HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 10-Q
November 08, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Quarterly Period Ended September 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 814-00702

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland **(State or Jurisdiction of** **Incorporation or Organization)**	**743113410** **(IRS Employer** **Identification No.)**
400 Hamilton Ave., Suite 310 Palo Alto, California 94301 **(Address of Principal Executive Offices)**	**94301** **(Zip Code)**

(650) 289-3060

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

On November 7, 2007, there were 32,541,080 shares outstanding of the Registrant s common stock, $0.001 par value.

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION

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

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	September 30, 2007 (unaudited)	December 31, 2006
Assets		
Investments, at value (cost of $412,824,423 and $279,946,465, respectively)	$ 415,592,166	$ 283,233,751
Deferred loan origination revenue	(5,072,929)	(3,450,971)
Cash and cash equivalents	26,185,643	16,404,214
Interest receivable	5,612,071	2,906,831
Other assets	3,767,521	2,048,384
Total assets	446,084,472	301,142,209
Liabilities		
Accounts payable	291,563	540,376
Accrued liabilities	4,215,228	4,189,011
Short-term loans payable	32,200,000	41,000,000
Long-term loans payable	19,750,000	
Total liabilities	56,456,791	45,729,387
Net assets	$ 389,627,681	$ 255,412,822
Net assets consist of:		
Par value	$ 32,539	$ 21,927
Capital in excess of par value	393,296,070	257,234,729
Deferred stock compensation	(85,206)	
Unrealized appreciation on investments	2,127,358	2,860,654
Accumulated realized losses on investments	(1,968,895)	(1,972,014)
Distributions in excess of investment income	(3,774,185)	(2,732,474)
Total net assets	$ 389,627,681	$ 255,412,822
Shares of common stock issued and outstanding ($0.001 par value, 60,000,000 authorized)	32,539,413	21,927,034
Net asset value per share	$ 11.97	$ 11.65

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(unaudited)

Portfolio Company	Industry	Type of Investment(1)(6)	Principal Amount	Cost(2)	Value(3)
Acceleron Pharmaceuticals, Inc. (0.98%)*(4)	Drug Discovery	Senior Debt Matures June 2009 Interest rate 10.25%	$ 3,453,566	$ 3,392,953	$ 3,392,953
		Preferred Stock Warrants		69,106	401,792
		Preferred Stock Warrants		34,996	27,295
Acceleron Pharmaceuticals, Inc. (0.29%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc.				4,497,055	4,933,152
Aveo Pharmaceuticals, Inc. (3.39%)(4)	Drug Discovery	Senior Debt Matures September 2009 Interest rate 10.75%	$ 13,200,600	13,092,139	13,092,139
		Preferred Stock Warrants		144,056	71,448
		Preferred Stock Warrants		46,288	28,399
Total Aveo Pharmaceuticals, Inc.				13,282,483	13,191,986
Elixir Pharmaceuticals, Inc. (3.85%)(4)	Drug Discovery	Senior Debt Matures June 2010 Interest rate Prime + 2.45%	$ 15,000,000	14,823,726	14,823,726
		Preferred Stock Warrants		217,167	187,521
Total Elixir Pharmaceuticals, Inc.				15,040,893	15,011,247
EpiCept Corporation (2.23%)(4)	Drug Discovery	Senior Debt Matures August 2009 Interest rate 11.70%	$ 8,233,370	7,739,409	7,739,409
		Short Term Receivable		166,747	513,824
		Common Stock Warrants		423,380	435,852
Total EpiCept Corporation				8,329,536	8,689,085
Inotek Pharmaceuticals Corp. (0.38%)	Drug Discovery	Preferred Stock		1,500,000	1,500,000
Total Inotek Pharmaceuticals Corp.				1,500,000	1,500,000
Memory Pharmaceticals Corp. (2.60%) (4)	Drug Discovery	Senior Debt Matures February 2011 Interest rate 11.45%	$ 11,000,000	9,485,266	9,485,266
		Common Stock Warrants		1,750,585	660,796
Total Memory Pharmaceticals Corp.				11,235,851	10,146,062
Merrimack Pharmaceuticals, Inc. (1.13%)(4)	Drug Discovery	Convertible Senior Debt Matures October 2008 Interest rate 11.15%	$ 3,878,618	3,836,910	4,026,910
		Preferred Stock Warrants		155,456	371,265
Total Merrimack Pharmaceuticals, Inc.				3,992,366	4,398,175
Neosil, Inc. (0.51%)	Drug Discovery	Senior Debt Matures May 2010 Interest rate 10.75%	$ 2,000,000	1,928,716	1,928,716

		Preferred Stock Warrants		82,782	73,560
Total Neosil, Inc.				2,011,498	2,002,276
Paratek Pharmaceuticals, Inc. (0.93%)(4)	Drug Discovery	Senior Debt			
		Matures June 2008			
		Interest rate 11.10%	$ 3,646,251	3,615,719	3,615,719
		Preferred Stock Warrants		137,396	
Total Paratek Pharmaceuticals, Inc.				3,753,115	3,615,719
Portola Pharmaceuticals, Inc. (3.86%)(4)	Drug Discovery	Senior Debt			
		Matures September 2010			
		Interest rate Prime + 1.75%	$ 15,000,000	14,884,753	14,884,753
		Preferred Stock Warrants		151,557	187,760
Total Portola Pharmaceuticals, Inc.				15,036,310	15,072,513

4

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment(1)(6)	Principal Amount	Cost(2)	Value(3)
Sirtris Pharmaceuticals, Inc. (2.73%)(4)	Drug Discovery	Senior Debt			
		Matures April 2011			
		Interest rate 10.60%	$ 9,638,950	$ 9,576,770	$ 9,576,770
		Common Stock Warrants		88,829	1,044,479
Sirtris Pharmaceuticals, Inc. (0.25%)		Common Stock		500,000	968,254
Total Sirtris Pharmaceuticals, Inc.				10,165,599	11,589,503
Total Drug Discovery (23.13%)				88,844,706	90,149,718
IKANO Communications, Inc. (5.59%)		Senior Debt			
	Communications & Networking	Matures March 2011			
		Interest rate 11.00%	$ 21,700,000	21,700,000	21,700,000
		Preferred Stock Warrants		45,460	21,734
		Preferred Stock Warrants		72,344	37,651
Total IKANO Communications, Inc.				21,817,804	21,759,385
Interwise, Inc. (0.13%)(4)	Communications & Networking	Preferred Stock Warrants		268,401	500,000
Total Interwise, Inc.				268,401	500,000
Ping Identity Corporation (0.51%)(4)		Senior Debt			
	Communications & Networking	Matures June 2009			
		Interest rate 11.50%		1,849,286	1,849,286
		Preferred Stock Warrants	$ 1,875,186	51,801	149,818
Total Ping Identity Corporation				1,901,087	1,999,104
Purcell Systems, Inc. (2.15%)		Senior Debt			
	Communications & Networking	Matures June 2009			
		Interest rate Prime + 3.50%	$ 2,353,325	2,244,179	2,244,179
		Revolving Line of Credit			
		Matures June 2008			
		Interest rate Prime + 2.00%	$ 6,000,000	6,000,000	6,000,000
		Preferred Stock Warrants		122,789	105,758
Total Purcell Systems, Inc.				8,366,968	8,349,937
Rivulet Communications, Inc. (0.91%)(4)		Senior Debt			
	Communications & Networking	Matures September 2009			
		Interest rate 10.60%	$ 3,500,000	3,471,976	3,471,976
		Preferred Stock Warrants		50,710	30,369
Rivulet Communications, Inc. (0.06%)		Preferred Stock		250,000	250,000

