MASCO CORP /DE/
Form 10-Q
October 27, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Commission file number: 1-5794

Masco Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation)	**38-1794485** (IRS Employer Identification No.)
21001 Van Born Road, Taylor, Michigan (Address of Principal Executive Offices)	**48180** (Zip Code)

(313) 274-7400

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Shares Outstanding at September 30, 2015**
Common stock, par value $1.00 per share	336,472,115

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MASCO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

September 30, 2015 and December 31, 2014

(In Millions, Except Share Data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash investments	$ 1,279	$ 1,379
Short-term bank deposits	255	306
Receivables	1,006	820
Deferred income taxes	177	206
Prepaid expenses and other	74	68
Assets held for sale		373
Inventories:		
Finished goods	392	361
Raw material	258	251
Work in process	99	100
	749	712
Total current assets	3,540	3,864
Property and equipment, net	1,025	1,046
Goodwill	843	840
Other intangible assets, net	163	142
Other assets	156	200
Assets held for sale		1,141
Total assets	$ 5,727	$ 7,233
LIABILITIES		
Current liabilities:		
Notes payable	$ 6	$ 505
Accounts payable	827	721
Accrued liabilities	727	685
Liabilities held for sale		300
Total current liabilities	1,560	2,211
Long-term debt	3,418	2,919
Other liabilities	721	768
Liabilities held for sale		207
Total liabilities	5,699	6,105
Commitments and contingencies		
EQUITY		
Masco Corporation s shareholders equity:		
	332	345

Common shares, par value $1 per share Authorized shares: 1,400,000,000; issued and outstanding: 2015 331,900,000; 2014 345,000,000				
Preferred shares authorized: 1,000,000; issued and outstanding: 2015 None; 2014 None				
Paid-in capital				
Retained (deficit) earnings		(332)		690
Accumulated other comprehensive loss		(159)		(111)
Total Masco Corporation s shareholders (deficit) equity		(159)		924
Noncontrolling interest		187		204
Total equity		28		1,128
Total liabilities and equity	$	5,727	$	7,233

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three and Nine Months Ended September 30, 2015 and 2014

(In Millions Except Per Common Share Data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net sales	$ 1,839	$ 1,834	$ 5,427	$ 5,340
Cost of sales	1,250	1,312	3,706	3,761
Gross profit	589	522	1,721	1,579
Selling, general and administrative expenses	331	341	1,019	1,024
Operating profit	258	181	702	555
Other income (expense), net:				
Interest expense	(54)	(57)	(171)	(169)
Other, net	(6)	7	(2)	10
	(60)	(50)	(173)	(159)
Income from continuing operations before income taxes	198	131	529	396
Income tax (expense) benefit	(77)	415	(219)	377
Income from continuing operations	121	546	310	773
Income (loss) from discontinued operations, net		10	(1)	21
Net income	121	556	309	794
Less: Net income attributable to noncontrolling interest	10	13	29	38
Net income attributable to Masco Corporation	$ 111	$ 543	$ 280	$ 756
Income per common share attributable to Masco Corporation:				
Basic:				
Income from continuing operations	$ .33	$ 1.49	$ .81	$ 2.06
Income (loss) from discontinued operations, net		.03		.06
Net income	$ .33	$ 1.52	$ .81	$ 2.12
Diluted:				
Income from continuing operations	$ .32	$ 1.48	$ .81	$ 2.04
Income (loss) from discontinued operations, net		.03		.06
Net income	$ .32	$ 1.51	$ .80	$ 2.10
Amounts attributable to Masco Corporation:				
Income from continuing operations	$ 111	$ 533	$ 281	$ 735
Income (loss) from discontinued operations, net		10	(1)	21
Net income	$ 111	$ 543	$ 280	$ 756

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For the Three and Nine Months Ended September 30, 2015 and 2014

(In Millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$ 121	$ 556	$ 309	$ 794
Less: Net income attributable to noncontrolling interest	10	13	29	38
Net income attributable to Masco Corporation	$ 111	$ 543	$ 280	$ 756
Other comprehensive income (loss), net of tax (see Note L):				
Cumulative translation adjustment	(17)	(73)	(70)	(79)
Interest rate swaps			1	1
Amortization of pension prior service cost and net loss	4		11	6
Other comprehensive income (loss)	(13)	(73)	(58)	(72)
Less: Other comprehensive income (loss) attributable to noncontrolling interest	(1)	(18)	(10)	(21)
Other comprehensive income (loss) attributable to Masco Corporation	$ (12)	$ (55)	$ (48)	$ (51)
Total comprehensive income (loss)	$ 108	$ 483	$ 251	$ 722
Less: Total comprehensive income (loss) attributable to the noncontrolling interest	9	(5)	19	17
Total comprehensive income (loss) attributable to Masco Corporation	$ 99	$ 488	$ 232	$ 705

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Nine Months Ended September 30, 2015 and 2014

(In Millions)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:		
Cash provided by operations	$ 581	$ 543
Increase in receivables	(245)	(257)
Increase in inventories	(41)	(109)
Increase in accounts payable and accrued liabilities, net	127	129
Net cash from operating activities	422	306
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:		
Retirement of notes	(500)	
Purchase of Company common stock	(407)	(39)
Cash dividends paid	(94)	(86)
Dividend payment to noncontrolling interest	(36)	(34)
Cash distributed to TopBuild Corp.	(63)	
Issuance of TopBuild Corp. debt	200	
Issuance of notes, net of issuance costs	497	
Increase in debt	2	
Issuance of Company common stock	2	1
Tax benefit from stock-based compensation	32	
Payment of debt	(3)	(2)
Credit Agreement and other financing costs	(3)	
Net cash for financing activities	(373)	(160)
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:		
Capital expenditures	(112)	(82)
Acquisition of companies, net of cash acquired	(41)	(2)
Proceeds from disposition of:		
Short-term bank deposits	251	322
Other financial investments	7	13
Property and equipment	13	12
Purchases of:		
Short-term bank deposits	(225)	(297)
Other, net	(37)	(26)
Net cash for investing activities	(144)	(60)
Effect of exchange rate changes on cash and cash investments	(9)	(27)
CASH AND CASH INVESTMENTS:		
(Decrease) increase for the period	(104)	59

At January 1		1,383		1,223
At September 30	$	1,279	$	1,282

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

For The Nine Months Ended September 30, 2015 and 2014

(In Millions, Except Per Share Data)

	Total	Common Shares ($1 par value)	Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balance, January 1, 2014	**$ 787**	**$ 349**	**$ 16**	**$ 79**	**$ 115**	**$ 228**
Total comprehensive income (loss)	722			756	(51)	17
Shares issued	(5)	3	(8)			
Shares retired:						
Repurchased	(39)	(2)	(9)	(28)		
Surrendered (non-cash)	(15)		(15)			
Cash dividends declared	(91)			(91)		
Dividend payment to noncontrolling interest	(34)					(34)
Stock-based compensation	33		33			
Balance, September 30, 2014	$ 1,358	$ 350	$ 17	$ 716	$ 64	$ 211
Balance, January 1, 2015	**$ 1,128**	**$ 345**	**$**	**$ 690**	**$ (111)**	**$ 204**
Total comprehensive income (loss)	251			280	(48)	19
Shares issued	(9)	3	(12)			
Shares retired:						
Repurchased	(407)	(15)	(29)	(363)		
Surrendered (non-cash)	(18)	(1)		(17)		
Cash dividends declared	(94)			(94)		
Dividend payment to noncontrolling interest	(36)					(36)
Separation of TopBuild Corp.	(828)			(828)		
Stock-based compensation	41		41			
Balance, September 30, 2015	$ 28	$ 332	$	$ (332)	$ (159)	$ 187

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. ACCOUNTING POLICIES

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, necessary to present fairly our financial position as at September 30, 2015, our results of operations and comprehensive income (loss) for the three months and nine months ended September 30, 2015 and 2014 and cash flows and changes in shareholders equity for the nine months ended September 30, 2015 and 2014. The condensed consolidated balance sheet at December 31, 2014 was derived from audited financial statements.

Reclassification: Certain prior year amounts have been reclassified to conform to the 2015 presentation in the condensed consolidated financial statements. In our condensed consolidated statements of cash flows, the cash flows from discontinued operations are not separately stated.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard for revenue recognition, Accounting Standards Codification 606 (ASC 606). The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. ASC 606 is effective for us for annual periods beginning January 1, 2018. We are currently evaluating the impact the adoption of this new standard will have on our results of operations.

In April 2014, the FASB issued Accounting Standards Update 2014-08 (ASU 2014-08) Reporting of Discontinued Operations and Disclosure of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. On January 1, 2015, we adopted ASU 2014-08. The adoption of the new standard did not have an impact on our financial position or results of operations.

In February 2015, the FASB issued Accounting Standards Update 2015-02 (ASU 2015-02) Consolidation (Topic 810) Amendments to the Consolidations Analysis, which modifies certain aspects of both the variable interest and voting models. ASU 2015-02 is effective for us for annual periods beginning January 1, 2016. We are currently evaluating the impact the adoption of this new standard will have on our financial position or results of operations.

In April 2015, the FASB issued Accounting Standards Update 2015-03 (ASU 2015-03) Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, that requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. In August 2015, the FASB amended ASU 2015-03 to clarify that debt issuance costs related to line-of-credit arrangements may be classified as an asset. ASU 2015-03 is effective for us for annual periods beginning January 1, 2016. We do not expect that the adoption of the new standard will have a material impact on our financial position.

B. DISCONTINUED OPERATIONS

The presentation of discontinued operations includes a component or group of components that we have or intend to dispose of, and represents a strategic shift that has (or will have) a major effect on our operations and financial results. For spin off transactions, discontinued operations treatment is appropriate following the completion of the spin off.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

Note B continued:

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company named TopBuild Corp. (TopBuild) through a tax-free distribution of the stock of TopBuild to our stockholders. We initiated the spin off as TopBuild was no longer considered core to our long-term growth strategy in branded building products. On June 30, 2015, immediately prior to the effective time of the spin off, TopBuild paid a cash distribution to us of $200 million using the proceeds of its new debt financing arrangement. This transaction was reported as a financing activity in the condensed consolidated statements of cash flows.

We have accounted for the spin off of TopBuild as a discontinued operation. (Losses) gains from this discontinued operation were included in income (loss) from discontinued operations, net, in the condensed consolidated statements of operations.

The major classes of line items constituting pre-tax (loss) profit of discontinued operations, in millions:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	**2014**	**2015**	**2014**
Net sales	$	$ 398	$ 762	$ 1,117
Cost of sales		309	603	877
Gross profit		89	159	240
Selling, general and administrative expenses		68	148	201
Income from discontinued operations	$	$ 21	$ 11	$ 39
(Loss) gain on disposal of discontinued operations, net (1)	(1)	1	(1)	(2)
(Loss) income before income tax	(1)	22	10	37
Income tax benefit (expense) (2)	1	(12)	(11)	(16)
Income (loss) from discontinued operations, net	$	$ 10	$ (1)	$ 21

(1) Included in (loss) gain on disposal of discontinued operations, net in 2014 are additional costs and charges related to the 2013 sale of Tvilum.

(2) The unusual relationship between income tax expense and income before income tax for the nine months ended September 30, 2015 resulted primarily from certain non-deductible transaction costs related to the spin off of TopBuild.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

Note B concluded:

The carrying amount of major classes of assets and liabilities included as part of the TopBuild discontinued operations, in millions:

		December 31, 2014
Cash	$	4
Receivables		220
Inventories		107
Deferred income taxes		38
Prepaid expenses and other		4
Property and equipment, net		93
Goodwill		1,044
Other intangible assets, net		3
Other assets		1
Total assets classified as held for sale	$	1,514
Accounts payable	$	229
Accrued liabilities		71
Other liabilities		40
Deferred income taxes		167
Total liabilities classified as held for sale	$	507

Other selected financial information for TopBuild during the period owned by us, were as follows, in millions:

	Nine Months Ended			
	Sep. 30, 2015		Sep. 30, 2014	
Depreciation and amortization	$	6	$	19
Capital expenditures	$	7	$	9

In conjunction with the spin off, we have entered into a Transition Services Agreement with TopBuild to provide TopBuild administrative services subsequent to the separation. The fees for services rendered under the Transition Services Agreement are not expected to be material to our results of operations.

C. ACQUISITIONS

In the second quarter of 2015, we acquired a U.K. window business for approximately $16 million in cash in the Other Specialty Products segment. This acquisition will support our U.K. window business growth strategy by expanding its product offerings into timber-alternative windows and doors.

quidations and dissolutions, sales of assets, dividends, loans and advances (other than to our portfolio companies), and other matters customarily restricted in such agreements. Our Bridge Loan Credit Facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and

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insolvency, failure of any security document supporting the Bridge Loan Credit Facility to be in full force and effect, and a change of control of our business. At December 31, 2005 we were in compliance with the covenants of the Bridge Loan Credit Facility.

Securitized Credit Facility

On August 1, 2005, we, through Hercules Funding Trust I, an affiliated statutory trust, executed a $100 million securitized credit facility with Citigroup Global Markets Realty Corp., which we refer to as the Citigroup Facility. Our ability to draw on the Citigroup Facility expires on July 31, 2006 unless extended prior to such date for an additional 364-day period with the lenders consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January. The Citigroup Facility will be collateralized by loans from our portfolio companies, and includes an advance rate of approximately 55% of eligible loans. Interest on borrowings under the Citigroup Facility will be paid monthly and will be charged at one-month LIBOR plus a spread of 1.65%. We also paid a loan origination fee equal to 0.25% of the Citigroup Facility and will be subject to an unused commitment fee of 0.50% until the earlier of our borrowing $50.0 million under the facility or February 1, 2006, and 0.25% thereafter. The Citigroup Facility contains covenants that, among other things, require us to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. There was $51.0 million of borrowings outstanding under the Citigroup Facility at December 31, 2005.

SBIC Financing

We are pursuing, through our wholly-owned subsidiary Hercules Technology II, L.P., additional debt financing from the Small Business Administration under its Small Business Investment Company program. If we are able to obtain financing under such program, we will be subject to regulation and oversight by the Small Business Administration, including requirements with respect to maintaining certain minimum financial ratios and other covenants. The Small Business Investment Company regulations currently limit the amount that is available to borrow by any SBIC to $119 million. There is no assurance that we will draw up to the maximum limit available under the Small Business Investment Company program.

In January 2005, we formed Hercules Technology II, L.P. (HT II) and Hercules Technology SBIC Management, LLC (HTM). On May 3, 2005, HT II filed an application with the Small Business Administration (the SBA) to become licensed as a Small Business Investment Company (SBIC) and on June 24, 2005, the HT II received a letter of acknowledgement of receipt of this application. Upon receipt of this letter from the SBA, HT II was eligible to make pre-approved investments. If HT II s application to the SBIC program is ultimately approved by the SBA, then it will be able to borrow funds from the SBA against eligible pre-approved investments. During 2005, HT II funded two preapproved loans of which one was fully repaid in October 2005. At December 31, 2005, Hercules had a net investment of $2.5 million in HT II and there is one outstanding loan in the amount of $2.0 million. HTM is our wholly-owned subsidiary. Hercules is the sole limited partner of HT II and HTM is the general partner.

Securitization

We plan to aggregate pools of funded loans using the Citigroup Facility or other conduits that we may seek until a sufficiently large pool of funded loans is created which can then be securitized. We expect that any loans included in a securitization facility will be securitized on a non-recourse basis with respect to the credit losses on the loans. There can be no assurance that we will be able to complete this securitization strategy, or that it will be successful.

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BUSINESS

General

We are a specialty finance company that provides debt and equity growth capital to technology-related and life-sciences companies at all stages of development. 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. We source our investments through our principal office located in Silicon Valley, as well as our additional offices in the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity-backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity. We use the term structured mezzanine debt investment 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 mezzanine debt investments will typically be secured by some or all of the assets of the portfolio company.

We focus our investments in companies active in the technology industry sub-sectors characterized by products or services that require advanced technologies, including computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. 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 s total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured mezzanine debt 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 investment. 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 in select cases for acquisitions or recapitalizations.

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, which we refer to as the 1940 Act.

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 their development. Our emphasis is on private companies following or in connection with their first institutional round of equity financing, which we refer to as emerging-growth companies, and private companies in later rounds of financing, which we refer to as expansion-stage companies. To a lesser extent, we make investments in established companies comprised of private companies in one of their final rounds of equity financing prior to a liquidity event or select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution.

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From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended, which we refer to in this prospectus as the Code. We currently intend to seek to be treated for federal income tax purposes as a RIC under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election, when actually made, would be effective as of January 1, 2006. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. We may be required, however, to pay corporate-level federal income taxes on gains built into our assets as of the effective date of our RIC election. See Certain United States Federal Income Tax Considerations Conversion to Regulated Investment Company Status. To obtain and maintain the federal income tax benefits of RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See Distributions. There is no assurance that we will meet these tests and be eligible to make a RIC election. As of the date of this prospectus, we cannot determine the probability that during 2006 we will qualify as a RIC when we file our 2006 tax return. If we do not qualify or elect to make a RIC election, we would continue to be taxed as a C corporation.

We commenced investment operations in September 2004. At December 31, 2005, we had outstanding structured mezzanine debt investments in 31 portfolio companies representing approximately $171.8 million and equity investments of $4.9 million for a total investment portfolio at fair value of $176.7 million. In addition, at December 31, 2005, we had unfunded contractual commitments of $30.2 million.

At December 31, 2005, the weighted average yield to maturity of our loan obligations was approximately 12.87%. Yields to maturity are computed using interest rates as of December 31, 2005 and include amortization of loan facility fees, original issue discounts, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and are based on the assumption that all contractual loan commitments have been fully funded.

Corporate History and Offices

We were founded by Mr. Henriquez, our Chief Executive Officer, Mr. Howard, our Senior Managing Director, and Mr. Harvey, our Chief Legal Officer, in December 2003, and we were incorporated in Maryland on December 18, 2003. We were initially capitalized with approximately $2.6 million in net proceeds from the sale of our preferred stock in February 2004.

In June 2004, we completed a private offering of units, each unit consisting of two shares of our common stock and two warrants to purchase one share of our common stock. We received approximately $23.9 million in total net proceeds from this private offering, net of placement fees and before other offering and organizational expenses. All of the then-outstanding preferred stock was exchanged for units immediately prior to the closing of our June 2004 private offering.

In June 2005, we completed a public offering of 6,000,000 shares of our common stock at a price of $13.00 per share resulting in net proceeds to the company of approximately $71.0 million after deducting the offering costs.

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

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response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on structured mezzanine investments in technology-related companies for the following reasons:

- Technology-related companies are underserved by traditional lending sources;
- Unfulfilled demand exists for structured debt financing by technology-related companies;
- Structured mezzanine debt products are less dilutive and complement equity financing from venture capital and private equity funds; and
- Average valuations for private technology-related companies are lower than in recent years.

Technology-Related Companies 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, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. 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 as a result of significant research and development expenditures and high projected revenue growth often render them difficult to evaluate from a credit perspective. The balance sheets of emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which makes the process of valuing that collateral more difficult. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share require an in-depth understanding of technology products and markets. These attributes can make it difficult for lenders to analyze technology-related companies using traditional underwriting methods.

We believe traditional lenders are generally refraining from entering the structured mezzanine debt marketplace for emerging-growth and expansion-stage companies, instead preferring the risk-reward profile of senior debt. 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 flows and requiring a significant depository relationship to facilitate rapid liquidation.

Unfulfilled Demand for Structured Debt Financing by Technology-Related Companies. Private debt capital from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for debt financing to emerging-growth and expansion-stage companies is a function of the level of annual venture equity investment activity. In 2005, venture capital-backed companies received, in approximately 2,200 transactions, equity financing in an aggregate amount of approximately $22.1 billion, as reported by Dow Jones VentureOne/Ernst & Young. According to Dow Jones VentureOne/Ernst & Young, as of December 31, 2005, there were a total of approximately 5,400 private companies that had received aggregate venture capital equity investments of approximately $132 billion over the prior six years. We believe a range of $20 billion to $25 billion in annual equity investments to venture-backed companies will be sustainable for future years.

We believe that demand for structured debt financing is currently unfulfilled, in part because historically the largest capital providers to technology-related companies have exited the market while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe we entered the structured lending market for technology-related companies at an opportune time.

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Structured Mezzanine Debt Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that structured debt securities will continue to be viewed as an attractive source of capital that will augment the capital provided by venture capital and private equity funds. We believe that our structured mezzanine debt products provide access to growth capital for technology-related companies that may not otherwise be able to obtain financing other than through incremental investments by their existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to complement and diversify their capital sources. Generally, we believe emerging-growth and expansion-stage companies target a portion of their capital to be debt in an attempt to enable those companies to achieve a higher valuation through internal growth. In addition, because financial-sponsor backed companies have recently been more mature prior to reaching a liquidity event, our investments could provide the debt capital needed to grow or recapitalize during the extended period prior to liquidity events.

Lower Valuations for Private Technology-Related Companies. During the downturn in technology industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. According to Dow Jones VentureOne/Ernst & Young, as of December 31, 2005 median pre-money valuations for venture capital-backed companies in 2005 was $15.2 million, which compares to $25.0 million in 2000 and $16.0 million in 2001. We believe that the valuations currently assigned to venture capital and private equity-backed technology-related companies in private financing rounds will allow us to build a portfolio of equity-related securities at attractive valuation levels.

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. We have assembled a team of senior investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

We will concentrate our investing activities in industries in which our investment professionals have extensive investment experience. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured mezzanine investments in over 200 technology-related companies, representing over $1 billion in investments, and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies, and to identify and originate potentially attractive investments with these types of companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments will 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 our equity-related investments. 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 for our debt instruments, taking security interests in the assets of our portfolio companies, as well as requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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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 investment. In addition, we expect, in some cases, to receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. We believe that the valuations currently assigned to technology-related companies in private financing rounds as a result of the recent downturn in technology-related industries will allow us to build a portfolio of equity-related securities at attractive valuation levels, which we believe will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that structure their products to 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 mezzanine debt.

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

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

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

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2005, our proprietary SQL-based database system included over 7,900 technology-related companies and over 1,480 venture capital private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

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Our Investments and Operations

We invest in debt securities and, to a lesser extent, equity securities, with a particular emphasis on structured mezzanine debt.

We generally seek to invest in companies that have been operating for at least six to 12 months prior to the date of our investment. We expect that such entities will, at the time of investment, be generating revenues or will have a business plan that anticipates generation of revenues within 24 months. Further, we anticipate that on the date of our investment we will obtain a lien on available assets, which may or may not include intellectual property (other than any tangible assets specifically financed with senior debt), and these companies will have sufficient cash on their balance sheet to amortize their debt for at least nine to 18 months following our investment. We generally require that a prospective portfolio company, in addition to having sufficient capital to support leverage, demonstrate an operating plan capable of generating cash flows or raising the additional capital necessary to cover its operating expenses and service its debt.

