offset by the repayments of borrowings of approximately \$46.3 million and by cash dividend payments of \$22.1 million.

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As of June 30, 2012, net assets totaled \$474.8 million, with a net asset value per share of \$9.54. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

In January 2012, we completed a follow-on public offering of 5.0 million shares of common stock for proceeds of approximately \$48.05 million, before deducting offering expenses, to us. Additionally, we expect to raise additional capital to support our future growth through future equity and debt offerings, and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2012 Annual Shareholder Meeting held on May 30, 2012, our stockholders authorized us, with the approval of our Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. There can be no assurance that these capital resources will be available.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of June 30, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 654.3%, excluding our SBA 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 SBA debentures was 246.2% at June 30, 2012. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage.

At June 30, 2012 (unaudited) and December 31, 2011, we had the following borrowing capacity and outstanding amounts:

(in thousands)	June 30, 2012		December 31, 2011	
	Total Available	Carrying Value <sup>(1)</sup>	Total Available	Carrying Value <sup>(1)</sup>
Union Bank Facility	\$ 55,000	\$	\$ 55,000	\$
Wells Facility	75,000	3,130	75,000	10,187
2019 Notes <sup>(2)</sup>	43,000	43,000		
Convertible Senior Notes <sup>(3)</sup>	75,000	70,894	75,000	70,353
SBA Debentures <sup>(4)</sup>	225,000	200,750	225,000	225,000
Total	\$ 473,000	\$ 317,774	\$ 430,000	\$ 305,540

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

(2) In July 2012, we re-opened our 2019 Notes and issued an additional \$41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately \$84.5 million in aggregate principal amount.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,106 at June 30, 2012.

(4) In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$100.7 million was available in HT II and \$124.3 million was available in HT III.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III received a license to operate as SBICs under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of

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June 30, 2012, all required contributed capital from the Company has been invested into HT II and HT III. We are the sole limited partner of HT II and HT III and HTM is the general partner. HTM is our wholly-owned subsidiary. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of June 30, 2012 as a result of having sufficient capital as defined under the SBA regulations. HT II and HT III hold approximately \$203.8 million and \$185.1 million in assets, respectively, and accounted for approximately 19.1% and 17.3% of our total assets prior to consolidation at June 30, 2012.

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 \$100.7 million of SBA guaranteed debentures, of which \$100.7 million was outstanding at June 30, 2012. As of June 30, 2012, HT II has paid the SBA commitment fees of approximately \$1.5 million. As of June 30, 2012, we held investments in HT II in 52 companies with a fair value of approximately \$179.7 million, accounting for approximately 24.9% of our total portfolio at June 30, 2012.

As of June 30, 2012, HT III had the potential to borrow up to \$124.3 million of SBA-guaranteed debentures under the SBIC program. With our net investment of \$62.3 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of \$124.3 million of SBA guaranteed debentures, subject to SBA approval, of which \$100.0 million was outstanding at June 30, 2012. As of June 30, 2012, HT III has paid the SBA commitment fees of approximately \$1.2 million. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately \$140.3 million accounting for approximately 19.4% of our total portfolio at June 30, 2012.

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate <sup>(1)</sup>	June 30, 2012	December 31, 2011
<b>SBA Debentures:</b>				
September 26, 2007	September 1, 2017	6.43%	\$ 12,000	\$ 12,000
March 26, 2008	March 1, 2018	6.38%	47,550	58,050
September 24, 2008	September 1, 2018	6.63%		13,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
<b>Total SBA Debentures</b>			<b>\$ 200,750</b>	<b>\$ 225,000</b>

(1) Interest rate includes annual charge

As of June 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of \$225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at June 30, 2012 there was \$200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in June 2012 the SBA approved an additional \$24.3 million under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

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We believe that our current cash and cash equivalents, cash generated from operations, and funds available from the credit facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