Total Rivulet Communications, Inc.				3,772,686	3,752,345
Seven Networks, Inc. (3.08%)	Communications & Networking	Senior Debt Matures April 2010 Interest rate Prime + 3.75%	$ 10,000,000	9,856,733	9,856,733
		Revolving Line of Credit Matures April 2008 Interest rate Prime + 3.00%	$ 2,000,000	2,000,000	2,000,000
		Preferred Stock Warrants		173,967	147,419
Total Seven Networks, Inc.				12,030,700	12,004,152
Simpler Networks Corp. (1.04%)(4)	Communications & Networking	Senior Debt Matures July 2009 Interest rate 11.75%	$ 4,112,474	4,034,308	4,034,308
		Preferred Stock Warrants		160,241	
Simpler Networks Corp. (0.06%)		Preferred Stock		500,000	250,000
Total Simpler Networks Corp.				4,694,549	4,284,308
Stoke, Inc. (0.19%)	Communications & Networking	Senior Debt Matures August 2010 Interest rate 10.55%	$ 750,000	699,591	699,591
		Preferred Stock Warrants		53,374	51,133
Total Stoke, Inc.				752,965	750,724

5

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment[(1)(6)]	Principal Amount	Cost[(2)]	Value[(3)]
Tectura Corporation (5.49%)	Communications & Networking	Senior Debt Matures March 2012 Interest rate LIBOR + 6.15%	$ 9,405,625	$ 9,359,465	$ 9,359,465
		Revolving Line of Credit Matures March 2008 Interest rate LIBOR + 5.15%	$ 12,000,000	12,000,000	12,000,000
		Preferred Stock Warrants		51,067	43,456
Total Tectura Corporation				21,410,532	21,402,921
Teleflip, Inc. (0.19%)	Communications & Networking	Senior Debt Matures May 2010 Interest rate Prime + 2.75%	$ 750,000	740,660	740,660
		Preferred Stock Warrants		10,508	8,702
Total Teleflip, Inc.				751,168	749,362
Wireless Channels, Inc. (3.16%)	Communications & Networking	Senior Debt -Second Lien Matures April 2010 Interest rate 9.25%	$ 2,193,756	2,068,783	2,068,783
		Senior Debt -Second Lien Matures April 2010 Interest rate Prime + 4.25%	$ 10,117,932	10,117,932	10,117,932
		Preferred Stock Warrants		155,139	134,247
Total Wireless Channels, Inc.				12,341,854	12,320,962
Total Communications & Networking (22.56%)				88,108,714	87,873,200
Atrenta, Inc. (1.13%)[(4)]	Software	Senior Debt Matures June 2009 Interest rate 11.50%	$ 4,201,468	4,152,708	4,152,708
		Preferred Stock Warrants		102,396	177,303
		Preferred Stock Warrants		33,760	58,178
Atrenta, Inc. (0.06%)		Preferred Stock		250,000	250,000
Total Atrenta, Inc.				4,538,864	4,638,189
Blurb, Inc. (0.64%)	Software	Senior Debt Matures December 2009 Interest rate 9.55%	$ 2,500,000	2,479,870	2,479,870
		Preferred Stock Warrants		24,515	21,948
Total Blurb, Inc.				2,504,385	2,501,818
Cittio, Inc. (0.26%)	Software	Senior Debt Matures April 2010 Interest rate 11.00%	$ 1,000,000	1,000,000	1,000,000

Total Cittio, Inc.				1,000,000	1,000,000
Compete, Inc. (0.73%)[(4)]	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.50%	$ 2,667,831	2,637,636	2,637,636
		Preferred Stock Warrants		62,067	189,135
Total Compete, Inc.				2,699,703	2,826,771
Forescout Technologies, Inc. (0.71%)[(4)]	Software	Senior Debt Matures August 2009 Interest rate 11.15%	$ 2,252,971	2,215,130	2,215,130
		Revolving Line of Credit Matures August 2007 Interest rate Prime + 1.49%	$ 500,000	500,000	500,000
		Preferred Stock Warrants		57,915	41,717
Total Forescout Technologies, Inc.				2,773,045	2,756,847
GameLogic, Inc. (0.76%)[(4)]	Software	Senior Debt Matures December 2009 Interest rate Prime + 4.125%	$ 3,000,000	2,933,007	2,933,007
		Preferred Stock Warrants		92,483	65,126
Total GameLogic, Inc.				3,025,490	2,998,133

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment(1)(6)	Principal Amount	Cost(2)	Value(3)
Gomez, Inc. (0.10%)(4)	Software	Senior Debt Matures December 2007 Interest rate 12.25%	$ 389,698	$ 387,754	$ 387,754
		Preferred Stock Warrants		35,000	4,187
Total Gomez, Inc.				422,754	391,941
HighRoads, Inc. (0.01%)(4)	Software	Preferred Stock Warrants		44,466	26,081
Total HighRoads, Inc.				44,466	26,081
Intelliden, Inc. (0.68%)	Software	Senior Debt Matures February 2010 Interest rate 13.20%	$ 2,580,916	2,568,936	2,568,936
		Preferred Stock Warrants		17,542	70,272
Total Intelliden, Inc.				2,586,478	2,639,208
Oatsystems, Inc. (1.26%)(4)	Software	Senior Debt Matures September 2009 Interest rate 11.00%	$ 4,931,926	4,888,272	4,888,272
		Preferred Stock Warrants		67,484	40,386
Total Oatsystems, Inc.				4,955,756	4,928,658
Proficiency, Inc. (0.51%)(5)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,977,325	1,977,325
		Preferred Stock Warrants		96,370	
Total Proficiency, Inc.				4,073,695	1,977,325
PSS Systems, Inc. (0.90%)(4)	Software	Senior Debt Matures March 2010 Interest rate 10.74%	$ 3,500,000	3,458,752	3,458,752
		Preferred Stock Warrants		51,205	44,983
Total PSS Systems, Inc.				3,509,957	3,503,735
Savvion, Inc. (1.66%)(4)	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.45%	$ 1,485,669	1,485,668	1,485,668
		Revolving Line of Credit Matures March 2008 Interest rate Prime + 2.00%	$ 3,000,000	3,000,000	3,000,000
		Revolving Line of Credit Matures March 2008 Interest rate Prime + 3.45%	$ 1,985,000	1,985,000	1,985,000
		Preferred Stock Warrants		52,135	31,055
Total Savvion, Inc.				6,522,803	6,501,723
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants		39,339	19,602

Total Sportvision, Inc.				39,339	19,602
Talisma Corp. (0.00%)[(4)]	Software	Preferred Stock Warrants		49,000	5,710
Total Talisma Corp.				49,000	5,710
Total Software (9.42%)				38,745,735	36,715,741
Agami Systems, Inc. (1.49%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%	$ 5,753,916	5,700,185	5,700,185
		Preferred Stock Warrants		85,601	132,830
Total Agami Systems, Inc.				5,785,786	5,833,015