We expect that our investments will generally range from $1.0 million to $20.0 million. Our debt investments generally have an average initial principal balance of between $3.0 million and $7.0 million and have maturities of two to seven years, with an expected average term of three years. We typically structure our debt securities to provide for amortization of principal over the life of the loan, but may include an interest-only period, and our loans will be collateralized by a security interest in the borrower s assets, although we may not have the first claim on these assets and the assets may not include intellectual property. Our debt investments carry fixed or variable contractual interest rates typically ranging from 8% to 14%. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees or prepayment fees, which we may be required to include in income prior to receipt. We also generate revenue in the form of commitment and facility fees, and to a lesser extent, due diligence fees. In addition, our structured mezzanine debt investments will 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. We generally expect that the warrants typically will be immediately exercisable upon issuance and will remain exercisable for the lesser of seven years or three years after an initial public offering. The exercise prices for the warrants varies from nominal exercise prices to exercise prices that are at or above the current fair market value of the equity for which we receive warrants. We may structure warrants to provide minority rights provisions and put rights upon the occurrence of certain events. We generally target a total annualized return (including interest, fees and value of warrants) of 12% to 25% for our debt investments.

Typically, our debt and equity investments take one of the following forms:

Structured Mezzanine Debt. We seek to invest a majority of our assets in structured mezzanine debt of prospective portfolio companies. Traditional mezzanine debt is a layer of high-coupon financing between debt and equity that most commonly takes the form of subordinated debt coupled with warrants, combining the cash flow and risk characteristics of both senior debt and equity. However, our structured mezzanine investments may be the only debt capital on the balance sheet of our portfolio companies, and in many cases we have a first lien security interest in all of our portfolio company s assets (other than any tangible assets specifically financed with senior debt). Our structured mezzanine debt investments typically have maturities of between two and seven years, with full amortization for emerging-growth or expansion-stage companies and little or no amortization for select established companies. Our structured mezzanine debt investments carry a contractual interest rate between 8% and 14% and may include an additional end-of-term payment, are in an amount between $3 million and $20 million with an average initial principal balance of between $3 million and $7 million (although this investment size may vary proportionately as the size of our capital base changes) and have an average term of three years. In some cases we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company s intellectual property. We may structure our mezzanine debt investments with restrictive affirmative and negative covenants, default penalties, lien protection, equity calls, take control provisions and board observation rights.

Senior Debt. We seek to invest a limited portion of our assets in senior debt of prospective portfolio companies. Senior debt has a senior position with respect to a borrower s scheduled interest and principal payments and holds a first priority security interest in the assets pledged as collateral. Senior debt also may impose covenants on a borrower with regard to cash flows and changes in capital structure, among other items. Our senior debt investments carry a contractual interest rate between 8% and 12%, are in an amount between $1 million and $5 million with an average initial principal balance of $2 million, and have an average term of under three years. In some cases we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company s intellectual property. Our senior loans, in certain instances, may be tied to the financing of specific assets. In connection with a senior debt investment, we may also provide the borrower with a working capital line-of-credit that will carry an interest rate ranging from the prime rate to 12%, generally maturing in one year, and will be secured by accounts receivable and / or inventory.

Equity-Related Securities. The equity-related securities we hold consist primarily of warrants or other equity interests obtained in connection with our structured mezzanine debt investments. In addition to the warrants received as a part of a structured mezzanine debt financing, we typically receive the right to make equity investments in a portfolio company in connection with the next equity financing round for that company. This right will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. Equity-related investments are typically in the form of preferred or common equity and may be structured with a dividend yield, providing us with a current return, and with customary anti-dilution protection and preemptive rights. In the future, we may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company s stock or by exercising our right, if any, to require a portfolio company to buy back the equity-related securities we hold.

A comparison of the typical features of our various investment alternatives is set forth in the chart below.

	Senior Debt	**Structured Mezzanine Debt**	**Equity Securities**
Typical Structure	Term or revolving debt	Term debt with warrants	Preferred stock or common stock
Investment Horizon	Usually under 3 years	Long term, ranging from 2 to 7 years, with an average of 3 years	Long term
Ranking/Security	Senior/First lien	Senior or junior lien	None/unsecured
Covenants	Generally comprehensive	Less restrictive; Mostly financial; Maintenance-based	None
Risk Tolerance	Low	Medium	High
Coupon/Dividend	Cash pay Floating or fixed rate	Cash Pay fixed rate; Payment-in-kind in limited cases	Payment-in kind in limited cases
Customization or Flexibility	Standard	More flexible	Flexible

Equity Dilution	None to low	Low	High

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Investment Criteria

We have identified several criteria that we believe will prove important in achieving our investment objective with respect to prospective portfolio companies. These criteria provide general guidelines for our investment decisions.

Portfolio Composition. While we focus our investments in venture capital and private equity backed technology-related companies, we seek to diversify across various financial sponsors as well as across various stages of companies development and various technology industry sub-sectors and geographies.

Continuing Support from One or More Financial Sponsors. We generally invest in companies in which one or more established financial sponsors have previously invested and continue to make a contribution to the management of the business. We believe that having established financial sponsors that have meaningful commitments to the business is a key characteristic of a prospective portfolio company. In addition, we look for representatives of one or more financial sponsors to maintain seats on the Board of Directors of a prospective portfolio company as an indication of such commitment.

Company Stage of Development. While we invest in companies at various stages of development, we generally require that prospective portfolio companies be beyond the seed stage of development and generally have received or have commitments for their first institutional round of equity financing. We expect a prospective portfolio company to demonstrate its ability to increase its revenues and operating cash flow over time. The anticipated growth rate of a prospective portfolio company is a key factor in determining the value that we ascribe to any warrants or other equity securities that we may acquire in connection with an investment in debt securities.

Operating Plan. We generally require that a prospective portfolio company, in addition to having sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. Specifically, we require that a prospective portfolio company demonstrate at the time of our proposed investment that it has cash on its balance sheet, or is in the process of completing a financing so that it will have cash on its balance sheet, sufficient to support its operations for a minimum of nine to 18 months.

Security Interest. In many instances we generally seek a first priority security interest in all of the portfolio company s tangible and intangible assets as collateral for our debt investment, subject in some cases to permitted exceptions. In some cases we may only obtain a negative pledge covering a company s intellectual property. Although we do not intend to operate as an asset-based lender, the estimated liquidation value of the assets, if any, collateralizing the debt securities that we hold is an important factor in our credit analysis. We evaluate both tangible assets, such as accounts receivable, inventory and equipment, and intangible assets, such as intellectual property, customer lists, networks and databases.

Covenants. Our investments typically include cross-default and material adverse change provisions, require the portfolio company to provide periodic financial reports and operating metrics and will typically limit the portfolio company s ability to incur additional debt, sell assets, engage in transactions with affiliates and consummate an extraordinary transaction, such as a merger or recapitalization without our consent. In addition, we may require other performance or financial based covenants, as we deem appropriate.

Exit Strategy. Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of our equity interest. Liquidity events may include an initial public offering, a private sale of our equity interest to a third party, a merger or an acquisition of the company or a purchase of our equity position by the company or one of its stockholders.

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Investment Process

We have organized our management team around the four key elements of our investment process:

Origination;

Underwriting;

Documentation; and

Loan and Compliance Administration.

Our investment process is summarized in the following chart:

Origination

The origination process for our investments includes sourcing, screening, preliminary due diligence and deal structuring and negotiation, all leading to an executed non-binding term sheet. Our investment origination team, which consists of nine professionals headed by our Chief Executive Officer, Mr. Henriquez, will be responsible for sourcing potential investment opportunities. The origination team utilizes their extensive relationships with various leading financial sponsors, management contacts within technology-related companies, trade sources, technology conferences and various publications to source prospective portfolio companies.

In addition, 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 December 31, 2005, our proprietary SQL-based database system included over 7,900 technology-related companies and over 1,480 venture capital private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows our origination team to maintain, cultivate and grow our industry relationships while providing our origination team with comprehensive details on companies in the technology-related industries and their financial sponsors.

If a prospective portfolio company generally meets certain underwriting criteria, we perform preliminary due diligence, which may include high level company and technology assessments, evaluation of its financial sponsors support, market analysis, competitive analysis, evaluation of select management, risk analysis and transaction size, pricing, return analysis and structure analysis. If the preliminary due diligence is satisfactory, and the origination team recommends moving forward, we then structure, negotiate and execute a non-binding term sheet with the potential portfolio company. Upon execution of a term sheet, the investment opportunity moves to the underwriting process to complete formal due diligence review and approval.

Underwriting

The underwriting review includes formal due diligence and approval of the proposed investment in the portfolio company.

Due Diligence. Our due diligence on a prospective investment is typically completed by two or more investment professionals which we define as the underwriting team. The underwriting team for a proposed investment consists of the deal sponsor who possesses specific industry knowledge and is responsible for originating and managing the transaction, other investment professional(s) who perform due diligence, credit and corporate financial analyses and, as needed, our Chief Legal Officer. To ensure consistent underwriting, we use our standardized due diligence methodologies, which include due diligence on financial performance and credit risk as well as an analysis of the operations, accounting policies and the legal and regulatory framework of a prospective portfolio company. The members of the underwriting team work together to conduct due diligence and understand the relationships among the prospective portfolio company s business plan, operations and financial performance.

As part of our evaluation of a proposed investment, the underwriting team prepares an investment memorandum for presentation to the investment committee. In preparing the investment memorandum, the underwriting team typically meets with key management of the company and selects its financial sponsors and assembles information critical to the investment decision. If and when appropriate, the investment professionals may also contact industry experts and customers, vendors or, in some cases, competitors of the company.

Approval Process. The sponsoring managing director or principal presents the investment memorandum to our investment committee for consideration. The unanimous approval of our investment committee is required before we proceed with any investment. The members of our investment committee are our Chief Executive Officer, our Senior Managing Director, our Chief Legal Officer and our Vice President of Finance. The investment committee generally meets weekly and more frequently on an as-needed basis.

Documentation

Our documentation group, headed by our Chief Legal Officer, administers the front-end documentation process for our loans. This group is responsible for documenting the term sheet approved by the investment committee to memorialize the transaction with a portfolio company. This group negotiates loan documentation and, subject to the approval of the Chief Legal Officer, final documents are prepared for execution by all parties. The documentation group generally uses the services of external law firms to complete the necessary documentation.

Loan and Compliance Administration

Our loan and compliance administration group, headed by our Vice President of Finance, administers loans and tracks covenant compliance on our investments and oversees periodic reviews of our critical functions to ensure adherence with our internal policies and procedures. After funding of a loan in accordance with the investment committee s approval, the loan is recorded in our SQL-based database system. The loan and compliance administration group is also responsible for ensuring timely interest and principal payments and

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collateral management and advises the investment committee on the financial performance and trends of each portfolio company, including any covenant violations that occur, to aid us in assessing the appropriate course of action for each portfolio company and evaluating overall portfolio quality. In addition, the loan and compliance administration group advises the Valuation Committee of the board regarding the credit and investment grading for each portfolio company as well as changes in the value of collateral that may occur.

The loan and compliance administration group monitors our portfolio companies in order to determine whether the companies are meeting our financing criteria and their respective business plans and also monitors the financial trends of each portfolio company from its monthly or quarterly financial statements to assess the appropriate course of action for each company and to evaluate overall portfolio quality. In addition, our management team closely monitors the status and performance of each individual company through our SQL-based database system and periodic contact with our portfolio companies management teams and their respective financial sponsors.

Credit and Investment Grading System. Our loan and compliance administration group uses an investment grading system to characterize and monitor our expected level of returns on both the debt investments and the related warrants or equity positions for each investment in our portfolio. Our loan and compliance administration group monitors and, when appropriate, recommends changes to investment grading. Our investment committee reviews the recommendations and/or changes to the investment grading, which are submitted on a quarterly basis to the Valuation Committee and our Board of Directors for approval. We use the following investment grading system as amended January 2006 and approved by our Board of Directors:

1 Loans involve the least amount of risk in our portfolio. The borrower is performing above expectations, and the trends and risk profile is generally favorable.

2 The borrower is performing as expected and the risk profile is neutral to favorable. All new loans are initially graded 2.

3 The borrower may be performing below expectations and that the loan s risk has increased materially since origination. We increase procedures to monitor a borrower that may have limited amounts of cash remaining on the balance sheet, is approaching its next equity capital raise within the next three to six months, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a level 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2.

4 The borrower is performing materially below expectations and that the loan risk has substantially increased since origination. Loans graded 4 may experience some partial loss or full return of principal but are expected to realize some loss of interest which is not anticipated to be repaid in full, which, to the extent not already reflected, may require the fair value of the loan to be reduced to the amount we anticipate will be recovered. Grade 4 investments are closely being monitored.

5 The borrower is in workout, materially performing below expectations and significant risk of principal loss is probable. Loans graded 5 will experience some partial principal loss or full loss of remaining principal outstanding is expected. Grade 5 loans will require the fair value of the loans be reduced to the amount we anticipate, if any, will be recovered.

As of December 31, 2005, our investments had a weighted average investment rating of 2.05.

Managerial Assistance

As a business development company, we offer, and provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

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Competition

Our primary competitors provide financing to prospective portfolio companies and include financial institutions, venture capital funds, private equity funds, investment funds and investment banks. Many of these entities have greater financial and managerial resources than we have, and the 1940 Act imposes certain regulatory restrictions on us as a business development company to which many of our competitors are not subject. However, we believe that few of our competitors possess the expertise to properly structure and price debt investments to venture capital and private equity backed technology-related companies. We believe that our specialization in financing technology-related companies will enable us to assess the value of intellectual property assets, evaluate the business prospects and operating characteristics of prospective portfolio companies and, as a result, identify investment opportunities that produce attractive risk-adjusted returns. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business and Structure We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.

Corporate Structure

We are a Maryland corporation and an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. Hercules Technology II, L.P., our wholly-owned subsidiary, has applied to be licensed under the Small Business Investment Act of 1958 as a Small Business Investment Company. See Regulation below for further information about small business investment company regulation. Hercules Technology SBIC Management, LLC, another wholly-owned subsidiary, functions as the general partner of our subsidiary Hercules Technology II, L.P. Hercules Funding I LLC, our wholly owned subsidiary, and Hercules Funding Trust I function as vehicles to collateralize loans under our securitized credit facility with Citigroup Global Markets Realty Corp.

Our principal executive offices are located at 525 University Avenue, Suite 700, Palo Alto, California 94301. We also have offices in Boston, Massachusetts, Boulder, Colorado and Chicago, Illinois.

Employees

As of December 31, 2005, we had 19 employees, including 12 investment and portfolio management professionals, operations professionals and legal counsel, all of whom have extensive prior experience working on financing transactions for technology-related companies. We intend to hire additional professionals with business lending experience as well as additional administrative personnel, and we expect to expand our management team and hire additional Managing Directors.

Legal Proceedings

Hercules Technology Growth Capital, Inc. is not a party to any pending legal proceedings.

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PORTFOLIO COMPANIES

The following tables set forth certain information as of December 31, 2005 regarding each portfolio company in which we had a debt or equity investment. The general terms of our loans and other investments are described in Business Our Investments. We offer to make available significant managerial assistance to our portfolio companies. In addition, we may receive rights to observe the Board of Directors meetings of our portfolio companies.

Investments at December 31, 2005

Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities held by Us	Percentage of Class Held[1]	Cost of Investment[2]	Fair Value of Investment[3][4]
Acceleron Pharmaceuticals, Inc.	Biopharmaceuticals	Senior Debt	100%	$ 3,932,539	$ 3,932,539
24 Emily Street		Preferred Stock Warrants	100%	69,106	68,054
Cambridge, Massachusetts 02139				4,001,645	4,000,593
Adiana, Inc.	Medical devices & equipment	Senior Debt	100%	1,943,979	1,943,979
2684 Middlefield Rd.		Preferred Stock Warrants	100%	67,225	66,404
Redwood City, California 94063		Preferred Stock	<5%	500,000	500,000
				2,511,204	2,510,383
Affinity Express, Inc.	Internet consumer & business services	Senior Debt	100%	1,560,450	1,560,450
630 Tollgate Road, Suite E		Common Stock Warrants	100%	17,000	187,922
Elgin, Illinois 60123		Common Stock Warrants	100%	15,000	12,995
		Preferred Stock		250,000	250,000
				1,842,450	2,011,367
Ageia Technologies	Semiconductors	Senior Debt	100%	7,914,586	7,914,586
82 Pioneer Way		Preferred Stock Warrants	100%	99,190	93,518
Mountain View, California 94041		Preferred Stock		500,000	500,000
				8,513,776	8,508,104
Atrenta, Inc.	Software	Senior Debt	100%	4,869,095	4,869,095
2001 Gateway Place, Suite 440W		Preferred Stock Warrants	100%	102,396	102,886
San Jose, California 95110		Preferred Stock Warrants	100%	33,760	33,760
				5,005,251	5,005,741
Concuity, Inc.	Software				

22320 Foothill Blvd., Suite 500		Senior Debt	100%	4,567,873	4,567,873
Hayward, California 94541		Preferred Stock Warrants	100%	3,500	
				4,571,373	4,567,873
Cornice, Inc.	Electronics & computer hardware	Senior Debt	100%	4,915,455	4,915,455
1951 S. Fordham Street		Revolving Line of Credit	100%	7,663,375	7,663,375
Building 105		Preferred Stock Warrants	100%	101,597	99,336
Longmont, CO 80503		Preferred Stock Warrants	100%	35,353	34,230
		Preferred Stock Warrants	100%	135,403	132,390
				12,851,183	12,844,786
Cradle Technologies	Semiconductors	Senior Debt	100%	1,923,049	1,923,049
1197 Borregas Avenue		Preferred Stock Warrants	100%	79,150	78,730
Sunnyvale, California 94089				2,002,199	2,001,779
Gomez, Inc.	Software	Senior Debt	100%	2,175,075	2,175,075
610 Lincoln Street		Preferred Stock Warrants	100%	35,000	32,467
Waltham, Massachusetts 02451				2,210,075	2,207,542
Guava Technologies, Inc.	Biopharmaceuticals	Senior Debt	100%	4,397,111	4,397,111
25801 Industrial Blvd.		Preferred Stock Warrants	100%	105,399	103,837
Hayward, California 94545				4,502,510	4,500,948
IKANO Communications, Inc.	Communications & networking	Senior Debt	100%	16,402,789	16,402,789
265 East 100 South, Suite 245		Preferred Stock Warrants	100%	45,460	43,710
Salt Lake City, Utah 84111		Preferred Stock Warrants	100%	72,344	71,000
				16,520,593	16,517,499

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities held by Us	Percentage of Class Held[1]	Cost of Investment[2]	Fair Value of Investment[3][4]
Interwise, Inc.	Communications & networking	Senior Debt	100%	$ 2,809,653	$ 2,809,653
25 First Street					
Cambridge, Massachusetts 02141				2,809,653	2,809,653
Invoke Solutions, Inc.	Internet Consumer & business services	Senior Debt	100%	1,457,391	1,457,391
375 Totten Pond Road, Suite 400		Preferred Stock Warrants	100%	43,826	44,155
Waltham, Massachusetts 02451				1,501,217	1,501,546
Inxight Software, Inc.	Software	Senior Debt	100%	4,956,279	4,956,279
500 Macara Avenue		Preferred Stock Warrants	100%	55,963	46,735
Sunnyvale, California 94085				5,012,242	5,003,014
Labopharm USA, Inc.	Biopharmaceuticals	Senior Debt	100%	9,869,420	9,869,420
53 State Street		Common Stock	<5%	112,335	1,367,268
Boston, Massachusetts 02109				9,981,755	11,236,688
Merrimack Pharmaceuticals, Inc.	Biopharmaceuticals	Senior Debt	100%	8,878,668	8,878,668
101 Binney Street		Preferred Stock Warrants	100%	155,456	140,675
Cambridge, Massachusetts 02142				9,034,124	9,019,343
Metreo, Inc.	Software	Senior Debt	100%	4,525,714	1,266,000
3500 West Bayshore Road		Preferred Stock Warrants	100%	50,000	
Palo Alto, California 94303				4,575,714	1,266,000
Occam Networks, Inc.	Communications & networking	Senior Debt	100%	2,540,021	2,540,021
77 Robin Hill Road		Preferred Stock Warrants	100%	14,000	286,364
Santa Barbara, California 93117		Common Stock Warrants	100%	17,000	368,935
				2,571,021	3,195,320
Omrix Biopharmaceuticals, Inc.	Biopharmaceuticals	Senior Debt	100%	4,701,782	4,701,782
MDA Bloodcenter Tel Hashmar		Common Stock Warrants	100%	11,370	58,399
Hospital Tel Aviv, Israel				4,713,152	4,760,181
Optiscan Biomedical, Corp.	Medical devices & equipment	Senior Convertible Term Loan	100%	1,683,063	1,683,063
1105 Atlantic Avenue, Suite 101		Preferred Stock Warrants	100%	80,486	81,185
				1,000,000	1,000,000

Alameda, California 94501		Preferred Stock	<5%		
				2,763,549	2,764,248
Optovia Corporation 100 Nagog Park Acton, Massachusetts 01720	Communications & networking	Senior Debt	100%	5,000,000	5,000,000
				5,000,000	5,000,000
Paratek Pharmaceuticals, Inc. 75 Kneeland Street Boston, Massachusetts 02111	Biopharmaceuticals	Senior Debt	100%	9,889,320	9,889,320
		Preferred Stock Warrants	100%	137,396	141,881
				10,026,716	10,031,201
Pathfire, Inc. 245 Hembree Park Drive Roswell, Georgia 30076	Communications & networking	Senior Debt	100%	4,938,482	4,938,482
		Preferred Stock Warrants	100%	63,276	64,144
				5,001,758	5,002,626
Power Medical Interventions, Inc. 2021 Cabot Blvd. West Langhorn, Pennsylvania 19047	Medical devices & equipment	Senior Debt	100%	3,969,515	3,969,515
		Common Stock Warrants	100%	39,195	56,490
				4,008,710	4,026,005
Proficiency, Inc. 880 Winter Street, Suite 320 Waltham, Massachusetts 02415	Software	Senior Debt	100%	3,917,802	3,917,802
		Preferred Stock Warrants	100%	96,370	94,105
				4,014,172	4,011,907
RazorGator Interactive Group, Inc. 9464 Wilshire Blvd. Beverley Hills, California 90212	Internet consumer & business services	Senior Debt	100%	4,095,853	4,095,853
		Preferred Stock Warrants	100%	13,050	64,833
		Preferred Stock	<5%	1,000,000	1,000,000
				5,108,903	5,160,686

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities held by Us	Percentage of Class Held[1]	Cost of Investment[2]	Fair Value of Investment[3][4]
Sling Media, Inc. 1840 Gateway Drive, Suite 224 San Mateo, California 94494	Electronics & computer hardware	Senior Debt	100%	$ 3,965,029	$ 3,965,029
		Preferred Stock Warrants	100%	38,968	945,365
				4,003,997	4,910,394
Sportvision, Inc. 4619 Ravenswood Road Chicago, Illinois 60640	Software	Senior Debt	100%	3,488,119	3,488,119
		Preferred Stock Warrants	100%	39,339	38,523
				3,527,458	3,526,642
Talisma Corp. 10900 NE 4th Street, Suite 1610 Bellevue, Washington 98004	Software	Subordinated Debt	100%	3,378,814	3,378,814
		Preferred Stock Warrants	100%	49,000	43,428
				3,427,814	3,422,242
Wageworks, Inc. Two Waters Park Drive, Suite 250 San Mateo, California 94403	Consumer & business products	Senior Debt	100%	18,379,995	18,379,995
		Preferred Stock Warrants	100%	251,964	1,197,735
		Preferred Stock	<5%	249,995	249,995
				18,881,954	19,827,725
Xillix Technologies Corp. #100-13775 Commerce Parkway Richmond, British Columbia	Medical devices & equipment	Senior Debt	100%	5,195,589	5,195,589
		Preferred Stock Warrants	100%	313,108	325,601
				5,508,697	5,521,190
		Total Investments		$ 176,004,865	$ 176,673,225

(1) All debt investments are income producing. Preferred and common stock and all warrants are non-income producing.
(2) Tax cost at December 31, 2005 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled $4,035,788, $3,367,428 and $668,360, respectively, at December 31, 2005.
(3) Except for common stock held in Labopharm Biopharmaceuticals, all investments are restricted at December 31, 2005 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Citigroup has an equity participation right on warrants collateralized under the Citigroup facility (see Note 5 to our Audited Consolidated Financial Statements included elsewhere in this Prospectus). The value of their participation right on unrealized gains in the related equity investments was approximately $342,000 at December 31, 2005 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2005.