**Commitments**

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of June 30, 2012, we had unfunded commitments of approximately \$92.7 million. Approximately \$32.6 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately \$48.0 million of non-binding term sheets outstanding to six new and existing companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

**Contractual Obligations**

The following table shows our contractual obligations as of June 30, 2012:

	Total	Payments due by period (in thousands)			
		Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
<b>Contractual Obligations<sup>(1)(2)</sup></b>					
Borrowings <sup>(3)(4)</sup>	\$ 317,774	\$	\$ 3,130	\$ 70,894	\$ 243,750
Operating Lease Obligations <sup>(5)</sup>	7,876	1,214	2,320	2,557	1,785
<b>Total</b>	<b>\$ 325,650</b>	<b>\$ 1,214</b>	<b>\$ 5,450</b>	<b>\$ 73,451</b>	<b>\$ 245,535</b>

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

(2) We also have a warrant participation agreement with Citigroup. See Note 4 to our consolidated financial statements.

(3) Includes \$200,750 in borrowings under the SBA debentures, \$3.1 million outstanding under the Wells Facility and \$43.0 million in aggregate principal amount of the 2019 Notes issued in April 2012. In July 2012, the Company re-opened its 2019 Notes, and issued an additional \$41.5 million in aggregate principal amount of 2019 Notes, which included exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately \$84.5 million in aggregate principal amount. See [Subsequent Events](#) below.

(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was \$4,106 at June 30, 2012.

(5) Long-term facility leases.

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



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### **Borrowings**

#### *Long-term SBA Debentures*

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. HT II has a total of \$100.7 million of SBA guaranteed debentures outstanding as of June 30, 2012 and has paid the SBA commitment fees of approximately \$1.5 million. As of June 30, 2012, the Company held investments in HT II in 52 companies with a fair value of approximately \$179.7 million, accounting for approximately 24.9% of our total portfolio at 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. With our net investment of \$62.3 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of \$124.3 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, HT III has paid commitment fees of approximately \$1.2 million. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately \$140.3 million accounting for approximately 19.4% of our total portfolio at June 30, 2012.

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

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18.0 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of June 30, 2012 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.77% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA,

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regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on March 21, 2012 were 0.285% and 0.515% depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT II was approximately \$100.7 million with an average interest rate of approximately 6.3%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT III was approximately \$100.0 million with an average interest rate of approximately 3.6%.

In January 2011, we repaid \$25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a \$25.0 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$125.0 million was available in HT II and \$100.0 million was available in HT III.

In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III bringing the total available borrowings to \$225.0 million, of which \$100.7 million was available in HT II and \$124.3 million was available in HT III.

As of June 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is \$150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of \$225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at June 30, 2012 there was \$200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in June 2012 the SBA approved an additional \$24.3 million under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

*Wells Facility*

In August 2008, we entered into a \$50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility). On June 20, 2011, we renewed the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of \$75.0 million. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. For the three-month period ended June 30, 2012, this non-use fee was approximately \$140,000. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At June 30, 2012, there was approximately \$3.1 million outstanding under the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. As of June 30, 2012, the minimum tangible net worth

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covenant has increased to \$357.2 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for proceeds of approximately \$48.05 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at June 30, 2012. See *Subsequent Events* for a discussion of an amendment to the Wells Facility.

*Union Bank Facility*

On February 10, 2010, we entered a \$20.0 million one-year revolving senior secured credit facility with Union Bank (the *Union Bank Facility*). On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of \$30.0 million and \$25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended June 30, 2012, this nonuse fee was approximately \$70,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At June 30, 2012, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of June 30, 2012, the minimum tangible net worth covenant has increased to \$356.5 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for net proceeds of approximately \$47.2 million. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. On March 30, 2012 the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of the Company's 2019 Notes. We were in compliance with all covenants at June 30, 2012.