7

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment[(1)(6)]	Principal Amount	Cost[(2)]	Value[(3)]
Luminus Devices, Inc. (3.03%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 11,791,700	$ 11,625,291	$ 11,625,291
		Preferred Stock Warrants		183,290	114,747
		Preferred Stock Warrants		83,529	66,131
Total Luminus Devices, Inc.				11,892,110	11,806,169
NetEffect, Inc. (0.64%)	Electronics & Computer Hardware	Senior Debt Matures May 2010 Interest rate 11.95%	$ 2,500,000	2,462,264	2,462,264
		Preferred Stock Warrants		43,632	37,401
Total NetEffect, Inc.				2,505,896	2,499,665
NeoScale Systems, Inc. (0.72%)	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%	$ 2,803,049	2,787,320	2,787,320
		Preferred Stock Warrants		23,593	26,858
Total NeoScale Systems, Inc.				2,810,913	2,814,178
SiCortex, Inc. (0.51%)	Electronics & Computer Hardware	Senior Debt Matures December 2010 Interest rate 10.95%	$ 2,000,000	1,848,253	1,848,253
		Preferred Stock Warrants		164,051	141,296
Total SiCortex, Inc.				2,012,304	1,989,549
Sling Media, Inc. (0.50%)	Electronics & Computer Hardware	Preferred Stock Warrants		38,968	1,944,000
Sling Media, Inc. (0.24%)		Preferred Stock		500,000	926,152
Total Sling Media, Inc.				538,968	2,870,152
VeriWave, Inc. (1.09%)	Electronics & Computer Hardware	Senior Debt Matures May 2010 Interest rate 10.75%	$ 4,250,000	4,203,517	4,203,517
		Preferred Stock Warrants		54,230	47,032
Total VeriWave, Inc.				4,257,747	4,250,549
ViDeOnline Communications, Inc. (0.08%)[(4)]	Electronics & Computer Hardware	Preferred Stock Warrants			294,255
Total ViDeOnline Communications, Inc.					294,255

Total Electronics & Computer Hardware (8.30%)				29,803,724	32,357,532
Aegerion Pharmaceuticals, Inc. (2.57%) [4]	Specialty	Senior Debt			
	Pharmaceuticals	Matures August 2010			
		Interest rate Prime + 2.50%	$ 10,000,000	9,942,609	9,942,609
		Preferred Stock Warrants		69,207	60,691
Total Aegerion Pharmaceuticals, Inc.				10,011,816	10,003,300
Quatrx Pharmaceuticals Company (3.94%)[4]	Specialty	Senior Debt			
	Pharmaceuticals	Matures January 2010			
		Interest rate Prime + 3.00%	$ 15,467,406	15,343,457	15,343,457
		Preferred Stock Warrants		220,354	
Quatrx Pharmaceuticals Company (0.19%)		Preferred Stock		750,001	750,001
Total Quatrx Pharmaceuticals Company				16,313,812	16,093,458
Panacos Pharmaceuticals, Inc. (2.49%)	Specialty	Senior Debt			
	Pharmaceuticals	Matures January 2011			
		Interest rate 11.20%	$ 10,000,000	9,207,160	9,207,160
		Common Stock Warrants		876,297	487,817
Total Panacos Pharmaceuticals, Inc.				10,083,457	9,694,977
Total Specialty Pharmaceuticals (9.19%)				36,409,085	35,791,735

8

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment(1)(6)	Principal Amount	Cost(2)	Value(3)
BabyUniverse, Inc. (1.25%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 4,671,182	$ 4,481,468	$ 4,481,468
		Common Stock Warrants		325,224	385,054
Total BabyUniverse, Inc.				4,806,692	4,866,522
Market Force Information, Inc. (0.40%)(4)	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,419,434	1,407,523	1,407,523
		Preferred Stock Warrants		23,823	139,324
Market Force Information, Inc. (0.13%)		Preferred Stock		500,000	500,000
Total Market Force Information, Inc.				1,931,346	2,046,847
Wageworks, Inc. (0.28%)(4)	Consumer & Business Products	Preferred Stock Warrants		251,964	1,076,250
Wageworks, Inc. (0.05%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc.				501,959	1,326,245
Total Consumer & Business Products (2.11%)				7,239,997	8,239,614
Ageia Technologies, Inc. (1.42%)(4)	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 5,594,105	5,442,792	5,442,792
		Convertible Debt	123,760	123,760	123,760
		Preferred Stock Warrants		99,190	
Ageia Technologies, Inc. (0.00%)		Preferred Stock		500,000	
Total Ageia Technologies				6,165,742	5,566,552
Custom One Design, Inc. (0.26%)	Semiconductors	Senior Debt Matures September 2010 Interest rate 11.50%	$ 1,000,000	982,174	982,174
		Common Stock Warrants		18,335	18,779
Total Custom One Design, Inc.				1,000,509	1,000,953
iWatt Inc. (1.26%)(4)	Semiconductors	Senior Debt Matures September 2009 Interest rate Prime + 2.75%	$ 1,643,976	1,615,260	1,615,260
		Revolving Line of Credit Matures September 2007	$ 3,235,000	3,235,000	3,235,000

		Interest rate Prime + 1.75%			
		Preferred Stock Warrants		45,684	49,303
Total iWatt Inc.				4,895,944	4,899,563
NEXX Systems, Inc. (3.34%)(4)	Semiconductors	Senior Debt Matures February 2010 Interest rate Prime + 2.75%	$ 5,000,000	4,866,577	4,866,577
		Revolving Line of Credit Matures December 2009 Interest rate Prime + 1.75%	$ 5,000,000	5,000,000	5,000,000
		Revolving Line of Credit Matures December 2009 Interest rate Prime + 3.75%	$ 3,000,000	3,000,000	3,000,000
		Preferred Stock Warrants		164,613	135,291
Total NEXX Systems, Inc.				13,031,190	13,001,868
Quartics, Inc. (0.08%)	Semiconductors	Senior Debt Matures August 2010 Interest rate 11.05%	$ 300,000	250,050	250,050
		Preferred Stock Warrants		52,888	49,527
Total Quartics, Inc.				302,938	299,577
Solarflare Communications, Inc. (0.16%)	Semiconductors	Senior Debt Matures August 2010 Interest rate 11.75%	$ 625,000	546,307	546,307
		Preferred Stock Warrants		83,322	84,669
Solarflare Communications, Inc. (0.13%)		Preferred Stock		500,000	500,000
Total Solarflare Communications, Inc.				1,129,629	1,130,976
Total Semiconductors (6.65%)				26,525,952	25,899,489

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment(1)(6)	Principal Amount	Cost(2)	Value(3)
Labopharm USA, Inc. (0.93%)(4)(5)	Drug Delivery	Senior Debt Matures July 2008 Interest rate 11.95%	$ 3,670,363	$ 3,634,341	$ 3,634,341
Total Labopharm USA, Inc.				3,634,341	3,634,341
Transcept Pharmaceuticals, Inc. (2.08%)(4)	Drug Delivery	Senior Debt Matures October 2009 Interest rate 10.69%	$ 7,842,879	7,786,800	7,786,800
		Preferred Stock Warrants		35,630	116,775
		Preferred Stock Warrants		51,067	183,584
Transcept Pharmaceuticals, Inc. (0.13%)		Preferred Stock		500,000	500,000
Total Transcept Pharmaceuticals, Inc.				8,373,497	8,587,159
Total Drug Delivery (3.14%)				12,007,838	12,221,500
BARRX Medical, Inc. (0.38%)	Therapeutic	Preferred Stock		1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
EKOS Corporation (1.28%)	Therapeutic	Senior Debt Matures November 2010 Interest rate Prime + 2.00%	$ 5,000,000	4,846,249	4,846,249
		Preferred Stock Warrants		174,528	149,709
Total EKOS Corporation				5,020,777	4,995,958
Gynesonics, Inc. (0.45%)(4)	Therapeutic	Senior Debt Matures October 2009 Interest rate 9.50%	$ 1,699,491	1,689,461	1,689,461
		Preferred Stock Warrants		17,552	51,160
Gynesonics, Inc. (0.06%)		Preferred Stock		250,000	250,000
Total Gynesonics, Inc.				1,957,013	1,990,621
Novasys Medical, Inc. (1.94%)(4)	Therapeutic	Senior Debt Matures January 2010 Interest rate 9.70%	$ 7,545,185	7,545,185	7,545,185
Total Novasys Medical, Inc.				7,545,185	7,545,185
Power Medical Interventions, Inc. (0.01%)	Therapeutic	Common Stock Warrants		20,687	24,889
Total Power Medical Interventions, Inc.				20,687	24,889