Portfolio Company Descriptions

Acceleron Pharmaceuticals, Inc.

Acceleron Pharmaceuticals focuses on developing therapeutics for metabolic and musculoskeletal diseases.

Adiana, Inc.

Adiana is developing a non-invasive, permanent form of female sterilization.

Affinity Express, Inc.

Affinity Express is a business process outsourcing company that provides digital asset management services and electronic document creation services to client firms.

Ageia Technologies

Ageia Technologies is a developer of technology to enhance interactive media playback. The company develops chips for processing three dimensional visual data for applications such as computer simulation, gaming, and security.

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Atrenta, Inc.

Atrenta Inc. is a provider of development solutions that seek to turn chip, system and software development into more predictable and controllable processes for the electronic systems industry.

Concuity, Inc.

Concuity provides an Internet-based technology service solution for healthcare providers to help such providers negotiate, control and collect under contracts with third-party payers.

Cornice, Inc.

Cornice seeks to provide compact, low-cost, high-capacity storage for a variety of pocket-able consumer electronic devices, including mobile phones, MP3 players, personal video recorders, GPS devices and portable storage products.

Cradle Technologies

Cradle Technologies is a semiconductor company developing specialized digital signal processing technology for multimedia applications.

Gomez, Inc.

Gomez supplies enterprise solutions that help companies achieve and maintain the performance of their mission-critical Internet applications. Gomez provides performance measurement, benchmarking and competitive analysis to companies across all industry segments, including financial services, e-commerce, information technology and travel.

Guava Technologies, Inc.

Guava Technologies is a biotechnology company that develops, manufactures and markets cellular analysis systems for the life science research marketplace.

Ikano Communications, Inc.

Ikano Communications partners with Internet Service Providers to help such providers in reducing operating costs, increasing revenues and expanding geographic reach and product offerings.

Interwise, Inc.

Interwise, Inc. is a provider of an integrated data, video, and voice conferencing solution for delivering realtime multimedia communications across the extended enterprise. The solution combines voice, rich interactive content, and streaming video in a single platform to support a customer s e-learning.

Invoke Solutions, Inc.

Invoke Solutions develops and provides real-time research technologies that seek to help businesses gain instant insight into the opinions, views, and dynamics of their customers, employees, and other constituents.

Inxight Software, Inc.

Inxight is a provider of software solutions that enables customers to discover, retrieve, and collect information contained in unstructured data sources in a number of languages.

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Labopharm USA, Inc.

Labopharm seeks to develop improved formulations of currently marketed drugs using its advanced, proprietary controlled-release drug delivery technologies. Labopharm seeks to develop and commercialize new value-added formulations of existing products that address the market s preference for drugs that offer simplified dosing regimens, improved efficacy or a reduced side effect profile.

Merrimack Pharmaceuticals, Inc.

Merrimack Pharmaceuticals is a drug discovery and clinical development company that has developed a proprietary drug discovery platform. Its clinical programs are focused on developing drugs in the fields of autoimmune disease and cancer.

Metreo, Inc.

Metreo delivers e-business software that enables suppliers to evaluate customer sales requests and recommend profitable responses. Metreo offers manufacturers and distributors a suite of supplier-driven solutions that they can use to negotiate profitable deals.

Occam Networks, Inc.

Occam Networks, Inc., which is traded on the Nasdaq Over-the-Counter Bulletin Board (NASDAQ: OCCM.OB), designs, develops and markets a suite of broadband loop carriers (BLCs). Occam s BLC s are Ethernet and Internet protocol (IP) based and enable telecommunications service providers to offer voice, broadband and IP services from a single access network. Occam supplies its products to local and regional telecommunications carriers, independent telephone companies and international telecommunications carriers that deliver or wish to deliver voice, data, Internet access and video services to the residential, small and medium business and large enterprise markets over existing copper telephone lines.

Omrix Biopharmaceuticals, Inc.

Omrix Biopharmaceuticals is a biotechnology company that develops and markets a unique surgical sealant, as well as a suite of immunology and hemophilia products.

OptiScan Biomedical Corporation

OptiScan Biomedical Corporation is developing a non-invasive blood glucose monitor utilizing proprietary infrared technology.

Optovia Corporation

Optovia Corporation develops optical transport subsystems for telecommunications carriers, cable provider networks, and corporate enterprise applications.

Paratek Pharmaceuticals, Inc.

Paratek is developing new therapeutics for the infectious disease market to combat the problem of antibiotic resistance.

Pathfire, Inc.

Pathfire provides digital content distribution and management solutions for the broadcast, media and entertainment industries and seeks to supply innovative digital solutions, from distribution to air, for broadcasters, news organizations, television networks, Hollywood studios and other media companies.

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Power Medical Interventions, Inc.

Power Medical seeks to combine computer-mediated technology with minimally invasive surgical techniques to create next-generation surgical staplers.

Proficiency, Inc.

Proficiency is delivering technology and products that make design intelligence portable and that increase the efficiency of product development processes. Proficiency supplies feature-based design interoperability and feature-based design data exchange solutions.

RazorGator, Inc.

RazorGator is an Internet-based ticket sales company focusing on sold-out or hard-to-find tickets for sporting events, concerts and theatrical productions. RazorGator also operates an electronic broker trading and clearing platform for the resale of tickets.

Sling Media, Inc.

Sling Media is a provider of consumer electronics for the digital media consumers. The company s solutions aim to enhance existing products and standards with hardware and software that will improve consumers usage experience. The first member of the Sling Media family is the Slingbox(TM), a device that allows consumers to access their living room television experience at any time, from any location.

Sportvision, Inc.

Sportvision is an interactive sports marketing and technology company developing products to enrich fans interaction with sports via its unique broadcast and interactive solutions and helping create new value for sports properties, marketers and media companies. Sportvision s technologies have been utilized in broadcasts of all of the major sports including the NFL, NBA, NASCAR, NHL, PGA Tour, LPGA Tour, Major League Baseball, NCAA football and basketball, WTA, Arena Football League, XTERRA, Ironman Triathlon and other sporting events on-air and online.

Talisma Corporation

Talisma Corporation is a provider of multi-channel Customer Resource Management (CRM) software. The software integrates email, chat, real-time collaboration, and telephony applications with a multi-channel interaction management platform. In addition, the software offers comprehensive analytics and a fully integrated system-wide knowledgebase and customer database.

Wageworks, Inc.

WageWorks provides employer-sponsored, tax-advantaged spending solutions, including medical and family-care reimbursement and transit passes.

Xillix Technologies Corp.

Xillix Technologies Corp. develops fluorescence endoscopy technology for improved cancer detection. Xillix s latest device incorporates fluorescence and white-light endoscopy in a single device that has been developed for the detection and localization of lung and gastrointestinal (GI) cancers.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table for the periods ended December 31, 2005 and 2004. The information has been derived from our financial statements which have been audited by Ernst & Young LLP.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities	Asset Coverage per Unit[(1)]	Average Market Value per Unit
Bridge Loan Credit Facility with Alcmene Funding L.L.C.			
2004			N/A
2005	25,000,000	2,505	N/A
Securitized Credit Facility with Citigroup Global Markets Realty Corp.			
2004			N/A
2005	51,000,000	2,505	N/A

(1) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.

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MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors elects our officers who serve at the discretion of the Board of Directors. Our Board of Directors currently consists of three members, one who is an interested person of Hercules Technology Growth Capital as defined in Section 2(a)(19) of the 1940 Act and two who are not interested persons and who we refer to as our independent directors. We anticipate that an additional independent director will be elected to our Board of Directors by June 2006.

Directors, Executive Officers and Key Employees

Our executive officers, directors and key employees and their positions are set forth below. The address for each executive officer, director and key employee is c/o Hercules Technology Growth Capital, Inc., 525 University Avenue, Suite 700, Palo Alto, California 94301.

Name	Age	Positions
Interested Director:(1)		
Manuel A. Henriquez	42	Chairman of the Board of Directors, President and Chief Executive Officer
Independent Directors:		
Joseph W. Chow(2)(3)(4)(5)	53	Director
Allyn C. Woodward, Jr.(2)(3)(4)(5)	65	Director
Executive Officers:		
Manuel A. Henriquez	42	Chairman of the Board of Directors, President and Chief Executive Officer
H. Scott Harvey	51	Chief Legal Officer and Chief Compliance Officer
David M. Lund	52	Vice President of Finance and Corporate Controller
Shane A. Stettenbenz	35	Chief Technology Officer
Key Employees:		
Glen C. Howard	49	Senior Managing Director
Samir Bhaumik	42	Managing Director
Kathleen Conte	59	Managing Director
John Hershey	44	Managing Director
Roy Y. Liu	45	Managing Director
Edward M. Messman	35	Managing Director
Parag I. Shah	34	Managing Director

(1) Mr. Henriquez is an interested person, as defined in section 2(a)(19) of the 1940 Act, of the Company due to his position as an officer of the Company and because he is a beneficial owner of securities of JMP Group LLC, the ultimate parent entity of one of the co-dealer managers in this offering.
(2) Member of the Audit Committee.
(3) Member of the Valuation Committee.
(4) Member of the Compensation Committee.
(5) Member of the Nominating and Corporate Governance Committee.

Interested Director

Manuel A. Henriquez is a co-founder of the company and has been our Chairman and Chief Executive Officer since December 2003 and our President since April 2005. Prior to co-founding our company, Mr. Henriquez was a Partner at VantagePoint Venture Partners, a $2.5 billion multi-stage technology venture fund, from August 2000 through July 2003. Prior to VantagePoint Venture Partners, Mr. Henriquez was the

President and Chief Investment Officer of Comdisco Ventures, a division of Comdisco, Inc., a leading technology and financial services company, from November 1999 to March 2000. Prior to that, from March 1997 to November 1999, Mr. Henriquez was a Managing Director of Comdisco Ventures. Mr. Henriquez was a senior member of the investment team at Comdisco Ventures that originated over $2.0 billion of equipment lease, debt and equity transactions from 1997 to 2000. Mr. Henriquez received a B.S. in Business Administration from Northeastern University.

Independent Directors

Joseph W. Chow has served as a director since February 2004. Mr. Chow is Executive Vice President and Chief Risk and Corporate Administration Officer at State Street Corporation, having retired from the company in August 2003 and rejoined it in July 2004. Prior to August 2003, Mr. Chow was Executive Vice President and Head of Credit and Risk Policy at State Street. Before joining State Street in 1990, Mr. Chow worked at Bank of Boston in various international and corporate banking roles and specialized in the financing of emerging-stage high technology companies from 1983 to 1989. Mr. Chow is a graduate of Brandeis University with a B.A. in Economics. He also received an M.C.P. from the Massachusetts Institute of Technology and an M.S. in Management (Finance) from the MIT Sloan School of Management.

Allyn C. Woodward, Jr. has served as a director since February 2004. Mr. Woodward was Vice Chairman of Adams Harkness Financial Group (AHFG-formerly Adams, Harkness & Hill) from April, 2001 until January, 2006 when AHFG was sold to Canaccord, Inc. He previously served as President from 1995-2001. AHFG was an independent institutional research, brokerage and investment banking firm headquartered in Boston, MA. Prior to joining AHFG, Mr. Woodward worked for Silicon Valley Bank from April, 1990 to April 1995, initially as Executive Vice President and Co-founder of the Wellesley MA office and more recently as Senior Executive Vice President and Chief Operating Officer of the parent bank in California. Silicon Valley Bank is a commercial bank, headquartered in Santa Clara, CA whose principal lending focus is directed toward the technology, healthcare and venture capital industries. Prior to joining Silicon Valley Bank, Mr. Woodward was Senior Vice President and Group Manager of the Technology group at Bank of New England, Boston, MA where he was employed from 1963-1990. Mr. Woodward is currently a Director, Chairman of the Compensation Committee and a member of the Audit Committee of Lecroy Corporation (NASDAQ:LCRY). He is also a former Director of Viewlogic (NASDAQ:VIEW) and Cayenne Software, Inc (NASDAQ:CAYN). Mr. Woodward serves on the Board of Directors of three private companies and is on the Board of Advisors of several venture capital firms. Mr. Woodward is on the Board of Overseers and a member of the Finance Committee of Newton Wellesley Hospital, a 250 bed hospital located in Newton, MA. Mr. Woodward is on the Board of Overseers and the Investment Committee and the Finance Committee of Babson College in Babson Park, MA. Mr. Woodward graduated from Babson College with a degree in finance and accounting. He also graduated from the Stonier Graduate School of Banking at Rutgers University.

Executive Officers who are not Directors

H. Scott Harvey is a co-founder of the company and has been our Chief Legal Officer since December 2003. Mr. Harvey has over 20 years of legal and business experience with leveraged finance and financing public and private technology-related companies. Since July 2002, and prior to joining us, Mr. Harvey was in a diversified private practice. Previously, Mr. Harvey was Deputy General Counsel of Comdisco, Inc., a leading technology and financial services company, from January 1997 to July 2002. From 1991 to 1997, Mr. Harvey served as Vice President of Marketing, Administration & Alliances with Comdisco, Inc. and was Corporate Counsel from 1983 to 1991. Mr. Harvey received a B.S. in Agricultural Economics from the University of Missouri, a J.D. and LLM in taxation from The John Marshall Law School and an M.B.A. from Illinois Institute of Technology.

David M. Lund joined us in July 2005 as Vice President of Finance and Corporate Controller, and is our principal financial and accounting officer. He has over 20 years of experience in finance and accounting serving companies in the technology sector. Prior to joining Hercules, Mr. Lund served in senior financial positions for

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publicly traded companies: InterTrust Technologies, Centillium Communications and Rainmaker Systems, and in private companies: Urban Media, Scion Photonics and APT Technology. Mr. Lund also served in public accounting with Ernst & Young LLP and Grant Thornton LLP. He received a B.S. degree in Business Administration with an emphasis in Accounting from San Jose State University and a B.S. degree in Business Administration with an emphasis in Marketing from California State University, Chico. Mr. Lund is a Certified Public Accountant in the State of California.

Shane A. Stettenbenz joined the company in February 2004 as Vice President Information Systems and has served as Chief Technology Officer since December 2004. Mr. Stettenbenz previously served as an IT Director for VantagePoint Venture Partners from May 2001 to June 2003. Prior to that, Mr. Stettenbenz was an IT Manager for Comdisco Ventures, a division of Comdisco, Inc. from May 1997 to May 2001. Mr. Stettenbenz attended San Jose State University from 1991 to 1995 while majoring in Management Information Systems.

Key Employees

Samir Bhaumik joined the company in November 2004 as a Managing Director. Mr. Bhaumik previously served as Vice President Western Region of the New York Stock Exchange from March 2003 to October 2004. Prior to working for the New York Stock Exchange, Mr. Bhaumik was Senior Vice President of Comerica Bank, previously Imperial Bank, from April 1993 to February 2003. Mr. Bhaumik received a B.A. from San Jose State University and an M.B.A from Santa Clara University. He serves on the advisory boards of Santa Clara University Leavey School of Business, Junior Achievement of Silicon Valley and the American Electronics Association-Bay Area council.

Kathleen Conte joined the company as a Managing Director of Life Sciences in November 2004. From December 2003 to November 2004, she worked as an independent consultant. From 1993 to December 2003, she served as Senior Vice President at Comerica Bank running its West Coast Life Sciences Group. Ms. Conte was at Prudential Capital Corporation from 1987 to 1993 originating structured private placements. Prior to that she spent 13 years at Wells Fargo Bank in various lending positions. Ms. Conte holds a B.A. degree and an M.B.A. from the University of Delaware.

John D. Hershey joined the company in September 2005 as a Managing Director. From July 2004 to August 2005, he worked as an independent consultant. From October 2000 to June 2004, Mr. Hershey served as a Managing Director at Infinity Capital, an early stage venture capital firm where he co-managed the firm s software and services investing group. Prior to Infinity Capital, Mr. Hershey worked as a Managing Director at Banc of America Securities from May 1995 to September 2000. At Banc of America Securities, Mr. Hershey managed the firm s Internet Investment Banking group and served on the firm s Fairness Opinion Commitment Committee. From July 1990 to November 2003, Mr. Hershey was an Associate at James D. Wolfensohn, Inc., where he helped manage Wolfensohn Associates L.P., an all stage venture capital fund. Mr. Hershey received a B.A. degree in Economics from University of California, Davis and an M.B.A from the University of Chicago.

Glen C. Howard is a co-founder of the company, served as our President from December 2003 until April 2005 and is currently a Senior Managing Director. Mr. Howard has over 18 years of experience with structured finance and financing public and private technology-related companies. Prior to co-founding our company, Mr. Howard served as a Principal with Pearl Street Group, a specialty finance company, from May 2001 to October 2003. From September 1999 to May 2001, Mr. Howard was a Managing Director of Comdisco Ventures, a division of Comdisco, Inc., a leading technology and financial services company. Prior to that, Mr. Howard was a Senior Associate of Comdisco Ventures from February 1997 to September 1999. Mr. Howard was a senior member of the investment team at Comdisco Ventures that originated over $2.5 billion of equipment lease, debt and equity transactions from 1997 to 2001. Prior to joining Comdisco Ventures, Mr. Howard was Vice President of Comdisco, Inc. where he was actively involved in the management and marketing of structured finance products to private and public technology-related companies. Mr. Howard received a B.S. in Systems Industrial Engineering from the University of Arizona and an M.B.A. from Saint Mary s College.

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Roy Y. Liu joined the company as a Managing Director in April 2004. Mr. Liu has over 20 years experience in operations and finance of technology companies. Formerly, Mr. Liu was a Vice President at GrandBanks Capital, an early-stage, information technology-focused venture capital firm. From 2000 to 2002, Mr. Liu was a founding principal of VantagePoint Structured Investments, a debt fund affiliated with VantagePoint Venture Partners. Prior to joining VantagePoint, Mr. Liu was VP Finance and Chief Financial Officer for toysmart.com, Inc. Prior to joining toysmart.com, he was a First Vice President and co-founded Imperial Bank s Emerging Growth Industries Boston office in 1997, where he focused specifically on debt financing for venture-backed companies. Prior to co-founding Imperial Bank s Emerging Growth Industries Boston office, Mr. Liu was the Chief Financial Officer of Microwave Bypass Systems, Inc. Prior to joining Microwave Bypass, Mr. Liu was Vice President and head of the High Tech Lending group for State Street Bank & Trust Co. Mr. Liu started his finance career in the Acquisition Finance Division of the Bank of Boston. Prior to his career in finance, Mr. Liu worked four years at IBM in research and product development. He holds a B.S. degree in Electrical Engineering and an M.B.A. from the University of Michigan.

Edward M. Messman joined the company in July 2005 as a Managing Director. From June 2004 to July 2005, Mr. Messman served as the Southwest Regional Market Manager of the Structured Finance Group of Silicon Valley Bank. Prior to Silicon Valley Bank, Mr. Messman worked as an independent consultant from December 2003 to June 2004. From October 1998 to December 2003, Mr. Messman was Vice President of Comerica Bank, previously Imperial Bank, where he formed and managed the Technology and Life Sciences group in Denver, Colorado covering the Rocky Mountain region. Mr. Messman received a B.S. degree in International Business from Grand Canyon University and an M.B.A from the University of Colorado.

Parag I. Shah joined the company in November 2004 as Managing Director of Life Sciences. From April 2000 to April 2004, Mr. Shah served as a Senior Vice President in Imperial Bank s Life Sciences Group, which was acquired by Comerica Bank in early 2001. Prior to working at Comerica Bank, Mr. Shah was an Assistant Vice President at Bank Boston from January 1997 to March 2000. Bank Boston was acquired by Fleet Bank in 1999. Mr. Shah completed his Masters degrees in Technology, Management and Policy as well as his Bachelors degree in Molecular Biology at the Massachusetts Institute of Technology (MIT). During his tenure at MIT, Mr. Shah conducted research at the Whitehead Institute for Biomedical Research and was chosen to serve on the Whitehead Institute s Board of Associates in 2003.

Board of Directors

The number of directors is currently fixed at three directors. We expect that at least one additional independent director will be elected to our Board of Directors by June 2006.