*Citibank Credit Facility*

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the *Citibank Credit Facility*) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, we paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (the *Maximum Participation Limit*). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately \$606,000 as of June 30, 2012 and is included in accrued liabilities. There can be no assurances

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that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately \$1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between July 2012 and January 2017.

### *Convertible Senior Notes*

In April 2011, we issued \$75.0 million in aggregate principal amount of Convertible Senior Notes. As of June 30, 2012, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$70.9 million.

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

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

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

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

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As of June 30, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	As of June 30, 2012
Principal amount of debt	\$ 75,000
Original issue discount, net of accretion	(4,106)
<b>Carrying value of debt</b>	<b>\$ 70,894</b>

For the three and six months ended June 30, 2012, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	Three Months Ended June, 2012	Six Months Ended June, 2012
Stated interest expense	\$ 1,125	\$ 2,250
Accretion of original issue discount	271	541
Amortization of debt issuance cost	144	289
<b>Total interest expense</b>	<b>\$ 1,540</b>	<b>\$ 3,080</b>
<b>Cash paid for interest expense</b>	<b>\$ 2,250</b>	<b>\$ 2,250</b>

As of June 30, 2012, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note to our consolidated financial statements for more detail on the Convertible Senior Notes.

*2019 Notes*

On April 17, 2012, we and U.S. Bank, N.A. (the Trustee), entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Indenture) between us and the Trustee, dated April 17, 2012, relating to our issuance, offer and sale of \$43.0 million aggregate principal amount of 2019 Notes. The sale of the 2019 Notes generated net proceeds, before expenses, of approximately \$41.7 million.

The 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 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, and trade on the New York Stock Exchange under the trading symbol HTGZ.

The 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 in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) effectively subordinated to all 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, LLC.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring our compliance 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



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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 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. 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 2019 Notes in a series may declare such 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The 2019 Notes were sold pursuant to an underwriting agreement dated April 11, 2012 among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement. In July 2012, we re-opened our 2019 Notes and issued an additional \$41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the 2019 Notes issued to approximately \$84.5 million in aggregate principal amount.

For the three months and six months ended June 30, 2012, the components of interest expense and cash paid for interest expense for the 2019 Notes are as follows:

(in thousands)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Stated interest expense	\$ 619	\$ 619
Amortization of debt issuance cost	49	49
<b>Total interest expense</b>	<b>\$ 668</b>	<b>\$ 668</b>
Cash paid for interest expense	\$	\$

As of June 30, 2012, we are in compliance with the terms of the indenture governing the 2019 Notes. See Note 4 to our consolidated financial statements for more detail on the 2019 Notes.

*Outstanding Borrowings*

At June 30, 2012 (unaudited) and December 31, 2011, we had the following borrowing capacity and outstanding borrowings:

(in thousands)	June 30, 2012		December 31, 2011	
	Total Available	Carrying Value <sup>(1)</sup>	Total Available	Carrying Value <sup>(1)</sup>
Union Bank Facility	\$ 55,000	\$	\$ 55,000	\$
Wells Facility	75,000	3,130	75,000	10,187
2019 Notes <sup>(2)</sup>	43,000	43,000		
Convertible Senior Notes <sup>(3)</sup>	75,000	70,894	75,000	70,353
SBA Debentures <sup>(4)</sup>	225,000	200,750	225,000	225,000
<b>Total</b>	<b>\$ 473,000</b>	<b>\$ 317,774</b>	<b>\$ 430,000</b>	<b>\$ 305,540</b>

- (1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
- (2) In July 2012, we re-opened our 2019 Notes and issued an additional \$41.5 million in aggregate principal amount, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately \$84.5 million in aggregate principal amount.
- (3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$4,106 at June 30, 2012.
- (4) In February 2012, we repaid \$24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a \$24.3 million dollar commitment for HT III, bringing the total available borrowings to \$225.0 million, of which \$100.7 million was available in HT II and \$124.3 million was available in HT III.





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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
October 27, 2005	November 1, 2005	November 17, 2005	\$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	