Total Therapeutic (4.12%)				16,043,662	16,056,653
Hedgestreet, Inc. (0.73%)(4)	Internet Consumer & Business Services	Senior Debt Matures March 2009 Interest rate 11.30%	$ 2,843,477	2,819,712	2,819,712
		Preferred Stock Warrants		54,956	
Total Hedgestreet, Inc.				2,874,668	2,819,712
Invoke Solutions, Inc. (0.56%)(4)	Internet Consumer & Business Services	Senior Debt Matures December 2008 Interest rate 11.25%	$ 2,187,234	2,160,369	2,160,369
		Preferred Stock Warrants		55,864	36,778
Total Invoke Solutions, Inc.				2,216,233	2,197,147
Prism Education Group Inc. (0.51%)	Internet Consumer & Business Services	Senior Debt Matures December 2010 Interest rate 11.25%	$ 2,000,000	1,961,315	1,961,315
		Preferred Stock Warrants		42,757	36,860
Total Prism Education Group Inc.				2,004,072	1,998,175
RazorGator Interactive Group, Inc. (0.57%)(4)	Internet Consumer & Business Services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 1,651,876	1,650,789	1,650,789
		Preferred Stock Warrants		13,050	541,917
		Preferred Stock Warrants		28,478	21,930
RazorGator Interactive Group, Inc. (0.44%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				2,692,317	3,922,814

10

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment[(1)(6)]	Principal Amount	Cost[(2)]	Value[(3)]
Serious USA, Inc. (0.68%)	Internet Consumer & Business Services	Senior Debt			
		Matures February 2011			
		Interest rate Prime + 3.00%	$ 2,000,000	$ 1,913,213	$ 1,913,213
		Revolving Line of Credit			
		Matures July 2008			
		Interest rate Prime + 2.00%	$ 654,253	654,253	654,253
		Preferred Stock Warrants		93,463	87,687
Total Serious USA, Inc.				2,660,929	2,655,153
Total Internet Consumer & Business Services (3.49%)				12,448,219	13,593,001
Lilliputian Systems, Inc. (2.02%)[(4)]	Energy	Senior Debt			
		Matures March 2010			
		Interest rate 9.75%	$ 7,850,795	7,822,688	7,822,688
		Preferred Stock Warrants		48,460	28,903
Total Lilliputian Systems, Inc.				7,871,148	7,851,591
Total Energy (2.02%)				7,871,148	7,851,591
Active Response Group, Inc. (2.57%)	Information Services	Senior Debt			
		Matures March 2012			
		Interest rate LIBOR + 6.55%	$ 10,000,000	9,877,954	9,877,954
		Preferred Stock Warrants		92,080	90,622
		Common Stock Warrants		46,084	58,408
Total Active Response Group, Inc.				10,016,118	10,026,984
Buzznet, Inc. (0.29%)	Information Services	Senior Debt			
		Matures March 2010			
		Interest rate 10.25%	$ 1,000,000	993,062	993,062
		Preferred Stock Warrants		8,613	144,602
Total Buzznet, Inc.				1,001,675	1,137,664
Solutionary, Inc. (1.67%)	Information Services	Senior Debt			
		Matures June 2010			
		Interest rate LIBOR + 5.50%	$ 5,500,000	5,420,988	5,420,988
		Revolving Line of Credit			
		Matures June 2010			
		Interest rate LIBOR + 5.00%	$ 1,000,000	1,000,000	1,000,000
		Preferred Stock Warrants		93,827	81,233
Solutionary, Inc. (0.07%)		Preferred Stock		250,000	250,000
Total Solutionary, Inc.				6,764,815	6,752,221
Wallop Technologies, Inc. (0.06%)	Information Services	Senior Debt			

		Matures March 2010				
		Interest rate 10.00%	$	237,207	231,187	231,187
		Preferred Stock Warrants			7,473	6,449
Total Wallop Technologies, Inc.					238,660	237,636
Total Information Services (4.66%)					18,021,268	18,154,505
Novadaq Technologies, Inc. (0.35%)	Diagnostic	Common Stock			1,735,157	1,378,533
Total Novadaq Technologies, Inc.					1,735,157	1,378,533
Optiscan Biomedical, Corp. (0.11%)(4)	Diagnostic	Senior Debt				
		Matures March 2008				
		Interest rate 15.00%	$	412,161	396,583	396,583
		Preferred Stock Warrants			80,486	44,850
Optiscan Biomedical, Corp. (0.26%)		Preferred Stock			1,000,000	1,000,000
Total Optiscan Biomedical, Corp.					1,477,069	1,441,433
Total Diagnostic (0.72%)					3,212,226	2,819,966

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2007

(continued)

Portfolio Company	Industry	Type of Investment[1][6]	Principal Amount	Cost[2]	Value[3]
Guava Technologies, Inc. (1.57%)[4]	Biotechnology Tools	Senior Debt Matures July 2009 Interest rate Prime + 3.25%	$ 4,075,930	$ 4,010,549	$ 4,010,549
		Convertible Debt		250,000	250,000
		Revolving Line of Credit Matures December 2007 Interest rate Prime + 2.00%	$ 1,778,000	1,778,000	1,778,000
		Preferred Stock Warrants		122,109	77,970
Total Guava Technologies, Inc.				6,160,658	6,116,519
NuGEN Technologies, Inc. (0.51%)	Biotechnology Tools	Senior Debt Matures March 2010 Interest rate 11.70%	$ 2,000,000	1,962,637	1,962,637
		Preferred Stock Warrants		44,837	38,819
Total NuGEN Technologies, Inc.				2,007,474	2,001,456
Total Biotechnology Tools (2.08%)				8,168,132	8,117,975
Rubicon Technology Inc. (1.57%) [4]	Advanced Specialty Materials & Chemicals	Senior Debt Matures December 2010 Interest rate Prime + 3.375%	$ 5,100,000	5,029,435	5,029,435
		Revolving Line of Credit Matures April 2008 Interest rate Prime + 0.25%	$ 1,000,000	1,000,000	1,000,000
		Preferred Stock Warrants		81,708	69,530
Total Rubicon Technology Inc.				6,111,143	6,098,965
Total Advanced Specialty Materials & Chemicals (1.57%)				6,111,143	6,098,965
Crux Biomedical, Inc. (0.06%)	Surgical Devices	Preferred Stock		250,000	250,000
Total Crux Biomedical, Inc.				250,000	250,000
Diomed Holdings, Inc. (1.54%)	Surgical Devices	Senior Debt Matures July 2010 Interest rate Prime + 3.00%	$ 6,000,000	5,957,955	5,957,955
		Preferred Stock Warrants		43,319	43,932
Total Diomed Holdings, Inc.				6,001,274	6,001,887
Total Surgical Devices (1.60%)				6,251,274	6,251,887

Waterfront Media Inc. (1.64%) (4)	Media/Content/Info	Senior Debt Matures December 2010 Interest rate Prime + 3.00%	$ 4,000,000	3,951,938	3,951,938
		Revolving Line of Credit Matures March 2008 Interest rate Prime + 1.25%	$ 2,000,000	2,000,000	2,000,000
		Preferred Stock Warrants		59,663	447,157
Waterfront Media Inc. (0.26%)		Preferred Stock		999,999	999,999
Total Waterfront Media Inc.				7,011,600	7,399,094
Total Media/Content/Info (1.90%)				7,011,600	7,399,094
Total Investments (106.66%)				$ 412,824,423	$ 415,592,166

* Value as a percent of net assets

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

(2) Gross unrealized appreciation, gross unrealized depreciation, and net appreciation for federal income tax purposes totaled $6,791,040, $5,906,194 and $884,846, respectively.