Our Board of Directors is divided into three classes. One class holds office for a term expiring at the annual meeting of stockholders to be held in 2006, a second class holds office for a term expiring at the annual meeting of stockholders to be held in 2007, and a third class holds office initially for a term expiring at the annual meeting of stockholders to be held in 2008. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Mr. Woodward s term expires in 2006, Mr. Henriquez s term expires in 2007 and Mr. Chow s term expires in 2008. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

In connection with its purchase of our preferred stock in February 2004, we granted JMP Asset Management LLC the right to designate one observer to attend meetings of our Board of Directors, other than executive sessions, committee meetings or subcommittee meetings consisting solely of independent directors until February 2007. After the expiration of this initial period, the independent directors on our board will consider, on an annual basis, the extension of such observation rights for an additional one year period. Upon certain events resulting in a change of control of JMP Asset Management LLC, its observation rights will immediately terminate.

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Compensation of Directors

As compensation for serving on our Board of Directors, each of our independent directors receives an annual fee of $50,000 and an additional $2,000 per each meeting of the board attended. Employee directors and non-independent directors will not receive compensation for serving on the board. Independent directors who serve on board committees will receive cash compensation in addition to the compensation they receive for service on our Board of Directors. The chairperson of each committee of our Board of Directors receives an additional $15,000 per year and all committee members receive an additional $2,000 for each committee meeting they attend. In addition, we reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors.

On June 21, 2005, we applied for exemptive relief from the SEC to permit us to grant options to purchase our common stock to our non-employee directors as a portion of their compensation for service on our Board of Directors. If we do not receive exemptive relief we intend to put in place and consider alternative compensation benefits for the independent directors, which would include an up-front cash retainer as well as an ongoing annual retainer.

Committees of the Board of Directors

Audit Committee. Our Board of Directors has established an Audit Committee. The Audit Committee is comprised of Messrs. Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the Nasdaq National Market listing standards, and we will add another independent director to our board by June 2006 who will become a member of the Audit Committee. Mr. Chow serves as Chairman of the Audit Committee. The Audit Committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. During the last fiscal year, the Audit Committee held two meetings.

Valuation Committee. Our Board of Directors has established a Valuation Committee. The Valuation Committee is comprised of Messrs. Chow and Woodward, each of whom is an independent director and, we will add another independent director to our board by June 2006 who will become a member of the Valuation Committee. Mr. Woodward serves as chairman of the Valuation Committee. The Valuation Committee is responsible for reviewing and recommending to the full board the fair value of debt and equity securities that are not publicly traded in accordance with established valuation procedures. The Valuation Committee may utilize the services of an independent valuation firm in arriving at fair value of these securities. During the last fiscal year, the Valuation Committee held three meetings.

Compensation Committee. Our Board of Directors has established a Compensation Committee. The Compensation Committee is comprised of Messrs. Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the Nasdaq National Market listing standards, and we will add another independent director to our board by June 2006 who will become a member of the Compensation Committee. Mr. Woodward serves as Chairman of the Compensation Committee. The Compensation Committee determines compensation for our executive officers, in addition to administering our 2004 Equity Incentive Plan, which is described below. During the last fiscal year, the Compensation Committee held three meetings.

Nominating and Corporate Governance Committee. Our Board of Directors has established a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised of Messrs. Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the Nasdaq National Market listing standards, and we will add another independent director to our board by June 2006 who will become a member of the nominating and corporate governance committee.

Mr. Chow serves as Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will nominate to the Board of Directors for consideration

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candidates for election as directors to the Board of Directors. During the last fiscal year, the Nominating and Corporate Governance Committee did not hold a meeting to discuss candidate nominations. Discussions regarding corporate governance were held in conjunction with the meetings of the Board of Directors.

Until investment funds controlled by Farallon Capital Management, L.L.C. beneficially own less than 10% of our outstanding common stock, Farallon Capital Management, L.L.C. has the right to recommend one person to our Nominating and Corporate Governance Committee for consideration as a nominee to our Board of Directors, provided that such person qualifies as an independent director under the 1940 Act.

Until investment funds controlled by JMP Asset Management LLC beneficially own less than 10% of our outstanding common stock, JMP Asset Management LLC has the right to recommend two people to our Nominating and Corporate Governance Committee for consideration as a nominee to our Board of Directors, provided that such persons qualify as independent directors under the 1940 Act.

Compensation of Executive Officers

Under SEC rules applicable to business development companies, we are required to set forth certain information regarding the compensation of certain of our executive officers and directors. The following table sets forth information regarding the compensation earned by our directors and our three highest paid executive officers (collectively, they are referred to as Compensated Persons) in all capacities during the fiscal year ending December 31, 2005. No compensation is paid to directors, in their capacity as such, who are interested persons.

Summary Compensation Table

Name	**Aggregate Compensation from the Company**	**Pension or Retirement Benefits Accrued as Part of Company Expenses(1)**	**Number of Securities Underlying Options/SARS**	**Directors Fees Paid by the Company(2)**
Independent Directors:				
Joseph W. Chow	$ 77,500			$ 77,500
Allyn C. Woodward, Jr.	79,000			79,000
Executive Officers:				
Manuel A. Henriquez	1,008,506		605,000(3)	
H. Scott Harvey	251,200		141,000(4)	
David M. Lund(5)	124,490		40,000(6)	
Shane A. Stettenbenz	189,446		95,000(7)	
Former Officer:				
Glen C. Howard	216,731		32,000(8)	

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits. Officers and employees are eligible for annual bonuses based on performance measured against specific goals and approved by the Board of Directors.
(2) Consists only of directors fees we paid in 2005. Such fees are also included in the column titled Aggregate Compensation from the Company.
(3)

Represents options to purchase 605,000 shares of our common stock at an exercise price per share equal to $13.00 issued under our 2004 Equity Incentive Plan.

(4) Represents options to purchase 141,000 shares of our common stock at an exercise price per share equal to $13.00 issued under our 2004 Equity Incentive Plan.

(5) Mr. Lund joined us in July 2005, and his compensation reflects less than a full year of service.

(6) Represents options to purchase 40,000 shares of our common stock at an exercise price per share equal to $13.00 issued under our 2004 Equity Incentive Plan.

(7) Represents options to purchase 95,000 shares of our common stock at an exercise price per share equal to $13.00 issued under our 2004 Equity Incentive Plan.

(8) Represents options to purchase 32,000 shares of our common stock at an exercise price per share equal to $13.00 issued under our 2004 Equity Incentive Plan.

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Compensation of Portfolio Management Employees

The compensation of our investment committee, consisting of our Chief Executive Officer, our Senior Managing Director, our Chief Legal Officer and our Vice President of Finance, is set by the compensation committee of our Board of Directors. The investment committee is compensated in the form of annual salaries, annual cash bonuses based on performance measured against specific goals and long-term compensation in the form of stock option grants. The compensation program is designed so that a substantial portion of each member of the investment committee s compensation is dependent upon the performance of our portfolio of investments and our profitability.

Salaries and Annual Bonus

The compensation committee of our Board of Directors meets with the Chief Executive Officer to receive his recommendations regarding the salary and annual bonus for each member of the investment committee other than the Chief Executive Officer. The committee also considers the recent performance of our portfolio of investments and our profitability in light of general economic and competitive conditions. Based on this information and any other considerations it deems relevant, the compensation committee sets salaries and annual bonus guidelines in its sole discretion.

Long Term Compensation

Long-term performance-based compensation generally includes stock option grants under our 2004 Equity Incentive Plan. Stock option grants to each investment committee member are based on criteria established by the compensation committee, including responsibility level, salary level, committee member performance, overall investment portfolio performance and overall profitability.

Option Grants in Last Fiscal Year

The following table sets forth information concerning options and warrants to purchase shares of our common stock granted to our Compensated Persons.

Option Grants During 2005

Name	Number of Securities Underlying Option	Expiration Date	Percent of Total Options Granted to Employees in	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)

			Fiscal Year	5%	10%
Manuel A. Henriquez	605,000(1)	6/17/12	47.64%	$ 3,201,845	$ 7,461,660
H. Scott Harvey	141,000(1)	6/17/12	11.10%	746,215	1,738,998
David M. Lund	40,000(2)	7/15/12	3.15%	211,692	493,333
Shane A. Stettenbenz	95,000(1)	6/17/12	7.48%	502,769	1,171,666
Glen C. Howard	32,000(1)	6/17/12	2.52%	169,354	394,666

(1) Issued in connection with the Company s initial public offering.

(2) Issued in connection with employment.

(3) The amounts shown on this table represent hypothetical gains that could be achieved for the respective options or warrants if exercised at the end of the term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options or warrants were granted to their expiration date. The gains shown are net of the applicable exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on exercises will depend on the future performance of our common stock, the holder s continued employment through the option or warrant period and the date on which the options or warrants are exercised. If our common stock does not increase in value after the grant date of the options and warrants, the options and warrants are valueless.

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Employment Agreement

We intend to enter into an employment agreement with Mr. Henriquez which will provide for a three-year term with automatic one-year renewals.

The employment agreement for Mr. Henriquez will provide a base salary of $ and provide that he is entitled to participate in an annual incentive performance based bonus and long term retention program. Under such programs he will be eligible to receive up to 200% of his base salary depending on our performance against certain criteria to be established annually by the compensation committee of the Board of Directors. He will also be contractually entitled to participate in our 2004 Equity Incentive Plan described below.

If we terminate Mr. Henriquez s employment by reason of a disability, he would be entitled to receive from us the difference between his then current base salary plus annual incentive bonus, long-term retention program benefits and any long-term disability benefits for two years. Additionally, Mr. Henriquez s unvested options, which are scheduled to vest within two years of the termination date, would immediately vest. All vested options would expire unless exercised within 18 months of the termination date. If we terminate Mr. Henriquez s employment for any reason other than for a disability or cause, he would be entitled to receive his base salary and annual incentive bonus payments for a period of two years from the date of termination. These payments would also be made if Mr. Henriquez resigned for good reason. Mr. Henriquez will also receive severance if he is terminated in connection with a change of control or if he is not notified that the employment agreement will not be continued upon a change in control.

In the event that we terminate Mr. Henriquez s employment for cause or in the event that he voluntarily terminates his employment for other than good reason, all unvested stock options would be forfeited and he would have no more than 90 days to exercise any vested but unexercised options.

Upon termination of employment, Mr. Henriquez would be subject to certain non-compete covenants. These covenants would generally apply for one year, although should Mr. Henriquez resign with good reason, the covenants would apply for only six months following the date of his resignation. Mr. Henriquez s employment agreement will require that he maintain the confidentiality of our confidential information during and after the period of his employment.

Other than as described above, we have not entered into any employment agreements.

2004 Equity Incentive Plan

Our Board of Directors and our stockholders have approved the 2005 Amendment and Restatement of the Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan, for the purpose of attracting and retaining the services of executive officers, directors and other key employees. Under the 2004 Equity Incentive Plan, our compensation committee may award incentive stock options within the meaning of Section 422 of the Code, or ISOs, to employees, and nonstatutory stock options to employees and directors.

Under the 2004 Equity Incentive Plan, we have authorized for issuance up to 8,000,000 shares of common stock. Participants in the 2004 Equity Incentive Plan may receive awards of options to purchase our common stock, as determined by our compensation committee. Options granted under the 2004 Equity Incentive Plan generally may be exercised for a period of no more than seven years from the date of grant. Unless sooner terminated by our Board of Directors, the 2004 Equity Incentive Plan will terminate on the tenth anniversary of its adoption and no additional awards may be made under the 2004 Equity Incentive Plan after that date. The 2004 Equity Incentive Plan provides that all awards granted under the plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act applicable to us.

In connection with certain awards made under the 2004 Equity Incentive Plan prior to our initial public offering, we issued warrants to purchase one share of common stock with up to a 1-year term, which we refer to

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as the 1-year warrants , and warrants to purchase one share of common stock with a 5-year term, which we refer to as the 5-year warrants . The 1-year warrants and 5-year warrants issued to executive officers and other key employees under our 2004 Equity Incentive Plan are generally subject to the same terms and conditions as the warrants included in the units offered by us in our June 2004 private placement, except that the warrants issued in connection with option grants under the 2004 Equity Incentive Plan will be transferable only by will or intestacy. See Description of Capital Stock 5-Year Warrants.

In connection with our election to be regulated as a business development company, the exercise price for all of our outstanding 1-year warrants and 5-year warrants, including those granted under the 2004 Equity Incentive Plan, was reduced to $10.57 per share, the net asset value per share of our common stock on the date of determination, as adjusted in accordance with the terms of such warrants. All 1-year warrants, including those outstanding under the 2004 Equity Incentive Plan, that were not exercised in connection with our election to be regulated as a business development company were canceled. In addition, 5-year warrants, including those granted under the 2004 Equity Incentive Plan, to purchase an aggregate of 597,196 shares of our common stock were canceled pro rata among holders of 5-year warrants and 298,598 shares of our common stock were simultaneously issued to such holders at a rate of one share of common stock for two 5-year warrants so cancelled, in each case in accordance with the terms of such warrants. Following our election to be regulated as a business development company, 5-year warrants to purchase an aggregate of 673,223 shares of our common stock remained outstanding at an exercise price per share equal to $10.57. We do not anticipate issuing any additional warrants under the 2004 Equity Incentive Plan.

Options granted under the 2004 Equity Incentive Plan will entitle the optionee, upon exercise, to purchase shares of common stock from us at a specified exercise price per share. ISOs must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant or, if the optionee owns or is treated as owning (under Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of our stock, 110% of the fair market value of a share of stock on the date of the grant. Nonstatutory stock options granted under the 2004 Equity Incentive Plan must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant. Options will not be transferable other than by laws of descent and distribution, or in the case of nonstatutory stock options, by gift, and will generally be exercisable during an optionee s lifetime only by the optionee.

Our compensation committee administers the 2004 Equity Incentive Plan and has the authority, subject to the provisions of the 2004 Equity Incentive Plan, to determine who will receive awards under the 2004 Equity Incentive Plan and the terms of such awards. Our compensation committee will have the authority to adjust the number of shares available for awards, the number of shares subject to outstanding awards and the exercise price for awards following the occurrence of events such as stock splits, dividends, distributions and recapitalizations. The exercise price of an option may be paid in the form of shares of stock that are already owned by such optionholder.

Upon specified covered transactions (as defined in the 2004 Equity Incentive Plan), all outstanding awards under the 2004 Equity Incentive Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the participants will be accelerated in full and then terminated to the extent not exercised prior to the covered transaction.

Awards under the 2004 Equity Incentive Plan will be granted to our executive officers and other employees as determined by our compensation committee at the time of each issuance. In connection with our initial public offer, our compensation committee approved the grant of:

- options to purchase an aggregate of 266,000 shares common stock to our officers and employees other than Messrs. Henriquez, Howard, Harvey and;
- an option to Mr. Henriquez to purchase 605,000 shares of common stock;

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an option to Mr. Howard to purchase 32,000 shares of common stock; and

an option to Mr. Harvey to purchase 141,000 shares of common stock.

The exercise price per share for all such options is $13.00 per share, the public offering price of our common stock in our initial public offering. Including the foregoing grants, the outstanding options granted to our executive officers and other employees represent approximately 10.6% of our fully-diluted equity capitalization. We expect that, subject to compliance with applicable regulations governing business development companies, we will grant additional awards to our officers and employees. The options and warrants granted to our executive officers and employees in connection with our initial public offering (including those granted following the closing of our initial public offering described in the preceding sentence) will generally vest over a three-year period, one-third after one year and monthly thereafter. We expect that any options granted to our non-employee directors will generally vest over two years, in equal installments on each of the first two anniversaries of the date of grant, subject to our receipt of exemptive relief from the SEC.

Option Grants to Non-Employee Directors

Under current SEC rules and regulations applicable to business development companies, a business development company may not grant options to non-employee directors. On June 21, 2005, we applied for exemptive relief from the SEC to permit us to grant options to purchase shares of our common stock to our non-employee directors as a portion of their compensation for service on our Board of Directors. We cannot provide any assurance that we will receive any exemptive relief from the SEC.

Restricted Stock, Dividend Equivalent Rights or Other Similar Rights

Under current SEC rules and regulations applicable to business development companies, a business development company may not grant restricted stock to employees or dividend equivalent rights to option holders. Dividend equivalent rights allow an optionholder to receive the economic value of dividends on the stock underlying the options prior to exercise of the option. We intend to apply for exemptive relief from the SEC to permit us to issue restricted stock to our employees. We cannot provide any assurance that we will receive any such exemptive relief from the SEC. If the SEC does not grant us exemptive relief, we will evaluate alternative incentive plan arrangements.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In December 2003, we entered into an engagement letter with JMP Securities LLC, the lead underwriter in our initial public offering. The engagement letter expired on June 16, 2004. Pursuant to the engagement letter, we offered to JMP Securities LLC the opportunity to act as the initial purchaser and placement agent in connection with our June 2004 private offering. As compensation for the services rendered, we agreed to pay to JMP Securities LLC an aggregate amount equal to 7% of the gross proceeds of the private offering, subject to limited exceptions in connection with sales of our securities to persons affiliated with us. In addition, we agreed to reimburse JMP Securities LLC, upon its request, for up to $150,000 of its reasonable out-of-pocket expenses. In accordance with the foregoing, we paid $1,343,619 in placement fees to JMP Securities LLC in connection with our June 2004 private placement. We have agreed to indemnify JMP Securities LLC, its affiliates and other related parties against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that such persons may be required to make for these liabilities.

In February 2004, we issued and sold 400 shares of our Series A-1 preferred stock to JMP Group LLC, the ultimate parent entity of JMP Securities LLC, for an aggregate purchase price of $2.5 million and, in connection with such sale, we paid a $175,000 placement fee to JMP Securities LLC. In addition, we issued and sold 100 shares of our Series A-2 preferred stock to an entity related to Mr. Henriquez for an aggregate purchase price of $125,000, and we issued and sold 100 shares of our Series A-2 preferred stock to Mr. Howard for an aggregate purchase price of $125,000. Our Series A-1 preferred stock held a liquidation preference over our Series A-2 preferred stock and also carried separate, preferential voting rights. In June 2004, each share of Series A-1 preferred stock and Series A-2 preferred stock was exchanged for 208.3333 units with the same terms as the units sold in our June 2004 private offering.

In connection with the issuance of our Series A-1 preferred stock and Series A-2 preferred stock, we entered into a registration rights agreement with the holders of our Series A-1 preferred stock and Series A-2 preferred stock. In June 2004, in connection with the conversion of the Series A preferred stock, the registration rights agreement entered into in connection with the issuance of our preferred stock was terminated and the shares of our common stock issued upon conversion were included in the registration rights agreement entered into in connection with our June 2004 private offer. See Description of Capital Stock Registration Rights.

We have entered into a letter agreement with Farallon Capital Management, L.L.C. that provides that until such time as investment funds controlled by Farallon Capital Management, L.L.C. beneficially own less than 10% of our outstanding common stock, Farallon Capital Management, L.L.C. will have the right to recommend one person to our nominating committee for consideration as a nominee to our Board of Directors, provided that such person would not be considered an interested person of the Company under the 1940 Act. The letter agreement also provides that if, after a shelf registration statement filed in accordance with the requirements of the registration rights agreement entered into in connection with our June 2004 private offering is declared effective, investment funds controlled by Farallon Capital Management, L.L.C. acquire registrable securities (or warrants that are then eligible for registration under such shelf registration statement) with an aggregate market value in excess of $1 million, then we will, subject to certain provisions of the registration rights agreement, prepare and file a supplement or post-effective amendment to such shelf registration statement following receipt of a written request therefor from Farallon Capital Management, L.L.C. Such right will terminate when those registrable securities are eligible for resale by Farallon Capital Management, L.L.C. without volume limitation under Rule 144(k) under the Securities Act. Under the terms of the letter agreement, we have also agreed that prior to the date that is two years after certain investment funds controlled by Farallon Capital Management, L.L.C. cease to own at least 10% of our outstanding common stock and without the written consent of Farallon Capital Management, L.L.C., we will not (i) take any action to alter or repeal the resolution adopted by our board exempting from the Business Combination Act any business combination between us and certain investment funds managed by Farallon Capital Management, L.L.C. in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company s common stock by investment funds controlled by Farallon Capital Management, L.L.C.

We have also entered into a letter agreement with JMP Asset Management LLC that provides that until such time as investment funds controlled by JMP Asset Management LLC beneficially own less than 10% of our outstanding common stock, JMP Asset Management LLC will have the right to recommend two people to our nominating committee for consideration as nominees to our Board of Directors, provided that such persons would not be considered interested persons of the Company under the 1940 Act. The letter agreement also provides that if, after a shelf registration statement filed in accordance with the requirements of the registration rights agreement entered into in connection with our June 2004 private offering is declared effective, investment funds controlled by JMP Asset Management LLC acquire registrable securities (or warrants that are then eligible for registration under such shelf registration statement) with an aggregate market value in excess of $1 million, then we will, subject to certain provisions of the registration rights agreement, prepare and file a supplement or post-effective amendment to such shelf registration statement following receipt of a written request therefor from JMP Asset Management LLC. Such right will terminate when those registrable securities are eligible for resale by JMP Asset Management LLC without volume limitation under Rule 144(k) under the Securities Act. Under the terms of the letter agreement, we have also agreed that prior to the date that is two years after certain investment funds controlled by JMP Asset Management LLC cease to own at least 10% of our outstanding common stock and without the written consent of JMP Asset Management LLC that we will not (i) take any action to alter or repeal the resolution adopted by our board exempting from the Business Combination Act any business combination between us and certain investment funds managed by JMP Asset Management LLC in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company s common stock by investment funds controlled by JMP Asset Management LLC.

In connection with our June 2004 private offering, we agreed to obtain the approval of each of JMP Asset Management LLC and Farallon Capital Management, L.L.C. for each investment made by us. Though this arrangement was terminated in connection with our election to be regulated as a business development company, under the terms of the letter agreements described above, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company on terms similar to those afforded to our directors and officers under our charter and bylaws.

In accordance with a letter agreement dated June 22, 2004 between us and JMP Group LLC, in January 2005 we issued and sold 72,000 units to funds managed by JMP Asset Management LLC at a price equal to $30.00 per unit, less a $2.10 initial purchaser s discount per unit.

On April 12, 2005, we entered into our Bridge Loan Credit Facility with Alcmene Funding, LLC, a special purpose entity affiliated with Farallon Capital Management, L.L.C., one of our significant stockholders. See Obligations and Indebtedness Bridge Financing. In connection with the closing of the Bridge Loan Credit Facility, we paid a $500,000 upfront fee and will be obligated to pay additional fees under the terms of the facility. On August 1, 2005, we amended our Bridge Loan Credit Facility. The amendment agreement extended the term of the loan to April 12, 2006, eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. The loan fees are being amortized over the remaining ten-month period.

On June 8, 2005, we entered into an Underwriting Agreement with JMP Securities LLC pursuant to which JMP Securities LLC purchased 4,200,000 shares of our common stock and served as the lead underwriter in our initial public offer.

In August 2000, Mr. Henriquez acquired an interest in JMP Group LLC, the ultimate parent entity of the lead underwriter in our initial public offering. Mr. Henriquez s interest represents approximately 0.1% of the fully-diluted equity of JMP Group LLC.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

No person will be deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, as of March 1, 2006, information with respect to the beneficial ownership of our common stock by:

- each person known to us to beneficially own more than 5% of the outstanding shares of our common stock based on our records of ownership of our common stock as of the date of our initial public offer and filings submitted by these companies to the SEC regarding their ownership of our common stock.
- each of our directors and each executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of March 1, 2006 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 9,801,965 shares of common stock outstanding as of March 1, 2006.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by spouses under applicable law, and maintains an address of c/o Hercules Technology Growth Capital, Inc., 525 University Avenue, Suite 700, Palo Alto, California 94301.

	Shares of Common Stock Beneficially Owned	
Name and Address	**Number Of Shares**	**Percentage of Class**
Principal Stockholders:		
JMP Group LLC(1) 600 Montgomery Street, Suite 1100 San Francisco, CA 94111	1,233,882	12.4%
Farallon Capital Management, L.L.C.(2) One Maritime Plaza, Suite 1325	941,240	9.5%

San Francisco, CA 94111		
T. Rowe Price Associates, Inc.[3] 100 E. Pratt Street Baltimore, MD 21202	656,900	6.7%
Cornell Place, LLC[4] 225 Broadway, 15th Floor New York, NY 10007	627,496	6.3%
Wellington Management Company, LLP[3] 75 State Street Boston, MA 02109	536,600	5.5%
Jolson 1996 Trust[5]	487,698	4.9%

(1) Information as of January 17, 2006 includes 152,797 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants. JMP Group LLC may be deemed to beneficially own shares of our common stock, including shares of common stock issuable upon the exercise of outstanding 5-year warrants, held of record by certain investment funds for which its wholly-owned subsidiary, JMP Asset Management LLC, acts as either general partner or investment adviser. JMP Group LLC and JMP Asset

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Management LLC each disclaim beneficial ownership of all shares held of record by the funds to the extent attributable to partnership or equity interests therein held by persons other than JMP Group LLC, JMP Asset Management LLC, or their affiliates. Joseph A. Jolson serves as Chief Executive Officer of JMP Group LLC.

(2) Includes 132,480 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants. Farallon Capital Management, L.L.C. may be deemed to beneficially own shares of our common stock, including shares of common stock issuable upon the exercise of outstanding 5-year warrants, held of record by certain investment funds affiliated with Farallon Capital Management, L.L.C.

(3) Information about the beneficial ownership of our principal stockholders is derived from filings made by them with the SEC.

(4) Includes 88,323 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants. D.B. Zwirn Special Opportunities Fund, L.P. manages Cornell Place, LLC. D.B. Zwirn & Co., L.P. is the manager of D.B. Zwirn Special Opportunities Fund, L.P. Daniel B. Zwirn controls Zwirn Holdings, LLC, which in turn is the managing member of and thereby controls DBZ GP, LLC, which in turn is the general partner of and thereby controls D.B. Zwirn & Co., L.P.

(5) Includes 337,200 shares of our common stock and 52,994 shares of our common stock issuable upon the exercise of outstanding 5-year warrants held by the 1996 Jolson Trust. Joseph A. Jolson serves as the trustee of the Jolson 1996 Trust and, as a result, may be deemed to beneficially own such shares of common stock, including such 5-year warrants to purchase shares of common stock. This does not include 54,996 shares of our common stock and 9,008 shares of our common stock issuable upon the exercise of 5-year warrants held by the Jolson Family Foundation. Mr. Jolson may be deemed to beneficially own the shares of common stock, including the 5-year warrants to purchase common stock held of record by the Jolson Family Foundation, for which he serves as the President. Mr. Jolson disclaims beneficial ownership of all such shares held by the Jolson Family Foundation.

	Shares of Common Stock Beneficially Owned	
Name and Address	Number of Shares	Percentage of Class
Directors and Executive Officers		
Manuel A. Henriquez(1)	543,572	5.5%
H. Scott Harvey(2)	23,933	*
David M. Lund	2,000	*
Shane A. Stettenbenz		*
Allyn C. Woodward, Jr.	4,000	*
Joseph W. Chow(3)	5,647	*
All directors and executive officers as a group (5 persons)(4)	579,152	5.9%

* Less than 1%.

(1) Includes 75,075 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 125,000 shares of common stock that can be acquired upon the exercise of outstanding options. Includes shares of our common stock and 5-year warrants held by certain trusts controlled by Mr. Henriquez.

(2) Includes 4,279 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 12,821 shares of common stock that can be acquired upon the exercise of outstanding options.

(3) Includes 794 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants.

(4) Includes 80,148 shares of common stock that can be acquired upon the exercise of outstanding 5-year warrants and 137,821 shares of common stock that can be acquired upon the exercise of outstanding options.

The following table sets forth as of February   , 2006, the dollar range of our securities owned by our directors and employees primarily responsible for the day-to-day management of our investment portfolio.

Name	Dollar Range of Equity Securities in the Company	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen By Director in Family of

		Investment Companies
Independent Directors:		
Joseph W. Chow	$50,001-$100,000	$50,001-$100,000
Allyn C. Woodward, Jr.	$10,001-$50,000	$10,001-$50,000
Interested Director/Portfolio Management Employee:		
Manuel A. Henriquez	over $1,000,000	over $1,000,000
Portfolio Management Employees:		
Glen C. Howard	over $1,000,000	over $1,000,000
H. Scott Harvey	$50,001-$100,000	$50,001-$100,000

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We have two wholly-owned subsidiaries, Hercules Technology II and Hercules Technology SBIC Management LLC, formed in January 2005. The Company is the sole limited partner of Hercules Technology II, L.P., and Hercules Technology SBIC Management, LLC is the general partner. At December 31, 2005, we had a net investment of $2.5 million in Hercules Technology II, L.P. and there was one outstanding loan in the amount of $2.0 million.

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DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of the date of this prospectus, we do not have any preferred stock outstanding.

We are generally not permitted to sell shares of our common stock at a price below their net asset value per share, determined as of a time within 48 hours, excluding Sundays and holidays, of the time of sale. This restriction will not apply to shares issued upon exercise of the rights which, as discussed above, will be sold at a price equal to , which may result in those shares being sold at a price less than net asset value per share.

At December 31, 2005, approximately 91% of our total assets represented investments in portfolio companies recorded at fair value. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors in accordance with established valuation procedures and the recommendation of the Valuation Committee of the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our management pursuant to a valuation policy and a consistent valuation process. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our management may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

As a business development company, we invest primarily in illiquid securities including debt and equity-related securities of private companies. Our investments are generally subject to some restrictions on resale and generally have no established trading market. Because of the type of investments that we make and the nature of our business, our valuation process requires an analysis of various factors. Our valuation methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

With respect to private debt and equity-related securities, each investment is valued using industry valuation benchmarks and, where appropriate, equity values are assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offer, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation. Securities that are traded in the over-the-counter market or on a stock exchange generally will be valued at the prevailing bid price on the valuation date. However, restricted or thinly traded public securities may be valued at discounts from the public market value due to the restrictions on sale.

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DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan (the DRP), through which all dividend distributions are paid to our stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash as provided below. In this way, a stockholder can maintain an undiluted investment in our common stock and still allow us to pay out the required distributable income.

No action is required on the part of a registered stockholder to receive a dividend distribution in shares of our common stock. A registered stockholder may elect to receive an entire dividend distribution in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, so that such notice is received by the plan administrator no later than 3 days prior to the payment date for dividend distributions to stockholders. The plan administrator will set up an account for shares acquired through the DRP for each stockholder who has not elected to receive distributions in cash (each a Participant) and hold such shares in non-certificated form. Upon request by a Participant, received not less than 3 days prior to the payment date, the plan administrator will, instead of crediting shares to the Participant s account, issue a certificate registered in the Participant s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We expect to use primarily newly-issued shares to implement the DRP, whether our shares are trading at a premium or at a discount to net asset value. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the Nasdaq National Market on the valuation date for such dividend distribution. Market price per share on that date will be the closing price for such shares on the Nasdaq National Market or, if no sale is reported for such day, at the average of their electronically-reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There is no charge to our stockholders for receiving their dividend distributions in the form of additional shares of our common stock. The plan administrator s fees for handling dividend distributions in stock are paid by us. There are no brokerage charges with respect to shares we have issued directly as a result of dividend distributions payable in stock. If a Participant elects by internet or by written or telephonic notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the Participant s account and remit the proceeds to the Participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus brokerage commissions from the proceeds.

Any shares issued in connection with a stock split or stock dividend will be added to a Participant s account with the Plan Administrator. The Plan Administrator may curtail or suspend transaction processing until the completion of such stock split or payment of such stock dividend.

Stockholders who receive dividend distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividend distributions in cash. A stockholder s basis for determining gain or loss upon the sale of stock received in a dividend distribution from us will be equal to the total dollar amount of the dividend distribution payable to the stockholder.

The DRP may be terminated by us upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend distribution by us. All correspondence concerning the DRP, including requests for additional information, should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, Attn: Dividend Reinvestment Department, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by phone at 1-866-669-9888.

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REGULATION

The following discussion is a general summary of the material prohibitions and descriptions governing business development companies generally. It does not purport to be a complete description of all of the laws and regulations affecting business development companies.

We have elected to be treated as a business development company under the 1940 Act and intend to seek to be treated as a RIC under Subchapter M of the Code as of January 1, 2006. A business development company is a unique kind of investment company that primarily focuses on investing in or lending to private companies and making managerial assistance available to them. A business development company provides stockholders with the ability to retain the liquidity of a publicly-traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage privately-owned companies. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than interested persons, as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company s shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, or qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company s total assets. The principal categories of qualifying assets relevant to our business are the following:

- Securities of an eligible portfolio company purchased in transactions not involving any public offering. An eligible portfolio company is defined in the 1940 Act as any issuer which:
  - is organized under the laws of, and has its principal place of business in, the United States;
  - is not an investment company (other than a small business investment company wholly-owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
  - satisfies any of the following:
    - does not have outstanding any class of securities with respect to which a broker or dealer may extend margin credit;
    - is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company; or

is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million.

Securities of any eligible portfolio company that we control.

Securities purchased in a private transaction from a U.S. issuer that is not an investment company and is in bankruptcy and subject to reorganization.

Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

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Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the conversion of warrants or rights relating to such securities.

Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

Significant Managerial Assistance

A business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company s officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests imposed on us by the Code in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Warrants

Under the 1940 Act, a business development company is subject to restrictions on the amount of warrants, options or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of the business development company s total outstanding shares of capital stock. This amount is reduced to 20% of the business development company s total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the business development company s total outstanding shares of capital stock. The rights to be issued as part of this offer do not count against these percentage limits.

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Senior Securities; Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the dividend distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes. For a discussion of the risks associated with the resulting leverage, see Risk Factors Because we borrow money, there would be increased risk in investing in our company.

Code of Ethics

We have adopted and will maintain a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code s requirements. Our code of ethics will generally not permit investments by our employees in securities that may be purchased or held by us. We may be prohibited under the 1940 Act from conducting certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, the prior approval of the SEC.

Our code of ethics was filed with the SEC as an exhibit to the registration statement (Registration No. 333-126604) for our initial public offering. You may read and copy the code of ethics at the SEC s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-202-942-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC s Internet site at http://www.sec.gov. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

We restrict access to non-public personal information about our stockholders to our employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Proxy Voting Policies and Procedures

We vote proxies relating to our portfolio securities in the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio

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securities held by us. Although we generally vote against proposals that may have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by our investment committee, which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Exemptive Relief

On June 21, 2005, we filed a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, although we cannot provide any assurance that we will receive any such exemptive relief, we requested that the SEC permit us to issue stock options to our non-employee directors as contemplated by Section 61(a)(3)(B)(i)(II) of the 1940 Act.

In addition, on September 28, 2005, we filed an exemptive relief application that requesting the SEC permit us to exclude the indebtedness that our wholly-owned subsidiary, Hercules Technology II, L.P., which is seeking to be qualified as a small business investment company, issues to the Small Business Administration from the 200% asset coverage requirement applicable to us. On May 3, 2005 Hercules Technology II, L.P. filed an application with the Small Business Administration to become licensed as a small business investment company.

We may also request exemptive relief to permit us to grant dividend equivalent rights or other similar rights to our optionholders and restricted stock awards to our officers and employees. However, there is no assurance that we will receive any such exemptive relief if such exemptive relief is required.

Other

We will be periodically examined by the SEC for compliance with the 1934 Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We have designated Mr. Harvey, our Chief Legal Officer, to be our Chief Compliance Officer to be responsible for administering these policies and procedures.

Small Business Administration Regulations

Hercules Technology II, L.P., our wholly-owned subsidiary, is seeking to be licensed by the Small Business Administration as a small business investment company under Section 301(c) of the Small Business Investment Act of 1958. The Small Business Investment Company regulations currently limit the amount that is available to borrow by any SBIC to $124.4 million. There is no assurance that we will draw up to the maximum limit available under the Small Business Investment Company program.

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Small business investment companies are designed to stimulate the flow of private equity capital to eligible small businesses. Under present Small Business Administration regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the two most recent fiscal years. In addition, a small business investment company must devote 20% of its investment activity to smaller concerns as defined by the Small Business Administration. A smaller concern is one that has a tangible net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the two most recent fiscal years. Small Business Administration 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 Small Business Administration regulations, small business investment companies 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 our wholly-owned subsidiary Hercules Technology II, L.P., we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

If we receive a small business investment company license, Hercules Technology II, L.P. will be periodically examined and audited by the Small Business Administration s staff to determine its compliance with small business investment company regulations.

In January 2005, we formed Hercules Technology II, L.P. and Hercules Technology SBIC Management LLC. On May 3, 2005, Hercules Technology II, L.P. filed an application with the Small Business Administration to become licensed as a Small Business Investment Company, and on June 24, 2005, Hercules Technology II, L.P. received a letter of acknowledgement of receipt of this application. Upon receipt of this letter from the Small Business Administration, Hercules Technology II, L.P. was eligible to make pre-approved investments. If the Hercules Technology II, L.P. application is ultimately approved by the Small Business Administration, then it will be able to borrow funds from the Small Business Administration against eligible pre-approved investments. Hercules Technology II, L.P subsequently filed applications with the Small Business Administration seeking approval of two pre-licensing transactions, and on August 29, 2005, the Small Business Administration approved both transactions. The first transaction closed on August 31, 2005, however, amounts funded under the agreement were repaid in October 2005. We funded the second transaction. Hercules Technology SBIC Management, LLC is our wholly-owned subsidiary. We are the sole limited partner of Hercules Technology II, L.P., and Hercules Technology SBIC Management, LLC is its general partner. At December 31, 2005, we had a net investment of $2.5 million in Hercules Technology II, L.P. and there was one outstanding loan in the amount of $2.0 million.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material United States federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under United States federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as in effect as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offer. This summary does not discuss any aspects of United States estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under United States federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets in which we do not currently intend to invest.

A U.S. stockholder generally is a beneficial owner of shares of our common stock who is for United States federal income tax purposes:

- a citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under Section 7701(b) of the Code;
- a corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust over which a court in the United States has primary supervision over its administration or over which United States persons have control; or
- an estate, the income of which is subject to United States federal income taxation regardless of its source.

A Non-U.S. stockholder is a beneficial owner of shares of our common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder who is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Our Taxation as a Corporation under Subchapter C of the Code and not as a Regulated Investment Company

Until such time as we seek to be treated and qualify as a RIC under Subchapter M of the Code, and for any other period in which we fail to qualify as a RIC, we will be taxed as a corporation under Subchapter C of the Code

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and will therefore be subject to corporate-level federal income tax on all of our income at regular corporate rates. We will not be able to deduct distributions to stockholders, nor will they be required to be made. Distributions made prior to such election, to the extent of our current and accumulated earnings and profits, are taxable to our stockholders and, provided certain holding period and other requirements were met (if made in a taxable year beginning on or before December 31, 2008), could qualify for treatment as qualified dividend income eligible for the 15% maximum rate applicable to U.S. stockholders taxed as individuals. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain.

Election to be Taxed as a Regulated Investment Company

In conjunction with the filing of our December 31, 2006 tax return, we intend to seek to be treated as a RIC under Subchapter M of the Code as of January 1, 2006. However, such an election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code that may affect our ability to pursue additional business opportunities or strategies which, if we were to determine we should pursue, may diminish the desirability of or impede our ability to qualify as a RIC. 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. As of the date of this prospectus, we cannot determine the probability that during 2006 we will qualify as a RIC when we file our 2006 federal tax return.

As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or realized capital gains that we distribute to our stockholders as dividends. We may be required, however, to pay federal income taxes on gains built into our assets as of the effective date of our RIC election. See Certain United States Federal Income Tax Considerations Conversion to Regulated Investment Company Status. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below), and we must distribute all of our earnings and profits for periods prior to our qualification as a RIC. In addition, in order to obtain the federal income tax benefits allowable to RICs, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (the Annual Distribution Requirement).

Conversion to Regulated Investment Company Status

We intend to seek to be treated as a RIC under Subchapter M of the Code as of January 1, 2006. Prior to the effective date of our RIC election, we will be taxable as a regular corporation under Subchapter C of the Code. We anticipate that, on the effective date of that election, we may hold assets (including intangible assets not reflected on the balance sheet, such as goodwill) with built-in gain, which are assets whose fair market value as of the effective date of the election exceeds their tax basis. In general, a corporation that converts to taxation as a RIC must pay corporate level tax on any of the net built-in gains it recognizes during the 10-year period beginning on the effective date of its election to be treated as a RIC. Alternatively, the corporation may elect to recognize all of its built-in gain at the time of its conversion and pay tax on the built-in gain at that time. We may or may not make this election. If we do make the election, we will mark our portfolio to market at the time of our RIC election, pay tax on any resulting taxable income, and distribute resulting earnings at that time or before the end of the first tax year in which we qualify as a RIC. If we do not make the election, we will pay such corporate level tax is payable at the time the built-in gains are recognized (which generally will be the years in which the built-in gain assets are sold in a taxable transaction). The amount of this tax will vary depending on the assets that are actually sold by us in this 10-year period, the actual amount of net built-in gain or loss present in those assets as of the effective date of our election to be treated as a RIC and effective tax rates. Recognized built-in gains that are ordinary in character and the excess of short-term capital gains over long-term capital losses will be included in our investment company taxable income, and generally we must distribute annually at least 90% of any such amounts (net of corporate taxes we pay on those gains) in order to be eligible for RIC tax treatment. Any such amount distributed likely will be taxable to stockholders as ordinary income. Built-in gains (net of taxes) that are recognized within the 10-year period and that are long-term capital gains likely will also be distributed (or deemed distributed) annually to our stockholders. Any such amount distributed (or deemed distributed) likely will be taxable to stockholders as capital gains.

One requirement to qualify as a RIC is that, by the end of our first taxable year as a RIC, we must eliminate the earnings and profits accumulated while we were taxable as a C corporation. We would accomplish this by paying to our stockholders a cash dividend representing all of our accumulated earnings and profits for the period from our inception through the end of the prior tax year. The actual amount of that dividend will be based on a number of factors, including our results of operations through the end of the prior tax year. The dividend, if any, of our accumulated earnings and profits will be taxable to stockholders as ordinary income. The dividend will be in addition to the dividends we intend to pay (or be deemed to have distributed) during our 2006 tax year equal to our net income for that period. On December 9, 2005, we declared a dividend of $0.30 per share for stockholders of record on January 6, 2006. The dividend totaled approximately $2.9 million and was distributed on January 27, 2006. As of December 31, 2005, our accumulated deficit was $182,305. On October 27, 2005, the Company declared a dividend of $0.025 per share for stockholders of record on November 1, 2005. The dividend totaled approximately $245,000 and was distributed on November 17, 2005.

Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

we generally will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (*i.e.*, net realized long-term capital gains in excess of net realized short-term capital losses) we distribute to stockholders with respect to that year. (However, as described above, we will be subject to federal income taxes on certain dispositions of assets that had built-in gains as of the effective date of our conversion to RIC status (unless we elect to be taxed on such gains as of such date). In addition, if we subsequently acquire built-in gain assets from a C corporation in a carryover basis transaction, then we may be subject to tax on the gains recognized by us on dispositions of such assets unless we make a special election to pay corporate-level tax on such built-in gain at the time the assets are acquired.) We will be subject to United States federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirement). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). We currently intend to make sufficient distributions each taxable year to satisfy the Excise Tax Avoidance Requirement.

In order to qualify as a RIC for federal income tax purposes and obtain the tax benefits of RIC status, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

have in effect at all times during each taxable year an election to be regulated as a business development company under the 1940 Act;

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- derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a qualified publicly traded limited partnership (the 90% Income Test); and

- diversify our holdings so that at the end of each quarter of the taxable year:

  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and

  - no more than 25% of the value of our assets is invested in (i) securities (other than U.S. government securities or securities of other RICs) of one issuer, (ii) securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more qualified publicly traded partnerships (the Diversification Tests).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement (collectively, the Distribution Requirements). However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. See Regulation Senior Securities; Coverage Ratio. Moreover, our ability to dispose of assets to meet the Distribution Requirements may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Distribution Requirements, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Any transactions in options, futures contracts, hedging transactions, and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

A RIC is limited in its ability to deduct expenses in excess of its investment company taxable income (which is, generally, ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses). If our expenses in a given year exceed investment company taxable income (e.g., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Following the effective date of our election to be treated as a RIC, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated and, as explained above, a portion of our distributions or deemed distributions may be characterized as long-term capital gain in the hands of stockholders. See Election to be Taxed as a Regulated Investment Company above.

Except as otherwise provided, the remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

Taxation of U.S. Stockholders

For federal income tax purposes, distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. For taxable years beginning on or before December 31, 2008, to the extent such distributions paid by us are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be designated by us as qualified dividend income eligible to be taxed in the hands of non-corporate stockholders at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum rate of 15%) in the case of individuals, trusts or estates, regardless of the U.S. stockholder s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder s adjusted tax basis in such stockholder s common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We currently intend to retain our realized net long-term capital gains in excess of realized net short-term capital losses, but to designate the retained net capital gain as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder s cost basis for his, her or its common stock. Since we expect to pay tax on any retained net capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder s other federal income tax obligations or may be refunded to the extent it exceeds a stockholder s liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. For federal income tax purposes, the tax basis of shares owned by a stockholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the stockholder s gross income and the tax deemed paid by the stockholder as described in this paragraph. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution. We may, in the future, make actual distributions to our stockholders of some or all of realized net long-term capital gains in excess of realized net short-term capital losses.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

For taxable years beginning on or before December 31, 2008, individual U.S. stockholders are subject to a maximum federal income tax rate of 15% on their net capital gain (*i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder s taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year s distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% qualified dividend income rate). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. stockholder s particular situation. Dividends distributed by us generally will not be eligible for the corporate dividends-received deduction or the preferential rate applicable to qualified dividend income.