(3) Except for warrants in six publicly traded companies and common stock in two publicly traded companies, all investments are restricted at September 30, 2007 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) Debt and warrant investments of this portfolio company have been pledged as collateral under the Credit Facility. Citigroup has an equity participation right on loans collateralized under the Credit Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $590,000 at September 30, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2007. See Note 3 Borrowings.

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

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

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2006

(unaudited)

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Acceleron Pharmaceuticals, Inc. (1.74%)*[(4)]	Biopharmaceuticals	Senior Debt			
		Matures June 2009			
		Interest rate 10.25%	$ 4,069,607	$ 3,987,624	$ 3,987,624
		Preferred Stock Warrants		69,106	417,115
		Preferred Stock Warrants		34,996	34,393
Acceleron Pharmaceuticals, Inc. (0.44%)		Preferred Stock		1,000,000	1,111,112
Total Acceleron Pharmaceuticals, Inc				5,091,726	5,550,244
Aveo Pharmaceuticals, Inc. (5.88%)[(4)]	Biopharmaceuticals	Senior Debt			
		Matures September 2009			
		Interest rate 10.75%	$ 15,000,000	14,849,099	14,849,099
		Preferred Stock Warrants		144,056	115,212
		Preferred Stock Warrants		46,288	43,771
Total Aveo Pharmaceuticals, Inc				15,039,443	15,008,082
Elixir Pharmaceuticals, Inc. (3.92%)	Biopharmaceuticals	Senior Debt			
		Matures June 2010			
		Interest rate Prime + 2.45%	$ 10,000,000	9,857,610	9,857,610
		Preferred Stock Warrants		74,755	73,334
		Preferred Stock Warrants		74,755	73,334
Total Elixir Pharmaceuticals, Inc.				10,007,120	10,004,278
EpiCept Corporation (3.84%)	Biopharmaceuticals	Senior Debt			
		Matures August 2009			
		Interest rate 11.70%	$ 10,000,000	9,312,750	9,312,750
		Common Stock Warrants		794,633	507,592
Total EpiCept Corporation				10,107,383	9,820,342
Guava Technologies, Inc. (2.26%)[(4)]	Biopharmaceuticals	Senior Debt			
		Matures July 2009			
		Interest rate Prime + 3.25%	$ 5,266,485	5,193,710	5,193,710
		Revolving Line of Credit			
		Matures December 2007			
		Interest rate Prime + 2.00%	$ 500,000	500,000	500,000
		Preferred Stock Warrants		105,399	83,940
Total Guava Technologies, Inc				5,799,109	5,777,650
Labopharm USA, Inc. (2.58%)[(4)(5)]	Biopharmaceuticals	Senior Debt			
		Matures July 2008			
		Interest rate 11.95%	$ 6,675,417	6,598,870	6,598,870
Total Labopharm USA, Inc.				6,598,870	6,598,870
Merrimack Pharmaceuticals, Inc. (2.61%)[(4)]	Biopharmaceuticals	Convertible Senior Debt			
		Matures October 2008			
		Interest rate 11.15%	$ 6,043,382	5,967,550	6,254,550
		Preferred Stock Warrants		155,456	409,159

Total Merrimack Pharmaceuticals, Inc.				6,123,006	6,663,709
Paratek Pharmaceuticals, Inc. (2.62%)[4]	Biopharmaceuticals	Senior Debt			
		Matures June 2008			
		Interest rate 11.10%	$ 6,651,586	6,586,705	6,586,705
		Preferred Stock Warrants		137,396	110,553
Total Paratek Pharmaceuticals, Inc.				6,724,101	6,697,258
Portola Pharmaceuticals, Inc. (4.41%) .	Biopharmaceuticals	Senior Debt			
		Matures September 2010			
		Interest rate Prime + 1.75%	$ 11,250,000	$ 11,145,804	$ 11,145,804
		Preferred Stock Warrants		113,668	107,489
Total Portola Pharmaceuticals, Inc				11,259,472	11,253,293
Quatrx Pharmaceuticals Company (7.05%)[4]	Biopharmaceuticals	Senior Debt			
		Matures January 2010			
		Interest rate Prime + 3.00%	$ 18,000,000	17,834,735	17,834,735
		Preferred Stock Warrants		220,354	179,708
Total Quatrx Pharmaceuticals Company				18,055,089	18,014,443
Sirtris Pharmaceuticals, Inc. (3.91%)[4]	Biopharmaceuticals	Senior Debt			
		Matures April 2011			
		Interest rate 10.60%	$ 10,000,000	9,924,495	9,924,495
		Preferred Stock Warrants		88,829	70,986
Total Sirtris Pharmaceuticals, Inc.				10,013,324	9,995,481

Table of Contents

Portfolio Company	Industry	Type of Investment(1)(7)	Principal Amount	Cost(2)	Value(3)
TransOral Pharmaceuticals, Inc. (3.92%)(4)	Biopharmaceuticals	Senior Debt			
		Matures October 2009			
		Interest rate 10.69%	$ 10,000,000	9,921,976	9,921,976
		Preferred Stock Warrants		35,630	28,265
		Preferred Stock Warrants		51,067	50,548
Total TransOral Pharmaceuticals, Inc.				10,008,673	10,000,789
Total Biopharmaceuticals (45.18%)				114,827,316	115,384,439
Atrenta, Inc. (2.03%)(4)	Software	Senior Debt			
		Matures June 2009			
		Interest rate 11.50%	$ 5,000,000	4,929,298	4,929,298
		Preferred Stock Warrants		102,396	200,285
		Preferred Stock Warrants		33,760	65,719
Atrenta, Inc. (0.10%)		Preferred Stock		250,000	250,000
Total Atrenta, Inc				5,315,454	5,445,302
Blurb, Inc. (0.10%)	Software	Senior Debt			
		Matures December 2009			
		Interest rate 9.55%	$ 250,000	237,454	237,454
		Preferred Stock Warrants		12,904	12,653
Total Blurb, Inc				250,358	250,107
Compete, Inc. (1.52%)(4)	Software	Senior Debt			
		Matures March 2009			
		Interest rate Prime + 3.50%	$ 3,884,338	3,839,045	3,839,045
		Preferred Stock Warrants		62,067	49,247
Total Compete, Inc.				3,901,112	3,888,292
Forescout Technologies, Inc. (0.78%)	Software	Senior Debt			
		Matures August 2009			
		Interest rate 11.15%	$ 2,000,000	1,950,584	1,950,584
		Preferred Stock Warrants		55,593	50,800
Total Forescout Technologies, Inc.				2,006,177	2,001,384
GameLogic, Inc. (1.17%)(4)	Software	Senior Debt			
		Matures December 2009			
		Interest rate Prime + 4.125%	$ 3,000,000	$ 2,957,416	$ 2,957,416
		Preferred Stock Warrants		52,604	41,860
Total GameLogic, Inc				3,010,020	2,999,276
Gomez, Inc. (0.48%)(4)	Software	Senior Debt			
		Matures December 2007			
		Interest rate 12.25%	$ 1,212,506	1,201,811	1,201,811
		Preferred Stock Warrants		35,000	18,832
Total Gomez, Inc.				1,236,811	1,220,643
HighRoads, Inc. (0.77%)(4)	Software	Senior Debt			
		Matures February 2009			
		Interest rate 11.65%	$ 1,954,723	1,923,844	1,923,844
		Preferred Stock Warrants		44,466	35,484
Total HighRoads, Inc				1,968,310	1,959,328
Intelliden, Inc. (1.17%)	Software	Senior Debt			
		Matures February 2010			
		Interest rate 13.20%	$ 3,000,000	2,984,169	2,984,169
		Preferred Stock Warrants		17,542	16,688