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We may be required to withhold federal income tax (backup withholding), currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service (the IRS) notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual s taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder s federal income tax liability, provided that proper information is provided to the IRS.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person s particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisors before investing in our common stock.

In general, dividend distributions (other than certain distributions derived from net long-term capital gains) paid by us to a Non-U.S. stockholder are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a Non-U.S. stockholder directly, would not be subject to withholding. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, (and, if an income tax treaty applies, attributable to a permanent establishment in the United States), we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. stockholders. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.)

For taxable years beginning prior to January 1, 2008, except as provided below, we generally will not be required to withhold any amounts with respect to certain distributions of (i) U.S.-source interest income, and (ii) net short-term capital gains in excess of net long-term capital losses, in each case to the extent we properly designate such distributions. We may or may not make any such designations. In respect of distributions described in clause (i) above, we will be required to withhold amounts with respect to distributions to a Non-U.S. stockholder:

- that has not provided a satisfactory statement that the beneficial owner is not a U.S. person;
- to the extent that the dividend is attributable to certain interest on an obligation if the Non-U.S. stockholder is the issuer or is a 10% stockholder of the issuer;
- that is within certain foreign countries that have inadequate information exchange with the United States; or
- to the extent the dividend is attributable to interest paid by a person that is a related person of the Non-U.S. stockholder and the Non-U.S. stockholder is a controlled foreign corporation for United States federal income tax purposes.

The cash dividend(s) we intend to pay to our stockholders representing all of our accumulated earnings and profits, if any, for the period from our inception through the effective date of our election to be treated as a RIC, generally will be taxable to Non-U.S. stockholders in the same manner as other dividend distributions described above.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and

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generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the U.S.), or in the case of an individual stockholder, the stockholder is present in the U.S. for a period or periods aggregating 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute or successor form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisors with respect to the United States federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Such distributions (if made in a taxable year beginning on or before December 31, 2008) would be taxable to our stockholders and provided certain holding period and other requirements were met, could qualify for treatment as qualified dividend income eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

DESCRIPTION OF CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary may not contain all of the information that is important to you, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Under the terms of our charter, our authorized capital stock consists of 30,000,000 shares of common stock, par value $0.001 per share, of which 9,801,965 shares are currently outstanding. Under our charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to cause the issuance of such shares, without obtaining stockholder approval. In addition, as permitted by the Maryland General Corporation Law, but subject to the 1940 Act, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

We were initially capitalized in February 2004 and in June 2004 we completed a private placement of 904,635 units at a price of $30.00 per unit, raising an aggregate of approximately $23.9 million in net proceeds. Each such unit consisted of two shares of our common stock, one warrant to purchase one share of our common stock with up to a 1-year term and one warrant to purchase one share of our common stock with a 5-year term. We paid a placement fee to JMP Securities LLC, the initial purchaser in such private placement, of $2.10 per unit.

In January 2005, investment funds managed by JMP Asset Management LLC completed the purchase of 72,000 units at a price of $30.00 per unit, less a placement fee of $2.10 per unit pursuant to an option granted to JMP Asset Management LLC in connection with our June 2004 private offer. In addition, in January 2005 Mr. Henriquez, our Chief Executive Officer, purchased the equivalent of 40,000 units and 13,500 units, respectively, and four other employees purchased an aggregate of 8,567 units, in each case at a price of $30.00 per unit. In connection with such transactions, we raised an aggregate of approximately $3.9 million in net proceeds. In addition, 1-year warrants to purchase 1,175,963 shares of our common stock were exercised in February 2005, generating proceeds to us of approximately $12.4 million.

In June 2005, we completed our initial public offer of 6,000,000 shares of our common stock. The following table sets forth certain information regarding our authorized shares and shares outstanding as of December 31, 2005.

Title of Class	Amount Authorized	Amount Held By Company for its Account	Amount Outstanding
Common Stock, $0.001 par value per share	30,000,000		9,801,965

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting privileges, except as described below and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefor. Shares of our common stock have no conversion, exchange, preemptive or redemption rights. In the event of a liquidation, dissolution or winding up of Hercules Technology Growth Capital each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the

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election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

5-Year Warrants

As of December 31, 2005, we had outstanding 5-year warrants to purchase an aggregate of 673,223 shares of our common stock. These warrants were issued as part of the units that we sold in our prior private financings and were issued either under our warrant agreement with American Stock Transfer & Trust Company, as warrant agent, or pursuant to the terms of our 2004 Equity Incentive Plan. Each 5-year warrant is exercisable until June 17, 2009 and entitles the holder thereof to purchase one share of our common stock. In connection with our election to be regulated as a business development company, the exercise price per share for all of our 5-year warrants was reduced from $15.00 per share to $10.57 per share, the net asset value per share of our common stock on the date of determination, in accordance with the terms of the warrant agreement or the applicable warrant certificate. In addition, the warrant agreement, restricts the transfer of warrants outstanding thereunder to transactions involving the transfer of at least 4,000 shares (or securities convertible into or exchangeable for shares) of our common stock.

Registration Rights

In connection with our June 2004 private offering of units (each unit consisting of two shares of our common stock, a warrant to purchase one share of our common stock exercisable for one year and a warrant to purchase one share of our common stock exercisable for five years, in each case subject to adjustment as provided for in the warrant agreement), we entered into a registration rights agreement with JMP Securities LLC, the initial purchaser and placement agent in that offer, and the lead underwriter in our initial public offering.

Pursuant to the registration rights agreement and subject to certain exceptions, we agreed to use our best efforts to file with the SEC a shelf registration statement to cover resales of the shares of common stock

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underlying the units, including the shares of common stock underlying the warrants, held by substantially all of our existing stockholders. Holders of approximately 3,480,000 shares of our common stock and holders of approximately 584,000 warrants were entitled to have such shares and such warrants (as well as the common stock underlying such warrants) included in the shelf registration statement. In addition to registering the securities of the holders subject to the registration rights agreement, we elected to allow all holders of our unregistered securities to register their common stock, warrants, and shares of common stock underlying the warrants, under the shelf registration statement. The selling holders elected to include 3,801,965 shares of our common stock, 673,223 warrants and 673,223 shares of common stock issuable upon exercise of the warrants in the shelf registration statement. On July 14, 2005, we filed the shelf registration statement and on September 7, 2005, the shelf registration statement was declared effective.

Because we have elected to be regulated as a business development company under the 1940 Act, holders of our common stock or warrants that beneficially own three percent of our outstanding common stock, which includes substantially all current holders of our common stock and warrants, are entitled to have any or all of their warrants included in the shelf registration statement on the same terms and subject to the same conditions as holders of registrable securities.

Notwithstanding the foregoing, we will be permitted to prohibit offers and sales of common stock and warrants pursuant to the registration rights agreement under certain circumstances and subject to certain conditions. Each security will cease to be a registrable security under the registration rights agreement on the earlier of (i) the date on which it has been registered effectively pursuant to the Securities Act and, in the case of an underwritten offer, disposed of in accordance with the registration statement relating to it, (ii) the date on which either it is distributed to the public pursuant to Rule 144 or may be sold pursuant to Rule 144(k) under the Securities Act, (iii) the date on which it is sold to us, or (iv) the date on which all registrable securities proposed to be sold by a holder may be sold in a three-month period without registration under the Securities Act pursuant to Rule 144 under the Securities Act.

If, after the shelf registration statement ceases to be effective or usable in connection with resales of registrable securities during the period in which it is required to be effective, then a registration default will be deemed to have occurred under the registration rights agreement. In the case of a registration default, we will pay additional dividends to each holder of shares of our common stock. The amount of additional dividends payable during the fiscal quarter in which a registration default has occurred and is continuing will equal $0.0625 per share of common stock (subject to adjustment in the event of a stock split, stock recombination, stock dividend and the like) and will escalate at the end of such quarter and at the end of each quarter thereafter by an additional $0.0625 per share of common stock (subject to adjustment in the event of a stock split, stock recombination, stock dividend and the like), up to a maximum amount of additional dividends of $0.25 per share of common stock (subject to adjustment in the event of a stock split, stock recombination, stock dividend and the like) per quarter. Following the cure of all registration defaults, additional dividends will cease to accrue with respect to such registration default.

We expect that the terms of Mr. Henriquez s employment agreement will provide that his base salary will be reduced to an annual rate of 50% of his then base salary and his incentive bonus opportunity will be reduced to zero in the event of, and during the continuation of, a registration default.

We will use our best efforts to cause the shelf registration statement to remain effective, subject to permitted exceptions, until June 22, 2006 (the date that is two years from the date of the registration rights agreement) or such shorter period of time that will terminate when each of the registrable securities ceases to be a registrable security under the registration rights agreement.

The foregoing summary of certain provisions of the registration rights agreement may not include all of the provisions that are important to you and is subject to, and qualified in its entirety by reference to, the provisions of the registration rights agreement. Copies of the registration rights agreement are available as set forth under the heading Available Information.

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Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. Our charter also provides that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our charter are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our charter. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. Our bylaws also provide that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our bylaws are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our bylaws.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification,

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and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

In addition, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. on terms similar to those afforded to our directors and officers under our charter and bylaws in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company.

We currently have in effect a directors and officers insurance policy covering our directors and officers and us for any acts and omissions committed, attempted or allegedly committed by any director or officer during the policy period. The policy is subject to customary exclusions.

Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire in 2006, 2007 and 2008, respectively. Beginning in 2005, upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter provides that, except as otherwise provided in the bylaws, the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect each director. Our bylaws currently provide that directors are elected by a plurality of the votes cast in the election of directors. Pursuant to our charter and bylaws, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless the bylaws are amended, the number of directors may never be less than one nor more than 12. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a

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majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in the charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action may be taken only at an annual or special meeting of stockholders or by unanimous consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meeting of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

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Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 75% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least 75% of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by the stockholders entitled to cast a majority of the votes entitled to be cast on such a matter. The continuing directors are defined in our charter as our current directors, as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors.

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

Control Share Acquisitions

The Maryland Control Share Acquisition Act (the Control Share Act) provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

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If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be otherwise amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the Board of Directors determines that it would be in our best interests and if the staff of the SEC does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

Business Combinations

Under the Maryland Business Combination Act (the Business Combination Act), business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which such stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the 5-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

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The statute permits various exemptions from its provisions, including business combinations that are exempted by the Board of Directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution exempting any business combination between us and any other person from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. In addition, our Board of Directors has adopted a resolution exempting any business combination with certain investment funds managed by JMP Asset Management LLC and certain investment funds managed by Farallon Capital Management, L.L.C. from the provisions of the Business Combination Act. We have agreed with such investment funds that we will not repeal or amend such resolution prior to the date that is two years after such investment funds cease to own at least 10% of our outstanding common stock in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds without the written consent of such investment funds. If these resolutions are repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

Regulatory Restrictions

Our wholly-owned subsidiary, Hercules Technology II, L.P., is seeking a small business investment company license. The Small Business Administration prohibits, without prior Small Business Administration approval, a change of control or transfers which would result in any person (or group of persons acting in concert) owning 10% or more of any class of capital stock of a small business investment company. A change of control is any event which would result in a transfer of the power, direct or indirect, to direct the management and policies of a small business investment company, whether through ownership, contractual arrangements or otherwise.

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SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock or warrants in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock or warrants and could impair our future ability to raise capital through the sale of our equity securities.

We have 9,801,965 shares of our common stock outstanding, none of which are restricted securities under the meaning of Rule 144 promulgated under the Securities Act. We have the certain restricted securities comprised of 3,801,965 shares of common stock, 673,223 warrants, and 673,223 shares of common stock issuable upon exercise of the warrants, registered under a shelf registration statement.

In general, under Rule 144 as currently in effect, if one year has elapsed since the date of acquisition of restricted securities from us or any of our affiliates, the holder of such restricted securities can sell such securities; provided that the number of securities sold by such person within any three-month period cannot exceed the greater of:

- 1% of the total number of securities then outstanding, or
- the average weekly trading volume of our securities during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 also are subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. If two years have elapsed since the date of acquisition of restricted securities from us or any of our affiliates and the holder is not one of our affiliates at any time during the three months preceding the proposed sale, such person can sell such securities in the public market under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements. No assurance can be given as to (1) the likelihood that an active market for our common stock will develop, (2) the liquidity of any such market, (3) the ability of our stockholders to sell our securities or (4) the prices that stockholders may obtain for any of our securities. No prediction can be made as to the effect, if any, that future sales of securities, or the availability of securities for future sale, will have on the market price prevailing from time to time. Sales of substantial amounts of our securities, or the perception that such sales could occur, may affect adversely prevailing market prices of the common stock. See Risk Factors Risks Related to this Offering.

Stock Options

As of December 31, 2005, there were options to purchase 1,337,436 shares as well as 5-year warrants to purchase 56,551 shares of our common stock outstanding under our 2004 Equity Incentive Plan. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates and, in the case of some of the options, the expiration of lock-up agreements.

We intend to file a registration statement under the Securities Act covering 8,000,000 shares of common stock reserved for issuance under our 2004 Equity Incentive Plan.

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BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we rarely use brokers in the normal course of business. In those cases in which we do use a broker, we do not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm s risk and skill in positioning blocks of securities. While we generally seek reasonably competitive execution costs, we may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided. For the years ended December 31, 2005 and 2004 we paid $4,000 and $0 in brokerage commissions, respectively.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Securities we hold in connection with our investments are held under a custody agreement with Union Bank of California. The address of the custodian is 475 Sansome Street, 15th Floor, San Francisco, California 94111. We have also entered into a custody agreement with U.S. Bank National Association, which is located at One Federal Street, Third Floor, Boston, Massachusetts 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, will act as our transfer agent, dividend paying and reinvestment agent and registrar. The principal business address of the transfer agent is 59 Maiden Lane, New York, New York 10038.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Ropes & Gray LLP, San Francisco, California. Certain legal matters will be passed upon for the co-dealer managers by Sutherland Asbill & Brennan LLP, Washington D.C.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements and financial highlights at December 31, 2004 and for the period February 2, 2004 (commencement of operations) to December 31, 2004, as set forth in their report. We have included our consolidated financial statements and financial highlights in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP s report, given on their authority as experts in accounting and auditing.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock and the rights offered by this prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at

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the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s Internet website at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549-0102.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

Hercules Technology Growth Capital, Inc.

We have audited the accompanying consolidated statements of assets and liabilities of Hercules Technology Growth Capital, Inc., including the consolidated schedules of investments, as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in net assets and cash flows for the year ended December 31, 2005 and for the period from February 2, 2004 (commencement of operations) to December 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included correspondence with each portfolio company. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hercules Technology Growth Capital, Inc. at December 31, 2005 and 2004, the consolidated results of its operations, the changes in its net assets and its cash flows for the year ended December 31, 2005 and for the period from February 2, 2004 (commencement of operations) to December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

January 30, 2006,

except for Note 16, as to which the date is

March 6, 2006

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2005	December 31, 2004
Assets		
Investments, at value (cost of $176,004,865 and $16,700,000, respectively)	$ 176,673,226	$ 16,700,000
Deferred loan origination revenue	(2,729,982)	(285,232)
Cash and cash equivalents	15,362,447	8,678,329
Interest receivable	1,479,375	80,902
Prepaid expenses	1,310,594	20,942
Deferred tax asset	1,454,000	
Property and equipment, net	77,673	35,231
Other assets	20,546	2,500
Total assets	193,647,879	25,232,672
Liabilities		
Accounts payable	150,081	1,979
Income tax payable	1,709,000	
Accrued liabilities	1,436,468	152,560
Short-term loans payable	76,000,000	
Total liabilities	79,295,549	154,539
Net assets	$ 114,352,330	$ 25,078,133
Net assets consist of:		
Par value	$ 9,802	$ 2,059
Paid-in capital in excess of par value	114,524,833	27,117,896
Distributable earnings (accumulated deficit)	(182,305)	(2,041,822)
Total net assets	$ 114,352,330	$ 25,078,133
Shares of common stock outstanding ($0.001 par value, 30,000,000 authorized)	9,801,965	2,059,270
Net asset value per share	$ 11.67	$ 12.18

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2005

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)(4)
Acceleron Pharmaceuticals, Inc. (3.50%)*	Biopharmaceuticals	Senior Debt Matures June 2009 Interest rate 10.25%	$ 4,000,000	$ 3,932,539	$ 3,932,539
		Preferred Stock Warrants		69,106	68,054
Total Acceleron Pharmaceuticals, Inc.				4,001,645	4,000,593
Guava Technologies, Inc. (3.94%)	Biopharmaceuticals	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 4,500,000	4,397,111	4,397,111
		Preferred Stock Warrants		105,399	103,837
Total Guava Technologies, Inc.				4,502,510	4,500,948
Labopharm USA, Inc. (8.63%)	Biopharmaceuticals	Senior Debt Matures July 2008 Interest rate 11.95%	$ 9,837,901	9,869,420	9,869,420
Labopharm USA, Inc. (1.20%)		Common Stock		112,335	1,367,268
Total Labopharm USA, Inc.				9,981,755	11,236,688
Merrimack Pharmaceuticals, Inc. (7.89%)	Biopharmaceuticals	Senior Debt Matures October 2008 Interest rate 11.15%	$ 9,000,000	8,878,668	8,878,668
		Preferred Stock Warrants		155,456	140,675
Total Merrimack Pharmaceuticals, Inc.				9,034,124	9,019,343
Omrix Biopharmaceuticals, Inc. (4.16%)	Biopharmaceuticals	Senior Debt Matures March 2008 Interest rate 11.45%	$ 4,709,994	4,701,782	4,701,782
		Common Stock Warrants		11,370	58,399
Total Omrix Biopharmaceuticals, Inc.				4,713,152	4,760,181
Paratek Pharmaceuticals, Inc. (8.76%)	Biopharmaceuticals	Senior Debt Matures June 2008 Interest rate 10.6%	$ 10,000,000	9,889,320	9,889,320
		Preferred Stock Warrants		137,396	141,881
Total Paratek Pharmaceuticals, Inc.				10,026,716	10,031,201
Total Biopharmaceuticals (38.08%)				42,259,902	43,548,954
Atrenta, Inc. (4.38%)	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 5,000,000	4,869,095	4,869,095

		Preferred Stock Warrants			102,396	102,886
		Preferred Stock Warrants			33,760	33,760
Total Atrenta, Inc.					5,005,251	5,005,741
Concuity, Inc. (3.99%)	Software	Senior Debt				
		Matures March 2008				
		Interest rate 9.95%	$	4,570,498	4,567,873	4,567,873
		Preferred Stock Warrants			3,500	
Total Concuity, Inc.					4,571,373	4,567,873
Gomez, Inc. (1.93%)	Software	Senior Debt				
		Matures December 2007				
		Interest rate 12.25%	$	2,197,436	$ 2,175,075	$ 2,175,075
		Preferred Stock Warrants			35,000	32,467
Total Gomez, Inc.					2,210,075	2,207,542

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2005

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3) (4)
Inxight Software, Inc. (4.38%)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 5,000,000	$ 4,956,279	$ 4,956,279
		Preferred Stock Warrants		55,963	46,735
Total Inxight Software, Inc.				5,012,242	5,003,014
Metreo, Inc. (1.11%)	Software	Senior Debt Matures November 2007 Interest rate 12.95%	$ 500,000	4,525,714	1,266,000
		Preferred Stock Warrants		50,000	
Total Metreo, Inc.				4,575,714	1,266,000
Proficiency, Inc. (3.51%)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,917,802	3,917,802
		Preferred Stock Warrants		96,370	94,105
Total Proficiency, Inc.				4,014,172	4,011,907
Sportvision, Inc. (3.08%)	Software	Senior Debt Matures June 2008 Interest rate 9.95%	$ 3,518,716	3,488,119	3,488,119
		Preferred Stock Warrants		39,339	38,523
Total Sportvision, Inc.				3,527,458	3,526,642
Talisma Corp. (2.99%)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 3,410,120	3,378,814	3,378,814
		Preferred Stock Warrants		49,000	43,428
Total Talisma Corp.				3,427,814	3,422,242
Total Software (25.37%)				32,344,099	29,010,961
Wageworks, Inc. (17.12%)	Consumer & business prodcuts	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 18,583,966	18,379,995	18,379,995
		Preferred Stock Warrants		251,964	1,197,735
Wageworks, Inc. (0.22%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				18,881,954	19,827,725
Total Consumer & Business Products (17.34%)				18,881,954	19,827,725

IKANO Communications, Inc. (14.44%)	Communications & networking	Senior Debt Matures December 2008 Interest rate 9.25%	$	16,454,540	16,402,789	16,402,789
		Preferred Stock Warrants			45,460	43,710
		Preferred Stock Warrants			72,344	71,000
Total IKANO Communications, Inc.					16,520,593	16,517,499
Interwise, Inc. (2.46%)	Communications & networking	Senior Debt Matures August 2008 Interest rate 17.50%	$	2,809,653	2,809,653	2,809,653
Total Interwise, Inc.					2,809,653	2,809,653
Occam Networks, Inc. (2.79%)	Communications & networking	Senior Debt Matures December 2007 Interest rate 11.95%	$	2,559,827	2,540,021	2,540,021
		Preferred Stock Warrants			14,000	286,364
		Common Stock Warrants			17,000	368,935
Total Occam Networks, Inc.					2,571,021	3,195,320

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2005

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3][4]
Optovia Corporation (4.37%)	Communications & networking	Senior Debt Matures September 2006 Interest rate Prime + 7.25%	$ 5,000,000	$ 5,000,000	$ 5,000,000
Total Optovia Corporation				5,000,000	5,000,000
Pathfire, Inc. (4.38%)	Communications & networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 5,000,000	4,938,482	4,938,482
		Preferred Stock Warrants		63,276	64,144
Total Pathfire, Inc.				5,001,758	5,002,626
Total Communications & Networking (28.44%)				31,903,025	32,525,098
Adiana, Inc. (1.76%)	Medical devices & equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 2,000,000	1,943,979	1,943,979
		Preferred Stock Warrants		67,225	66,404
Adiana, Inc. (0.44%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				2,511,204	2,510,383
Optiscan Biomedical, Corp. (1.54%)	Medical devices & equipment	Senior Convertible Term Loan Matures March 2008 Interest rate 15.00%	$ 1,753,164	1,683,063	1,683,063
		Preferred Stock Warrants		80,486	81,185
Optiscan Biomedical, Corp. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp.				2,763,549	2,764,248
Power Medical Interventions, Inc. (3.52%)	Medical devices & equipment	Senior Debt Matures June 2008 Interest rate 10.71%	$ 4,000,000	3,969,515	3,969,515
		Common Stock Warrants		39,195	56,490
Total Power Medical Interventions, Inc.				4,008,710	4,026,005
Xillix Technologies Corp. (4.83%)	Medical devices & equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 5,500,000	5,195,589	5,195,589
		Preferred Stock Warrants		313,108	325,601
Total Xillix Technologies Corp.				5,508,697	5,521,190
Total Medical Devices & Equipment (12.96%)				14,792,160	14,821,826

Affinity Express, Inc. (1.54%)	Internet consumer & business services	Senior Debt Matures November 2007 Interest rate 13.50%	$	1,583,531	1,560,450	1,560,450
		Common Stock Warrants			17,000	187,922
		Common Stock Warrants			15,000	12,995
Affinity Express, Inc. (0.22%)		Preferred Stock			250,000	250,000
Total Affinity Express, Inc.					1,842,450	2,011,367
Invoke Solutions, Inc. (1.31%)	Internet consumer & business services	Senior Debt Matures December 2008 Interest rate 11.25%	$	1,500,000	1,457,391	1,457,391
		Preferred Stock Warrants			43,826	44,155
Total Total Invoke Solutions, Inc.					1,501,217	1,501,546

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2005

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)(4)
RazorGator Interactive Group, Inc. (3.64%)	Internet consumer & business services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 4,104,553	$ 4,095,853	$ 4,095,853
		Preferred Stock Warrants		13,050	64,833
RazorGator Interactive Group, Inc. (0.87%)		Preferred Stock		1,000,000	1,000,000
Total RazorGator Interactive Group, Inc.				5,108,903	5,160,686
Total Internet Consumer & Business Services (7.58%)				8,452,570	8,673,599
Cornice, Inc. (11.24%)	Electronics & computer hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 5,000,000	4,915,455	4,915,455
		Revolving Line of Credit Matures November 2006 Interest rate Prime + 3.00%	$ 7,834,131	7,663,375	7,663,375
		Preferred Stock Warrants		101,597	99,336
		Preferred Stock Warrants		35,353	34,230
		Preferred Stock Warrants		135,403	132,390
Total Cornice, Inc.				12,851,183	12,844,786
Sling Media, Inc. (4.29%)	Electronics & computer hardware	Senior Debt Matures January 2009 Interest rate 10.25%	$ 4,000,000	3,965,029	3,965,029
		Preferred Stock Warrants		38,968	945,365
Total Sling Media, Inc.				4,003,997	4,910,394
Total Electronics & Computer Hardware (15.53%)				16,855,180	17,755,180
Ageia Technologies (7.00%)	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 8,000,000	7,914,586	7,914,586
		Preferred Stock Warrants		99,190	93,518
Ageia Technologies (0.44%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				8,513,776	8,508,104
Cradle Technologies (1.75%)	Semiconductors	Senior Debt Matures December 2008 Interest rate Prime + 4.70%	$ 2,000,000	1,923,049	1,923,049
		Preferred Stock Warrants		79,150	78,730

Total Cradle Technologies	2,002,199	2,001,779
Total Semiconductors (9.20%)	10,515,975	10,509,883
Total Investments (154.50%)	$ 176,004,865	$ 176,673,226

* Value as a percent of net assets

(1) All debt investments are income producing. Preferred and common stock and all warrants are non-income producing.

(2) Tax cost at December 31, 2005 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled $4,035,789, $3,367,428 and $668,361, respectively, at December 31, 2005.

(3) Except for common stock held in Labopharm Biopharmaceuticals, all investments are restricted at December 31, 2005 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Citigroup has an equity participation right on warrants collateralized under the Citigroup facility (see Note 5). The value of their participation right on unrealized gains in the related equity investments was approximately $342,000 at December 31, 2005 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2005.

(5) All investments are less than 5% owned.

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2004

(The following investments are all United States enterprises)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Affinity Express, Inc. (6.78%)*	Internet Consumer and business services	Senior Debt Matures November 2007 Interest rate 13.50%	$ 1,700,000	$ 1,683,000	$ 1,683,000
		Common Stock Warrants		17,000	17,000
Total Affinity Express, Inc.				1,700,000	1,700,000
Occam Networks, Inc. (11.96%)	Communications & networking	Senior Debt Matures December 2007 Interest rate 11.95%	$ 3,000,000	2,969,000	2,969,000
		Preferred Stock Warrants		14,000	14,000
		Common Stock Warrants		17,000	17,000
Total Occam Networks, Inc.				3,000,000	3,000,000
Gomez, Inc. (11.96%)	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 3,000,000	2,965,000	2,965,000
		Preferred Stock Warrants		35,000	35,000
Total Gomez, Inc.				3,000,000	3,000,000
Metreo, Inc. (19.94%)	Software	Senior Debt Matures November 2007 Interest rate 10.95%	$ 5,000,000	4,950,000	4,950,000
		Preferred Stock Warrants		50,000	50,000
Total Metreo, Inc.				5,000,000	5,000,000
Talisma Corp. (15.95%)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 4,000,000	3,951,000	3,951,000
		Preferred Stock Warrants		49,000	49,000
Total Talisma Corp.				4,000,000	4,000,000
Total investments (66.59%)				$ 16,700,000	$ 16,700,000

* Value as a percent of net assets

(1) All debt investments are income producing. All warrants are non-incoming producing.

(2) Tax cost at December 31, 2004 equals book cost. The Company has no gross unrealized appreciation or depreciation at December 31, 2004.

(3) All investments are restricted at December 31, 2004, and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) All investments are less than 5% owned.

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Investment income:		
Interest	$ 9,791,214	$ 214,100
Fees	875,429	
Total investment income	10,666,643	214,100
Operating expenses:		
Interest	1,800,536	
Loan fees	1,098,507	
Compensation and benefits	3,705,784	1,164,504
General and administrative	2,285,038	411,418
Stock-based compensation	252,000	680,000
Total operating expenses	9,141,865	2,255,922
Net investment income (loss) before provision for income tax expense and investment gains and losses	1,524,778	(2,041,822)
Income tax expense	255,000	
Net investment income (loss)	1,269,778	(2,041,822)
Net realized gain on equity investment	481,694	
Net increase in unrealized appreciation on investments	353,093	
Net gain on investments	834,787	
Change in net assets resulting from operations	$ 2,104,565	$ (2,041,822)
Net investment income (loss) before provision for income tax expense and investment gains and losses per common share:		
Basic	$ 0.22	$ (1.72)
Diluted	$ 0.22	$ (1.58)
Change in net assets per common share:		
Basic	$ 0.30	$ (1.72)
Diluted	$ 0.30	$ (1.58)
Weighted average shares outstanding		
Basic	6,939,000	1,187,000

Diluted	7,016,000	1,293,000

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Common Stock		Preferred Stock			Distributable earnings	
	Shares	Par Value	Shares	Par Value	Paid-In Capital	(accumulated deficit)	Net Assets
Balance at February 2, 2004 (commencement of operations)		$		$	$	$	$
Increase in net assets from capital share transactions:							
Issuance of convertible preferred stock, net of placement fees			600	1	2,574,999		
Issuance of common stock, net of offering costs	1,809,270	1,809			23,863,146		
Conversion of preferred stock to common stock	250,000	250	(600)	(1)	(249)		
Net increase in net assets from capital share transactions	2,059,270	2,059			26,437,896		26,439,955
Stock-based compensation					680,000		680,000
Net decrease in net assets resulting from operations						(2,041,822)	(2,041,822)
Balance at December 31, 2004	2,059,270	2,059			27,117,896	(2,041,822)	25,078,133
Increase in net assets from capital share transactions:							
Issuance of common stock, net of offering costs	268,134	268			3,870,542		
Issuance of shares in lieu of 5 year warrants	298,598	299			(299)		
Issuance of shares on exercise of 1 year warrants	1,175,963	1,176			12,428,744		
Issuance of common stock in IPO, net of offering costs	6,000,000	6,000			70,855,950		
Net increase in net assets from capital share transactions	7,742,695	7,743			87,154,937		87,162,680
Stock-based compensation					252,000		252,000
Distribution to shareholders						(245,048)	(245,048)
Increase in net assets from operations:							
Net investment income						1,269,778	
Net realized gain on investments						481,694	
Net unrealized depreciation on investments						(3,285,392)	
Net unrealized appreciation on equity investments						1,118,208	
Net unrealized appreciation on warrants						2,520,277	
Net increase in net assets resulting from operations						2,104,565	2,104,565
Balance at December 31, 2005	9,801,965	$ 9,802		$	$ 114,524,833	$ (182,305)	$ 114,352,330

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ 2,104,565	$ (2,041,822)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(177,834,136)	(16,700,000)
Principal payments received on investments	18,822,828	
Net unrealized appreciation on investments	(353,093)	
Net unrealized appreciation on investments due to lender	(342,297)	
Net realized gain on sale of equity investment	(481,694)	
Accretion of loan discounts	(358,611)	
Accretion of loan exit fees	(350,944)	
Depreciation	23,605	7,533
Stock-based compensation	252,000	680,000
Amortization of deferred loan origination revenue	(790,169)	
Change in operating assets and liabilities:		
Interest receivable	(1,047,529)	(80,902)
Prepaid expenses and other current assets	(1,289,652)	(23,442)
Deferred tax asset	(1,454,000)	
Accounts payable	148,102	(2,481)
Income tax payable	1,709,000	
Accrued liabilities	1,283,908	157,020
Deferred loan origination revenue	3,277,238	285,232
Net cash used in operating activities	(156,680,879)	(17,718,862)
Cash flows from investing activities:		
Proceeds from sale of equity investment	531,458	
Purchases of capital equipment	(66,047)	(40,264)
Other long-term assets	(18,046)	(2,500)
Net cash used in investing activities	447,365	(42,764)
Cash flows from financing activities:		
Proceeds from issuance of convertible preferred stock, net		2,575,000
Proceeds from issuance of common stock, net	87,162,680	23,864,955
Dividends paid	(245,048)	
Proceeds from short-term loans	76,000,000	
Net cash provided by financing activities	162,917,632	26,439,955
Net increase in cash	6,684,118	8,678,329
Cash and cash equivalents at beginning of period	8,678,329	

Cash and cash equivalents at end of period	$ 15,362,447	$ 8,678,329
Supplemental disclosures:		
Interest paid	$ 1,704,244	$
Income taxes paid		

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Boulder and Chicago areas. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003. The Company commenced operations on February 2, 2004, when it sold 600 shares of convertible preferred stock to investors and commenced investment activities in September 2004.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In conjunction with the filing of its December 31, 2006 tax return, the Company intends to seek to be treated for federal income tax purposes as a registered investment company (RIC). As of December 31, 2005, the Company cannot determine the probability that during 2006 it will qualify as a RIC when its 2006 tax return is filed. If the Company qualifies as a RIC as of December 31, 2006, the election will be effective as of January 1, 2006.

On June 11, 2005, the Company raised approximately $70.9 million, net of issuance costs, from an initial public offering (IPO) of 6,000,000 shares of its common stock.

In January 2005, the Company formed Hercules Technology II, L.P. (HT II) and Hercules Technology SBIC Management, LLC (HTM). On May 3, 2005, HT II filed an application with the Small Business Administration (the SBA) to become licensed as a Small Business Investment Company (SBIC) and on June 24, 2005, the HT II received a letter of acknowledgement of receipt of this application. Upon receipt of this letter from the SBA, HT II was eligible to make pre-approved investments. If HT II s application to the SBIC program is ultimately approved by the SBA, then it will be able to borrow funds from the SBA against eligible pre-approved investments and additional contributions to regulatory capital. During 2005, HT II funded two preapproved loans of which one was fully repaid in October 2005. At December 31, 2005, the Company has a net investment of $2.5 million in HT II and there is one outstanding loan in the amount of $2.0 million. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner.

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a $100 million securitized credit facility with Citigroup Global Markets Realty Corp. (see Note 5).

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The financial statements for the period ended December 31, 2004 include all activities from February 2, 2004 to December 31, 2004. Certain prior period amounts have been reclassified to conform with the current year presentation.

2. Significant Accounting Policies

Use of estimates

The accompanying consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, and actual results could differ from those estimates.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation of Investments

Value is defined in Section 2(a)(41) of the 1940 Act, as (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Because the Company invests primarily in structured mezzanine debt investments (Debt) and equity growth capital (Equity) of privately-held technology-related and life-science companies backed by leading venture capital and private equity firms for which market prices are not available, the Company values substantially all of its investments at fair value, as determined in good faith by the Board of Directors in accordance with established valuation policies and consistent procedures and the recommendations of the Valuation Committee of the Board of Directors. At December 31, 2005, approximately 87.4% of the Company s net assets are investments in privately held companies which are valued at fair value and approximately 12.6% are valued based on readily available market quotations.

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. The Board of Directors estimates fair value to be the amount for which an investment could be exchanged in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. Due to the inherent uncertainty in the valuation process, the Board s estimate of fair value may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

When originating a Debt instrument, the Company will receive warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the Debt and warrants or other equity-related securities received. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer s earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors. Any resulting discount on the loan from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

At each reporting date, privately held Debt and Equity securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions that could impact the valuation. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the Debt and Equity securities. An unrealized loss is recorded when an investment has decreased in value, including: where collection of a loan is doubtful, there is an adverse change in the underlying collateral or operational performance, there is a change in the borrower s ability to pay, or there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, an unrealized gain is recorded when the investment has appreciated in value. Securities that are traded in the over the counter markets or on a stock exchange will be valued at the prevailing bid price at period end.

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

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. At December 31, 2005 and 2004, all of the Company s investments were in Non-Control/Non-Affiliate companies.

Income Recognition

Interest on loans are computed using a method that results in a level rate of return on principal amounts outstanding. Interest income is recognized as earned in accordance with the contractual terms of the loan agreement. Any difference between the face amount of a loan and its cost basis is accreted into income over the term of the loan. When a loan becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, we will place the loan on non-accrual status and cease recognizing interest income. The Company placed one loan on non-accrual status during the period ended December 31, 2005 and none in 2004.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. Original issue discounts are accreted into interest income over the life of the loan. These fees and discounts are reflected as adjustments to the loan yield. The Company had approximately $2.7 million and $285,000 of unamortized fees at December 31, 2005 and 2004, respectively, and approximately $351,000 and $0 in exit fees receivable at December 31, 2005 and 2004. respectively.

In certain investment transactions, the Company 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. The Company had no income from advisory services in 2005 or 2004.

Financing costs

Debt financing costs are fees and other direct incremental costs incurred in obtaining debt financing and are recognized as prepaid expenses or accrued liabilities in the case of back end fees, and are amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. At December 31, 2005, prepaid debt financing costs of approximately $537,000, net of accumulated amortization, and accrued debt financings costs of approximately $387,000 are included in the consolidated statements of net assets and liabilities.

Cash Equivalents

The Company considers money market funds and other highly liquid short-term investments with a maturity of less than 90 days to be cash equivalents.

Depreciation and Amortization

Equipment is depreciated on a straight-line basis over an estimated useful life of five years. Software is amortized over three years.

Distributions to Shareholders

Dividends payable to shareholders are recorded on the ex-dividend date.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Federal Income Taxes

For the periods ended December 31, 2005 and 2004, the Company is taxed under Subchapter C of the Internal Revenue Code and therefore is subject to corporate-level federal and state income tax.

The Company accounts for income taxes in accordance with the provisions of Financial Accounting Standards No. 109, *Accounting for 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 bases 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.

Organization Expenses

Organization expenses, totaling $15,000, were expensed upon commencement of operations.

Offering Costs and Placement Fees

Offering costs and placement fees are charged to paid-in capital when shares of the Company are issued. Offering costs and placement fees totaled approximately $7.7 million and $2.9 million for the periods ended December 31, 2005 and 2004, respectively.

Stock-Based Compensation

The Company follows Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment (FAS 123R)*, to account for stock options granted. Under FAS 123R, compensation expense associated with stock based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

Earnings per share

Basic earnings per share is computed by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed by dividing such net income by the sum of the weighted average number of shares outstanding for the period, the dilutive effect of potential shares that could occur upon exercise of warrants and common stock options.

Segments

The Company lends to and invests in customers in various sectors of technology-related and life-sciences sectors. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment. All segment disclosures are included in or can be derived from the Company s consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investments

A summary of the composition of the Company s investment portfolio as of December 31, 2005 and 2004 at fair value is shown as follows:

	December 31, 2005		December 31, 2004	
($ in millions)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior debt with warrants	$ 163.4	92.4%	$ 12.7	76.0%
Subordinated debt	8.4	4.8%	4.0	24.0%
Preferred stock	3.5	2.0%		
Common stock	1.4	0.8%		
	$ 176.7	100.0%	$ 16.7	100.0%

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

	December 31, 2005		December 31, 2004	
($ in millions)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
United States	$ 159.9	90.5%	$ 16.7	100.0%
Canada	16.8	9.5%		
	$ 176.7	100.0%	$ 16.7	100.0%

During the periods ended December 31, 2005 and 2004, the Company purchased debt investments totaling approximately $175.3 million and $16.7 million, respectively. During the year ended December 31, 2005, the Company exercised an equity participation right with one portfolio company and converted $1,000,000 of debt to equity. In addition, during 2005, the Company purchased equity securities totaling $2.5 million and exercised a warrant for common shares in one public company. The common shares had a fair value of approximately $1.4 million at December 31, 2005. Security transactions are recorded on the trade-date basis.

4. Credit Facility

On April 12, 2005, the Company entered into a bridge loan credit facility (the Bridge Loan Credit Facility or the Loan) with Alcmene Funding, L.L.C. (Alcmene), a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of the Company. The Loan is a $25 million senior secured term loan, which allows for up to an additional $25 million of discretionary supplemental senior secured loans. The Loan matures on April 12, 2006 and is secured by a first lien on all of the Company s assets, except loans pledged under the Securitization Agreement (See Note 5) which are secured by a second lien. The Loan may be prepaid at any time by the Company without penalty. The Loan contains a mandatory pay-down provision requiring the Company to turn over to Alcmene all principal payments received by the Company from portfolio companies if at such time the Company has less than $5 million in cash or cash equivalents on hand. At December 31, 2005, there was $25 million outstanding under the Loan. The average debt outstanding under the Credit Facility in 2005 was approximately $18.0 million and the average interest rate was approximately 9.02% per annum.

The interest rate on borrowings under the Loan was set at 8% per annum for the initial six-month period. On August 1, 2005, the Company amended the Loan with an agreement extending the term of the Bridge Loan

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facility to April 12, 2006. The amendment eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. At December 31, 2005, the interest rate on the loan was 9.76% per annum. The loan fees are being amortized over the remaining four-month period. See Note 16.

5. Securitization Agreement

On August 1, 2005, the Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a $100 million securitized credit facility (the Citigroup Facility) with Citigroup Global Markets Realty Corp. (Citigroup). The Company s ability to make draws on the Citigroup Facility expires on July 31, 2006 unless extended prior to such date for an additional 364-day period with the lenders consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January 2007. The Citigroup Facility is collateralized by loans from the Company s portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. In addition, the Citigroup Facility provides that Citigroup shall have a participation right equal to 10% of any realized gains, to a maximum of $3.0 million, on equity instruments included in the loan collateral. At December 31, 2005, the Company had recorded an accrued liability for approximately $59,000 for amounts owed to Citigroup on the sale of common stock of one portfolio company. In addition, the Company has recorded an accrued liability of approximately $342,000 related to unrealized gains on equity investments currently included in the collateral pool.

Interest on borrowings under the Citigroup Facility will be paid monthly and will be charged at one-month LIBOR plus a spread of 1.65%. The Company also paid a loan origination fee equal to 0.25% of the Citigroup Facility and will be subject to an unused commitment fee of 0.50% until the earlier of the Company borrowing $50.0 million under the facility or February 1, 2006, and 0.25% thereafter. At December 31, 2005, the interest rate on the loan was 6.04% per annum. See Note 16.

At December 31, 2005, the Company, through its special purpose entity (SPE), had transferred pools of loans with a face value of approximately $103.6 million to Citibank and had drawn $51.0 million under the facility. Transfers of loans have not met the requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Citigroup Facility in 2005 was approximately $2.3 million and the average interest rate was approximately 6.42% per annum.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

The benefit from (provision for) taxes on earnings was as follows (in thousands):

	Years Ended December 31,	
	2005	**2004**
Federal:		
Current	$ 1,365.0	$
Deferred	(1,266.0)	
	99.0	
State:		
Current	344.0	
Deferred	(188.0)	
	156.0	
Foreign withholding tax		
Total benefit from (provision for) income taxes	$ 255.0	$

At December 31, 2004, the Company had deferred tax assets of approximately $785,718 which were fully reserved with a tax valuation allowance. During 2005, the prior year s deferred tax asset was fully utilized. Additionally during 2005, the Company determined that it is more likely than not that certain future tax benefits will be realized as a result of historic and current income, and the prospects of future taxable income due to uncertainties that exist regarding the Company s ability to qualify as a RIC as of December 31, 2006.

Deferred tax assets are related to the following (in thousands):

	Years Ended December 31,	
	2005	**2004**
Net operating loss carryforwards	$	$ 535.0

Capitalized assets	2.0	5.0
Expenses not currently deductible	1,452.0	246.0
Gross deferred tax asset	1,454.0	786.0
Valuation allowance		(786.0)
Net deferred tax asset	$ 1,454.00	$

A reconciliation of the statutory U.S. federal income tax rate to the Company s effective rate is as follows:

	Years Ended December 31,	
	2005	**2004**
Tax at federal statutory rate	35.0%	35.0%
State, net of federal benefit	5.7	5.8
Other Items	3.4	
Change in valuation allowance	(33.3)	(40.8)
Total	10.8%	%

As of December 31, 2005, the Company had no net operating loss carryforwards.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company intends to seek to be treated as a RIC when it files its December 31, 2006 tax return. If the Company meets the required qualifications as a RIC, any income timely distributed to its shareholders will not be subject to corporate level federal taxes in those periods that the Company qualifies as a RIC. As such, the deferred tax asset of approximately $1.4 million may have to be charged against earnings as there would be no federal tax expense to offset the deferred tax asset. As of December 31, 2005, the impact of charging off the deferred tax asset would be to reduce the Company s NAV from $11.67 to $11.52.

7. Shareholders Equity

The Company is authorized to issue 30,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

On February 2, 2004, the Company sold 600 shares of convertible preferred stock for gross proceeds of $2,750,000 ($2,575,000 net of the placement fee of $175,000) to officers of the Company and JMP Group LLC (JMPG), an affiliate of the placement agent.