Total Intelliden, Inc.				3,001,711	3,000,857
Inxight Software, Inc. (1.60%)(4)	Software	Senior Debt Matures February 2008 Interest rate 10.00%	$ 4,073,794	4,051,059	4,051,059
		Preferred Stock Warrants		55,963	29,800
Total Inxight Software, Inc.				4,107,022	4,080,859
Oatsystems, Inc. (2.36%)(4)	Software	Senior Debt Matures September 2009 Interest rate 11.00%	$ 6,000,000	5,973,007	5,973,007
		Preferred Stock Warrants		33,742	26,881
Total Oatsystems, Inc.				6,006,749	5,999,888
Proficiency, Inc. (1.43%)(5)	Software	Senior Debt Matures July 2008 Interest rate 12.00%	$ 4,000,000	3,951,815	3,548,185
		Preferred Stock Warrants		96,370	115,977
Total Proficiency, Inc.				4,048,185	3,664,162

Portfolio Company	Industry	Type of Investment(1)(7)	Principal Amount	Cost(2)	Value(3)
Savvion, Inc. (1.58%)(4)	Software	Senior Debt Matures March 2009 Interest rate Prime + 3.45%	$ 1,000,000	1,000,000	1,000,000
		Revolving Line of Credit Matures March 2007 Interest rate Prime + 2.00%	$ 3,000,000	2,991,311	2,991,311
		Preferred Stock Warrants		52,135	41,743
Total Savvion, Inc				4,043,446	4,033,054
Sportvision, Inc. (0.01%)	Software	Preferred Stock Warrants		39,339	29,667
Total Sportvision, Inc.				39,339	29,667
Talisma Corp. (0.74%)(4)	Software	Subordinated Debt Matures December 2007 Interest rate 11.25%	$ 1,873,774	$ 1,858,802	$ 1,858,802
		Preferred Stock Warrants		49,000	25,259
Total Talisma Corp				1,907,802	1,884,061
Total Software (15.84%)				40,842,496	40,456,880
BabyUniverse, Inc. (1.90%)(4)	Consumer & Business Products	Senior Debt Matures July 2009 Interest rate Prime + 2.35%	$ 5,000,000	4,728,980	4,728,980
		Common Stock Warrants		325,224	146,299
Total BabyUniverse, Inc				5,054,204	4,875,279
Market Force Information, Inc. (0.70%)(4)	Consumer & Business Products	Senior Debt Matures May 2009 Interest rate 10.45%	$ 1,777,064	1,759,510	1,759,510
		Preferred Stock Warrants		23,823	19,197
Total Market Force Information, Inc				1,783,333	1,778,707
Wageworks, Inc. (5.89%)(4)	Consumer & Business Products	Senior Debt Matures November 2008 Interest rate Prime + 4.00%	$ 14,036,422	13,904,441	13,904,441
		Preferred Stock Warrants		251,964	1,140,998
Wageworks, Inc. (0.10%)		Preferred Stock		249,995	249,995
Total Wageworks, Inc				14,406,400	15,295,434
Total Consumer & Business Products (8.59%)				21,243,937	21,949,420
IKANO Communications, Inc. (0.03%)	Communications & Networking	Preferred Stock Warrants		45,460	33,391
		Preferred Stock Warrants		72,344	55,530

Total IKANO Communications, Inc.				117,804	88,921
Interwise, Inc. (0.83%)[(4)]	Communications & Networking	Senior Debt Matures August 2008 Interest rate 17.50%	$ 2,094,999	1,869,542	1,869,542
		Preferred Stock Warrants		268,401	244,653
Total Interwise, Inc				2,137,943	2,114,195
Pathfire, Inc. (1.84%)[(4)]	Communications & Networking	Senior Debt Matures December 2008 Interest rate Prime + 3.65%	$ 4,713,221	4,672,795	4,672,795
		Preferred Stock Warrants		63,276	16,918
Total Pathfire, Inc				4,736,071	4,689,713
Ping Identity Corporation (1.05%)[(4)]	Communications & Networking	Senior Debt Matures June 2009 Interest rate 11.50%	$ 2,569,123	2,530,953	2,530,953
		Preferred Stock Warrants		51,801	160,500
Total Ping Identity Corporation				2,582,754	2,691,453
Rivulet Communications, Inc. (1.37%)[(4)]	Communications & Networking	Senior Debt Matures September 2009 Interest rate 10.60%	$ 3,500,000	$ 3,459,966	$ 3,459,966
		Preferred Stock Warrants		50,710	40,352
Rivulet Communications, Inc. (0.10%)		Preferred Stock		250,000	250,000
Total Rivulet Communications, Inc.				3,760,676	3,750,318
Simpler Networks Corp. (2.20%)[(4)]	Communications & Networking	Senior Debt Matures July 2009 Interest rate 11.75%	$ 5,000,000	4,886,659	4,886,659
		Preferred Stock Warrants		160,241	742,688
Simpler Networks Corp. (0.20%)		Preferred Stock		500,000	500,000
Total Simpler Networks Corp.				5,546,900	6,129,347
Total Communications & Networking (7.62%)				18,882,148	19,463,947

15

Portfolio Company	Industry	Type of Investment[(1)(7)]	Principal Amount	Cost[(2)]	Value[(3)]
Adiana, Inc. (0.53%)[(4)]	Medical Devices & Equipment	Senior Debt Matures June 2008 Interest rate Prime + 6.00%	$ 1,346,551	1,312,938	1,312,938
		Preferred Stock Warrants		67,225	52,427
Adiana, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Adiana, Inc.				1,880,163	1,865,365
BARRX Medical, Inc. (0.59%)	Medical Devices & Equipment	Preferred Stock		1,500,000	1,500,000
Total BARRX Medical, Inc.				1,500,000	1,500,000
Gynesonics, Inc. (0.80%)	Medical Devices & Equipment	Senior Debt Matures October 2009 Interest rate 9.50%	$ 2,000,000	1,986,209	1,986,209
		Preferred Stock Warrants		17,552	54,735
Total Gynesonics, Inc.				2,003,761	2,040,944
Novasys Medical, Inc. (3.13%)[(4)]	Medical Devices & Equipment	Senior Debt Matures January 2010 Interest rate 9.70%	$ 8,000,000	8,000,000	8,000,000
Total Novasys Medical, Inc.				8,000,000	8,000,000
Optiscan Biomedical, Corp. (0.40%)[(4)]	Medical Devices & Equipment	Senior Debt Matures March 2008 Interest rate 15.00%	$ 1,006,259	967,314	967,314
		Preferred Stock Warrants		80,486	64,478
Optiscan Biomedical, Corp. (0.39%)		Preferred Stock		1,000,000	1,000,000
Total Optiscan Biomedical, Corp				2,047,800	2,031,792
Power Medical Interventions, Inc. (0.01%)	Medical Devices & Equipment	Common Stock Warrants		20,687	30,200
Total Power Medical Interventions, Inc.				20,687	30,200
Xillix Technologies Corp. (1.53%)[(4)(5)(6)]	Medical Devices & Equipment	Senior Debt Matures December 2008 Interest rate 12.40%	$ 3,975,834	$ 3,775,493	$ 3,775,493
		Common Stock Warrants		313,108	122,206
Total Xillix Technologies Corp				4,088,601	3,897,699
Total Medical Devices & Equipment (7.58%)				19,541,012	19,366,000
Hedgestreet, Inc. (1.67%)[(4)]	Internet Consumer & Business Services	Senior Debt Matures March 2009 Interest rate 11.30%	$ 4,263,806	4,226,674	4,226,674
		Preferred Stock Warrants		54,956	44,836
Total Hedgestreet, Inc.				4,281,630	4,271,510
Invoke Solutions, Inc. (0.97%)[(4)]	Internet Consumer & Business Services	Senior Debt Matures December 2008 Interest rate 11.25%	$ 2,466,574	2,438,574	2,438,574