In June 2004, the Company sold in a private placement, 904,635 units for gross proceeds of $26,614,080 ($23,864,955 net of placement fees and offering costs of $2,749,125), and all the convertible preferred stock was converted into 125,000 units on a 208.3333-for-1 basis. Each unit consisted of two shares of common stock, which were accompanied by a warrant to purchase one share of common stock within one year (the 1 Year Warrant), and a warrant to purchase one share of common stock within five years (the 5 Year Warrant). Each warrant had an exercise price of $15.00 per share through January 13, 2005. As of December 31, 2004, there were no authorized shares of preferred stock.

In conjunction with the Company s decision to elect to be regulated as a BDC, approximately 55% of the 5 Year Warrants were subject to mandatory cancellation under the terms of the Warrant Agreement with the warrant holder receiving one share of common stock for every two warrants cancelled and the exercise price of all warrants was adjusted to the then current net asset value of the common stock, subject to certain adjustments described in the Warrant Agreement. In addition, the 1 Year Warrants became subject to expiration immediately prior to the Company s election to become a BDC, unless exercised. On January 14, 2005, the Company notified all shareholders of its intent to elect to be regulated as a BDC and reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57. On February 22, 2005, the Company cancelled 47% of all outstanding 5 Year Warrants and issued 298,598 shares of common stock to holders of warrants upon exercise. In addition, the majority of shareholders owning 1 Year Warrants exercised them, and purchased 1,175,963 of common shares at $10.57 per share, for total consideration to the Company of $12,429,920. All unexercised 1 Year Warrants were then cancelled.

On January 26, 2005, the CEO, the President, and four employees purchased 40,000, 13,500, and 8,567 units for $1,200,000, $405,000 and $257,010, respectively. On January 26, 2005, JMPG also purchased 72,000 units for $2,008,800, which number is net of a placement fee of $151,200, which was paid to an affiliate of JMPG.

On June 9, 2005, the Company raised approximately $70.9 million, net of offering costs, from an IPO of 6,000,000 shares of its common stock.

On September 7, 2005, the Company registered 3,801,905 shares of common stock and 673,223 5-year warrants pursuant to its obligations under a registration rights agreement between the Company and certain shareholders. Prior to registration, the common stock and warrants were restricted securities within the meaning of the Securities Act of 1933. The Company did not receive any proceeds from the registration of these securities.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of activity in the 1 Year and 5 Year Warrants initially attached to units issued for the periods ended December, 2005 and 2004 is as follows:

	One-Year Warrants	Five-Year Warrants
Warrants outstanding at February 2, 2004		
Warrants issued in June 2004	1,029,635	1,029,635
Warrants outstanding at December 31, 2004	1,029,635	1,029,635
Warrants issued in January 2005	134,067	134,067
Warrants cancelled in February 2005	(83,334)	(547,030)
Warrants exercised in February 2005	(1,080,368)	
Warrants outstanding at December, 2005		616,672

Common stock is reserved is as follows:

	December 31, 2005	December 31, 2004
Stock options and warrants	7,904,405	5,000,000
Warrants issued in June 2004	616,672	2,059,270
Common stock reserved at December, 2005	8,521,077	7,059,270

8. Equity Incentive Plan

The Company has authorized and adopted an equity incentive plan (the 2004 Plan) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan as amended and approved by the shareholders in 2005, the Company is authorized to issue 8,000,000 shares of common stock under the 2004 Plan. Unless terminated earlier by the Company s Board of Directors, the 2004 Plan will terminate on June 9, 2014, and no additional awards may be made under the 2004 Plan after that date.

In 2004, each employee stock option to purchase two shares of common stock was accompanied by a warrant to purchase one share of common stock within one year and a warrant to purchase one share of common stock within five years. Both options and warrants had an exercise price of $15.00 per share on date of grant. On January 14, 2005, the Company notified all shareholders of its intent to elect to be regulated as a BDC and reduced the exercise price of all remaining 1 and 5 Year Warrants from $15.00 to $10.57 but did not reduce the strike price of the options (see Note 7). The unexercised one-year warrants expired and 55% of the five-year warrants were cancelled immediately prior to the Company s election to become a BDC.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company s common stock options and warrant activity under the 2004 Plan for the periods ended December 31, 2005 and 2004, is as follows:

	Common Stock Options	One-Year Warrants	Five-Year Warrants
Outstanding at February 2, 2004 (commencement of operations)			
Granted 2004	273,436	106,718	106,718
Exercised 2004			
Expired 2004			
Outstanding, December 31, 2004	273,436	106,718	106,718
Granted 2005	1,270,000		
Exercised 2005		(95,595)	
Cancelled 2005	(206,000)	(11,123)	(50,167)
Expired 2005			
Outstanding, December 31, 2005	1,337,436		56,551
Weighted-average exercise price at December 31, 2005	$ 13.32		$ 10.57

All of the options granted in 2004 are 100% vested on the date of grant, except for options granted to directors to acquire 30,000 shares which were cancelled in 2005 and options to acquire 16,000 shares granted to employees in December 2004. Options generally vest 25% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At December 31, 2005 options for 202,827 shares were exercisable at a weighted average exercise price of $15.00 per share with a weighted average exercise term of 5.5 years. The outstanding five year warrants have an expected life of five years.

The Company determined that the fair value of options and warrants granted during the periods ended December 31, 2005 and 2004 was approximately $1,427,000 and $865,000. During the periods ended December 31, 2005 and 2004, $252,000 and $680,000 of share-based cost was expensed, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements for 2005 was approximately $325,000 and no tax benefit was recognized in 2004. The fair value of options granted in 2005 and 2004 was based upon a Black-Scholes option pricing model using the assumptions in the following table:

	2005	2004

Expected volatility	25%	0%
Expected dividends	8%	0%
Expected term (in years)	4.5	5.0
Risk-free rate	3.88-4.06%	3.9%

9. Earnings per Share

Shares used in the computation of the Company s basic and diluted earnings (loss) per share are as follows:

	2005	2004
Weighted average common shares outstanding	6,939,000	1,187,000
Dilutive effect of warrants	77,000	
Dilutive effect of convertible preferred stock		106,000
Weighted average common shares outstanding, assuming dilution	7,016,000	1,293,000

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of warrants. The Company has excluded all outstanding stock options from the calculation of diluted net income per share because these securities are antidilutive for all periods presented. These excluded common share equivalents could be dilutive in the future. Options for approximately 1,337,000 and 273,000 shares of common stock have been excluded for the periods ended December 31, 2005 and 2004, respectively.

10. Related-Party Transactions

In January 2005, the Chief Executive Officer (CEO), the President, JMPG and four employees purchased 40,000, 13,500, 72,000 and 8,567 units for $1,200,000, $405,000, $2,008,800 and $257,010, respectively. On January 26, 2005, JMPG also purchased 72,000 units for $2,008,800, which is net of an underwriting discount of $151,200. Each unit consisted of two shares of our common stock, a 1 Year Warrant and a 5 Year Warrant.

The Henriquez Family Trust (the Trust) and Glen C. Howard, President of the Company (the President) were each issued 100 shares of Series A-2 convertible preferred stock (Series A-2) for a total of $250,000 in February 2004. The Trust is affiliated with Manuel A. Henriquez, Chairman of the Board of Directors and CEO.

JMPG, formerly known as Jolson Merchant Partners Group, LLC, purchased 400 shares of Series A-1 convertible preferred stock (Series A-1) in February 2004 for $2,500,000 and, in connection therewith, the Company paid a placement fee of $175,000 to JMP Securities LLC (JMP), the placement agent for such offering and a wholly-owned subsidiary of JMPG. The CEO owns approximately 0.1% of the fully diluted equity of JMPG.

The Series A-1 and Series A-2 shares described above were sold at a price of $6,250 and $1,250 per share, respectively, to reflect the fact that Series A-1 shares have separate preferential voting rights, and a preference on any distribution of assets over Series A-2.

On June 8, 2005, the Company entered into an Underwriting Agreement with JMP Securities LLC pursuant to which JMP Securities LLC served as the lead underwriter in the Company s initial public offering completed on June 9, 2006. The Company paid JMP Securities LLC a fee of approximately $3.8 million in connection with their services as the lead underwriter.

11. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the Company s investee companies. The balance of unused commitments to extend credit at December 31, 2005 totaled approximately $30.2 million. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 31, 2006. Total expense amounted to approximately $221,000 and $102,000 during the periods ended December 31, 2005 and 2004. Future minimum rental commitments totaled $244,000 as of December 31, 2005, all of which are due in 2006.

12. Concentrations of Credit Risk

The Company s customers are primarily small and medium sized companies in the biopharmaceutical, communications and networking, consumer and business products, electronics and computers, medical device, semicondutor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The largest companies vary from year to year 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 customers. At December 31, 2005, the Company s ten largest customers represented approximately 58.7% of the total fair value of its investments. The Company had six investments that represent 5% or more of the fair value of its investments at December 31, 2005. At December 31, 2005, the Company had seven equity investments which represented 100% of the total fair value of its equity investments and each represents 5% or more of the total fair value of such investments.

13. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the eight quarters ended with the quarter ended December 31, 2005. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of the results for the full year or for any future quarter.

	Quarter Ended			
	3/31/05	6/30/05	9/30/05	12/31/05
Investment income	$ 753,973	$ 1,912,824	$ 3,659,998	$ 4,339,848
Net investment income (loss) before provision for income tax expense	$ 32,370	$ (333,597)	$ 884,834	$ 941,171
Net income	$ 32,370	$ 709,795	$ 1,561,924	$ (199,524)
Net income per common share basic	$ 0.01	$ 0.14	$ 0.16	$ (0.02)

	Quarter Ended			
	3/31/2004(1)(2)	6/30/04	9/30/04	12/31/04
Investment income	$ 2,435	$ 2,822	$ 49,418	$ 159,425
Net investment income (loss) before provision for income tax expense	$ (166,915)	$ (993,029)	$ (335,823)	$ (546,055)
Net income (loss)	$ (166,915)	$ (993,029)	$ (335,823)	$ (546,055)
Net income per common share basic	$	$ (5.43)	$ (0.16)	$ (0.27)

(1) Operations commenced February 2, 2004.
(2) There were no common shares outstanding in the first quarter of 2004.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Financial Highlights

Following is a schedule of financial highlights for the years ended December 31, 2005, and for the period from February 2, 2004 (commencement of operations) to December 31, 2004:

	Year Ended December 31, 2005	Period from February 2, 2004 (commencement of operations) to December 31, 2004
Per share data:		
Net asset value at beginning of period	$ 12.18	$ 13.19[1]
Net investment income (loss)	0.18	(0.99)
Net realized gain on investments	0.07	
Net unrealized appreciation	0.05	
Total from investment operations	0.30	(0.99)
Net decrease in net assets from capital share transactions	(0.82)	(0.35)[2]
Dividends paid	(0.03)	
Stock-based compensation expense included in investment loss [3]	0.04	0.33
Net asset value at end of period	$ 11.67	$ 12.18
Ratios and supplemental data:		
Per share market value at end of period [4]	$ 11.99	$
Total return	-7.58%[6]	N/A
Shares outstanding at end of period	9,801,965	2,059,270
Weighted average number of common shares outstanding	6,939,000	1,187,000
Net assets at end of period	$ 114,352,330	$ 25,078,133
Ratio of operating expense to average net assets	11.57%	8.81%[7]
Ratio of net investment income/(loss) before provision for income tax expense and investment gains and losses to average net assets	1.93%	7.95%[7]
Average debt outstanding	$ 20,284,932	$
Weighted average debt per common share outstanding	$ 2.92	$
Portfolio turnover	0.60%	0.00%

(1) On June 29, 2004, the Company completed its sale of common stock in a private placement at $15.00 per share ($13.19 per share net of offering costs).

(2) Immediately after the private placement of common stock in June 2004, 600 convertible preferred shares were converted into 125,000 units (see Note 7).

(3)

Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to Financial Accounting Standards No. 123 (revised 2004), net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(4) The Company completed the initial public offering of its common stock in June 2005, therefore, no market value data is presented as of December 31, 2004.

(5) The total return for the period ended December 31, 2005; is for a shareholder who owned common shares throughout the period, and received one additional common share for every two 5 Year Warrants cancelled. Shareholders who purchased common shares on January 26, 2005, exercised 1 Year Warrants, or purchased common shares in the initial public offering will have a different total return. The Company completed its initial public offering on June 11, 2005, prior to that date shares were issued in a private placement.

(6) Total market value is the return to an investor who participated in the June 2005 initial public offering and purchased shares at $13.00 per share ($12.18 per share net of offering costs). As no common shares were publicly traded during the period ended December 31, 2004, market value total investment return is not presented.

(7) Not annualized.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Indemnification

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

16. Subsequent Events

At December 31, 2005, the Company reduced the fair value of an investment in one portfolio company by approximately $3.3 million to the expected realizable fair value of $1.3 million. In January 2006, the principle assets of the portfolio company were sold, and the Company received a cash distribution of approximately $1.3 million. Terms of the asset sale agreement call for two additional contingent payments of up to $500,000 from which we are entitled to received approximately $350,000 each, but the condition of the agreement, make receipt of payments uncertain and the Company will account for any future receipts as loss recoveries at the time of payment. On February 6, 2006, the Company received an additional cash distribution of $239,000 which will be accounted for as a loss recovery in the first quarter of 2006.

In December 2005, the Company declared a dividend of $0.30 per share for shareholders of record on January 6, 2006. The dividend payment totaling approximately $2.9 million was distributed to shareholders on January 27, 2006.

On January 19, 2006, the Company filed a registration statement with the SEC to sell approximately 3.3 million shares of its common stock to existing shareholders in a Rights Offering. The final number of shares sold and the offering price will not be determined until closing of the offering which the Company anticipates will be completed in March 2006. Proceeds from the offering, if completed, will be used to invest in portfolio companies in accordance with the Company s investment objective and strategy and to pay operating expenses.

On March 6, 2006, the Company entered into an agreement to repay $10.0 million of the $25.0 million outstanding under its Bridge Loan Credit Facility. The Company also extended the maturity of the remaining $15.0 million from August 12, 2006 to June 30, 2006 and decreased the interest rate from 13.5% to 10.86% per annum.

On March 6, 2006, the Company amended the Citigroup facility with an agreement that increased the borrowing capacity under the facility to $125.0 million, increased the advance rate to 60% of eligible loans and increased the eligible capacity for loans by geographic region. The amendment allows for an interest rate of LIBOR plus 2.5% on amounts borrowed in excess of $100.0 million and an interest rate of LIBOR plus 5.0% for amounts borrowed in excess of 55% of eligible loans. The Company agreed to pay a restructuring fee of $150,000 that will be expensed ratably through maturity on July 31, 2006.

On March 6, 2006, various funds affiliated with Farallon agreed to purchase $5.0 million of the Company s common stock at a price per share equal to the NAV at February 28, 2006.

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Up to 3,275,000 Shares of Common Stock

Issuable Upon Exercise of Rights to Subscribe for Such Shares

Common Stock

PROSPECTUS

March , 2006

A.G. EDWARDS JMP SECURITIES

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PART C OTHER INFORMATION

Item 25. Financial Statements and Exhibits

1. *Financial Statements*

The following financial statements of Hercules Technology Growth Capital, Inc. (the Company or the Registrant) are included in this registration statement in Part A Information Required in a Prospectus :

AUDITED FINANCIAL STATEMENTS

2. *Exhibits*

Exhibit Number	Description
a*	Articles of Amendment and Restatement.
b*	Amended and Restated Bylaws.
d.1*	Specimen certificate of the Company s common stock, par value $.001 per share.
d.2**	Form of Subscription Certificate.
d.3**	Form of Notice of Guaranteed Delivery and Form of Beneficial Owner Certification.
d.4**	Form of Subscription Agent Agreement.
e*	Form of Dividend Reinvestment Plan.
f.1*	Credit Agreement dated as of April 12, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C.
f.2*	Pledge and Security Agreement dated as of April 12, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C.
f.3***	First Amendment to Credit and Pledge Security Agreement dated August 1, 2005 between Hercules Technology Growth Capital, Inc. and Alcmene Funding L.L.C.
f.4***	Loan Sale Agreement between Hercules Funding LLC and Hercules Technology Growth Capital, Inc. dated as of August 1, 2005.
f.5***	

	Sale and Servicing Agreement among Hercules Funding Trust I, Hercules Funding LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association and Lyon Financial Services, Inc. dated as of August 1, 2005.
f.6***	Indenture between Hercules Funding Trust I and U.S. Bank National Association dated as of August 1, 2005.

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Exhibit Number	Description
f.7***	Note Purchase Agreement among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc. and Citigroup Global Markets Realty Corp. dated as of August 1, 2005.
h**	Form of Dealer Manager Agreement among the Registrant, A.G. Edwards & Sons, Inc. and JMP Securities.
i.1*	Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan (2005 Amendment and Restatement).
i.2*	Form of Incentive Stock Option Award under the 2004 Equity Incentive Plan.
i.3*	Form of Nonstatutory Stock Option Award under the 2004 Equity Incentive Plan.
j*	Form of Custody Agreement between the Company and Union Bank of California.
k.1*	Form of Registrar, Transfer Agency and Service Agreement between the Company and American Stock Transfer & Trust Company.
k.2*	Warrant Agreement dated June 22, 2004 between the Company and American Stock Transfer & Trust Company, as warrant agent.
k.3*	Side Letter dated February 2, 2004 between the Company and Jolson Merchant Partners Group LLC (now known as JMP Group LLC).
k.4*	Registration Rights Agreement dated June 22, 2004 between the Company and JMP Securities LLC.
k.5*	Letter Agreement dated February 22, 2005 between the Company and JMP Asset Management LLC.
k.6*	Letter Agreement dated February 22, 2005 between the Company and Farallon Capital Management, L.L.C.
l**	Opinion of Ropes & Gray LLP.
n.1	Consent of Ernst & Young LLP.
n.2	Consent of Ropes & Gray LLP (included in Exhibit l).
n.3	Consent of VentureOne.
p**	Subscription Agreement dated February 2, 2004 between the Company and the subscribers identified therein.
r*	Code of Ethics.

* Previously filed as part of a Registration Statement filed with the Commission on June 8, 2005 (Registration No. 333-122950).
** To be filed with pre effective amendment.
*** Previously filed as part of a Form 8-K filed with the Commission on August 5, 2005.

Item 26. Marketing Arrangements

See the Form of Dealer Manager Agreement filed as Exhibit h to this Registration Statement.

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Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses payable by us in connection with the offering (excluding placement fees):

	Amount
SEC registration fee	$ 4,031
Accounting fees and expenses	10,000
Legal fees and expenses	
Printing expenses	
Blue sky qualification fees and expenses	
Information Agent fees	
Subscription Agent s fee	
Transfer Agent s fee	
Miscellaneous	
Total	$

The amounts set forth above, except for the SEC fees, are in each case estimated.

Item 28. Persons Controlled by or Under Common Control

Hercules Technology SBIC Management, LLC is a wholly-owned subsidiary of the Company. Hercules Technology SBIC Management, LLC is the general partner of Hercules Technology II, L.P. and the Company is the sole limited partner of Hercules Technology II, L.P. Hercules Funding I LLC, a Delaware limited liability company, is a wholly-owned subsidiary of the Company. Hercules Funding I LLC holds all the ownership interests of Hercules Funding Trust I, a Delaware statutory trust. Accordingly, the Company may be deemed to control, directly or indirectly, the following entities:

Name	Jurisdiction of Organization
Hercules Technology SBIC Management, LLC	Delaware
Hercules Technology II, L.P.	Delaware
Hercules Funding I LLC	Delaware
Hercules Funding Trust I	Delaware

Item 29. Number of Holders of Securities

The following table sets forth the approximate number of record holders of the Company s common stock as of February 10, 2006.

Title of Class	Number of Record Holders
Common stock, par value $.001 per share	1,237
Warrants to purchase shares of common stock	

Item 30. Indemnification

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant s charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

The Registrant s charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate itself to indemnify any present or former director or officer or any individual who, while a director or officer of the Registrant and at its request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and, under certain circumstances and provided certain conditions have been met, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant s bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer of the Registrant and at its request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and, under certain circumstances and provided certain conditions have been met, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and, under certain circumstances and provided certain conditions have been met, advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant s employees or agents or any employees or agents of its predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Additionally, the Registrant will not indemnify any person with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in the best interests of the Registrant.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant s charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described above, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of an action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate

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jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

In addition, we have agreed to indemnify, to the maximum extent permitted by Maryland law and the 1940 Act, representatives of JMP Asset Management LLC and Farallon Capital Management, L.L.C. on terms similar to those afforded to our directors and officers under our charter and bylaws in connection with their activities in evaluating our investment opportunities prior to our election to be regulated as a business development company.

The Company carries liability insurance for the benefit of its directors and officers (other than with respect to claims resulting from the willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office) on a claims-made basis of up to $3,000,000, subject to a $250,000 retention and the other terms thereof.

The Company has agreed to indemnify the co-dealer managers against specified liabilities for actions taken in their capacities as such, including liabilities under the Securities Act of 1933, as amended.

Item 31. Business and Other Connections of Investment Advisor

Not applicable.

Item 32. Location of Accounts and Records

The Company maintains at its principal office physical possession of each account, book or other document required to be maintained by Section 31(a) of the 1940 Act and the rules thereunder.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

1. The Registrant undertakes to suspend the offer of shares until the prospectus is amended if (1) subsequent to the effective date of this registration statement, the net asset value declines more than ten percent from the net asset value as of the effective date of this registration statement, or (2) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.

2. The Registrant undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, and State of California, on the 7th day of March, 2006.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

By: /s/ MANUEL A. HENRIQUEZ

Name: **Manuel A. Henriquez**
Title: **Chairman of the Board, President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MANUEL A. HENRIQUEZ **Manuel A. Henriquez**	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 7, 2006
/s/ DAVID M. LUND **David M. Lund**	Vice President of Finance (principal financial and accounting officer)	March 7, 2006
* **Allyn C. Woodward, Jr.**	Director	March 7, 2006
* **Joseph W. Chow**	Director	March 7, 2006

The undersigned, by signing his name hereto, does sign and execute this Amendment No. 1 to the registration statement pursuant to the Power of Attorney executed by the above named directors of the Registrant and previously filed with the Securities and Exchange Commission on behalf of such directors.

*By: /s/ MANUEL A. HENRIQUEZ **Manuel A. Henriquez**	Attorney-in-fact	March 7, 2006

EXHIBIT INDEX

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b*	Amended and Restated Bylaws.
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d.3**	Form of Notice of Guaranteed Delivery and form of Beneficial Owner Certification.
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