		Preferred Stock Warrants		43,826	35,741
Total Invoke Solutions, Inc.				2,482,400	2,474,315
RazorGator Interactive Group, Inc. (1.25%)[(4)]	Internet Consumer & Business Services	Senior Debt Matures January 2008 Interest rate 9.95%	$ 2,637,626	2,633,276	2,633,276
		Preferred Stock Warrants		13,050	570,026
RazorGator Interactive Group, Inc. (0.67%)		Preferred Stock		1,000,000	1,708,178
Total RazorGator Interactive Group, Inc.				3,646,326	4,911,480
Total Internet Consumer & Business Services (4.56%)				10,410,356	11,657,305
Agami Systems, Inc. (2.75%)[(4)]	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 11.00%	$ 7,000,000	6,924,288	6,924,288
		Preferred Stock Warrants		85,601	79,040
Total Agami Systems, Inc.				7,009,889	7,003,328

16

Table of Contents

Portfolio Company	Industry	Type of Investment(1)(7)	Principal Amount	Cost(2)	Value(3)
Cornice, Inc. (1.44%)(4)	Electronics & Computer Hardware	Senior Debt Matures November 2008 Interest rate Prime + 4.50%	$ 3,524,664	3,459,755	3,459,755
		Preferred Stock Warrants		101,597	80,181
		Preferred Stock Warrants		35,353	27,571
		Preferred Stock Warrants		135,403	106,862
Total Cornice, Inc.				3,732,108	3,674,369
Luminus Devices, Inc. (5.88%)(4)	Electronics & Computer Hardware	Senior Debt Matures August 2009 Interest rate 12.50%	$ 15,000,000	14,765,514	14,765,514
		Preferred Stock Warrants		183,290	161,106
		Preferred Stock Warrants		83,529	83,466
Total Luminus Devices, Inc.				15,032,333	15,010,086
NeoScale Systems, Inc. (1.17%)(4)	Electronics & Computer Hardware	Senior Debt Matures October 2009 Interest rate 10.75%	$ 3,000,000	$ 2,978,373	$ 2,978,373
		Preferred Stock Warrants		23,593	22,525
Total NeoScale Systems, Inc				3,001,966	3,000,898
Sling Media, Inc. (0.56%)	Electronics & Computer Hardware	Preferred Stock Warrants		38,968	936,565
		Preferred Stock		500,000	500,000
Total Sling Media, Inc.				538,968	1,436,565
ViDeOnline Communications, Inc. (0.18%)(4)	Electronics & Computer Hardware	Senior Debt Matures May 2009 Interest rate 15.00%	$ 461,158	461,158	461,158
		Preferred Stock Warrants			
Total ViDeOnline Communications, Inc.				461,158	461,158
Total Electronics & Computer Hardware (11.98%)				29,776,422	30,586,404
Ageia Technologies, Inc. (2.76%)(4)	Semiconductors	Senior Debt Matures August 2008 Interest rate 10.25%	$ 7,027,806	6,975,456	6,975,456
		Preferred Stock Warrants		99,190	73,604
Ageia Technologies, Inc. (0.20%)		Preferred Stock		500,000	500,000
Total Ageia Technologies				7,574,646	7,549,060
Cradle Technologies (0.02%)	Semiconductors	Preferred Stock Warrants		79,150	63,647
Total Cradle Technologies				79,150	63,647
iWatt Inc. (1.27%)(4)	Semiconductors	Senior Debt Matures September 2009 Interest rate Prime + 2.75%	$ 2,000,000	1,959,537	1,959,537
		Revolving Line of Credit Matures September 2007 Interest rate Prime + 1.75%	$ 1,250,000	1,250,000	1,250,000
		Preferred Stock Warrants		45,684	41,417
Total iWatt Inc.				3,255,221	3,250,954
NEXX Systems, Inc. (1.96%)(4)	Semiconductors	Senior Debt Matures February 2010 Interest rate Prime + 2.75%	$ 4,000,000	3,919,015	3,919,015

		Revolving Line of Credit Matures December 2009 Interest rate Prime + 1.75%	$ 1,000,000	1,000,000	1,000,000
		Preferred Stock Warrants		83,116	83,938
Total NEXX Systems, Inc.				5,002,131	5,002,953
Total Semiconductors (6.21%)				15,911,148	15,866,614
Lilliputian Systems, Inc. (3.33%)(4)	Energy	Senior Debt Matures March 2010 Interest rate 9.75%	$ 8,500,000	$ 8,463,170	$ 8,463,170
		Preferred Stock Warrants		48,460	39,572
Total Lilliputian Systems, Inc.				8,511,630	8,502,742
Total Energy (3.33%)				8,511,630	8,502,742
Total Investments (110.89%)				$ 279,946,465	$ 283,233,751

---

* Value as a percent of net assets.

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

17

Table of Contents

(2) Gross unrealized appreciation, gross unrealized depreciation, and net appreciation for federal income tax purposes totaled $3,036,621, $1,632,232 and $1,404,389, respectively.

(3) Except for warrants in three publicly traded companies, all investments are restricted at December 31, 2006 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) Debt and warrant investments of this portfolio company have been pledged as collateral under the Credit Facility. Citigroup has an equity participation right on loans collateralized under the Credit Facility. The value of their participation right on unrealized gains in the related equity investments was approximately $377,000 at December 31, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at December 31, 2006.

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

(6) Debt is on non-accrual status at December 31, 2006, and is therefore considered non-income producing.

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

See notes to consolidated financial statements.

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Investment income:				
Interest	$ 13,568,843	$ 6,697,291	$ 34,396,381	$ 18,507,661
Fees	1,571,826	846,741	3,697,996	2,311,415
Total investment income	15,140,669	7,544,032	38,094,377	20,819,076
Operating expenses:				
Interest	553,466	1,420,140	3,002,716	4,455,015
Loan fees	418,660	149,677	935,080	687,158
General and administrative	1,420,055	1,436,467	4,442,223	4,040,445
Employee Compensation:				
Compensation and benefits	2,404,072	1,244,993	6,358,397	3,577,313
Stock-based compensation	295,349	175,600	841,804	428,600
Amortization of restricted stock awards	5,012		5,012	
Total employee compensation	2,704,433	1,420,593	7,205,213	4,005,913
Total operating expenses	5,096,614	4,426,877	15,585,232	13,188,531
Net investment income before provision for income taxes and investment gains and losses	10,044,055	3,117,155	22,509,145	7,630,545
Provision (benefit) for income taxes		(345,089)		643,088
Net investment income	10,044,055	3,462,244	22,509,145	6,987,457
Net realized gain (loss) on investments	49,046	(2,482,465)	3,119	(2,570,705)
Net increase (decrease) in unrealized appreciation on investments	(2,914,983)	592,860	(733,296)	3,027,251
Net realized and unrealized gain (loss)	(2,865,937)	(1,889,605)	(730,177)	456,546
Net increase in net assets resulting from operations	$ 7,178,118	$ 1,572,639	$ 21,778,968	$ 7,444,003
Net investment income before provision for income taxes and investment gains and losses per common share:				
Basic	$ 0.31	$ 0.23	$ 0.84	$ 0.63
Diluted	$ 0.31	$ 0.23	$ 0.83	$ 0.62
Change in net assets per common share:				
Basic	$ 0.22	$ 0.12	$ 0.81	$ 0.61
Diluted	$ 0.22	$ 0.11	$ 0.81	$ 0.61
Weighted average shares outstanding				
Basic	32,427,000	13,661,000	26,864,000	12,158,000
Diluted	32,526,000	13,779,000	26,992,000	12,277,000

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

	Common Stock					Accumulated		
			Capital in		Unrealized	Realized Gains	Distributions	
			excess of	Deferred Stock	Appreciation	(Losses)	in Excess of	
	Shares	Par Value	par value	Compensation	on Investments	on Investments	Investment Income	Net Assets
Balance at December 31, 2005.	9,801,965	$ 9,802	$ 114,524,833	$	$ 353,093	$ 481,694	$ (1,017,092)	114,352,330
Net increase in stockholders equity resulting from operations					3,027,251	(2,570,705)	6,987,457	7,444,003
Issuance of common shares	444,150	444	5,133,431					5,133,875
Issuance of common shares in Rights Offering, net of offering costs	3,411,992	3,412	33,825,908					33,829,320
Issuance of common stock under dividend reinvestment plan	18,211	18	211,777					211,795
Dividends declared							(10,105,104)	(10,105,104)
Stock-based compensation			428,600					428,600
Balance at September 30, 2006	13,676,318	$ 13,676	$ 154,124,549	$	$ 3,380,344	$ (2,089,011)	$ (4,134,739)	$ 151,294,819
Balance at December 31, 2006	21,927,034	$ 21,927	$ 257,234,729	$	$ 2,860,654	$ (1,972,014)	$ (2,732,474)	$ 255,412,822
Net increase in net assets resulting from operations					(733,296)	3,119	22,509,145	21,778,968
Issuance of common stock	25,001	25	348,576					348,601
Issuance of common stock in public offerings, net of offering costs	10,040,000	10,040	128,405,130					128,415,170
Issuance of common stock from warrant exercises	290,594	290	3,071,289					3,071,579
Issuance of common stock under dividend reinvestment plan	250,116	250	3,304,331					3,304,581
Issuance of common stock under restricted stock plan	6,668	7	90,211	(90,218)				
Dividends declared							(23,550,856)	(23,550,856)
Stock-based compensation			841,804	5,012				846,816
Balance at September 30, 2007	$ 32,539,413	$ 32,539	$ 393,296,070	$ (85,206)	$ 2,127,358	$ (1,968,895)	$ (3,774,185)	$ 389,627,681

See notes to consolidated financial statements (unaudited).

20

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 21,778,968	$ 7,444,003
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(219,307,006)	(133,021,298)
Principal payments received on investments	86,617,040	70,758,413
Proceeds from sale of investments	1,645,588	3,683,388
Net unrealized appreciation on investments	519,531	(3,216,279)
Net unrealized appreciation on investments due to lender	213,765	247,838
Net realized loss on investments	(3,119)	2,579,481
Accretion of loan discounts	(1,743,561)	(1,189,178)
Accretion of loan exit fees	(1,127,443)	(468,405)
Depreciation	152,074	32,959
Stock-based compensation	841,804	562,475
Common stock issued in lieu of Director compensation	348,601	
Amortization of deferred loan origination revenue	(2,138,979)	(1,970,143)
Change in operating assets and liabilities:		
Interest receivable	(1,577,797)	(269,196)
Prepaid expenses and other assets	1,769,357	(42,654)
Income tax receivable	29,294	(878,512)
Deferred tax asset		1,454,000
Accounts payable	(248,813)	227,881
Income tax payable		(1,709,000)
Accrued liabilities	(274,437)	1,492,746
Deferred loan origination revenue	3,760,937	2,807,465
Net cash used in operating activities	(108,744,196)	(51,474,016)
Cash flows from investing activities:		
Purchases of capital equipment	(146,304)	(315,336)
Other long-term assets	(1,397,619)	(381,124)
Net cash used in investing activities	(1,543,923)	(696,460)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	131,491,761	38,829,320
Dividends paid	(20,246,275)	(9,893,309)
Borrowings of credit facilities	148,250,000	40,000,000
Repayments of credit facilities	(137,300,000)	(25,000,000)
Fees paid for credit facilities and debentures	(2,125,938)	
Net cash provided by financing activities	120,069,548	43,936,011
Net increase (decrease) in cash	9,781,429	(8,234,465)
Cash and cash equivalents at beginning of period	16,404,214	15,362,447
Cash and cash equivalents at end of period	$ 26,185,643	$ 7,127,982

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company that provides debt and equity growth capital to technology-related and life-science companies at all stages of development from seed and emerging growth to expansion and established stages of development, including expanding into select publicly listed companies and lower middle market companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in the Boston, Massachusetts, Boulder, Colorado, Chicago, Illinois, Costa Mesa, California and Columbus, Ohio 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 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). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, (the Code). Effective January 1, 2006, the Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Code (see Note 4).

In January 2005, the Company formed Hercules Technology II, L.P. (HT II) and Hercules Technology SBIC Management, LLC (HTM). On September 27, 2006, HT II was licensed to operate as a Small Business Investment Company (SBIC) under the authority of the Small Business Administration (SBA). As an SBIC, the Fund is subject to a variety of regulations concerning, among other things, the size and nature of the companies in which it may invest and the structure of those investments. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner. (see Note 3).

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a securitized credit facility with Citigroup Global Markets Realty Corp. (see Note 3).

In December 2006, the Company established Hydra Management LLC and Hydra Management Co. Inc., a general partner and investment management group, respectively, should it determine in the future to pursue a relationship with an externally managed fund.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period, have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2006. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Certain prior period information has been reclassified to conform to current period presentation.

2. 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, 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 consistently applied procedures and the recommendations of the Valuation Committee of the Board of Directors. At September 30, 2007, approximately 93% of the Company s total assets represented investments in portfolio companies of which greater than 98% are valued at fair value by the Board of

Directors.

Table of Contents

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment. Fair value is 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 of debt and equity investments that do not have a readily available market value, the fair value established in good faith by the Board of Directors 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 expects to 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.

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 appreciation 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. The Board of Directors estimated 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 initial recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

As required by the 1940 Act, the Company classifies its investments by level of control. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-Control/Non-Affiliate Investments are those investments that are neither Control Investments nor Affiliate Investments. At September 30, 2007 and December 31, 2006, all of the Company s investments were in Non-Control/Non-Affiliate companies.

Security transactions are recorded on the trade-date basis.

Table of Contents

A summary of the composition of the Company s investment portfolio as of September 30, 2007 and December 31, 2006 at fair value is shown as follows:

($ in millions)	September 30, 2007 Investments at Fair Value	September 30, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
Senior debt with warrants	$ 387.8	93.3%	$ 273.2	96.5%
Preferred stock	12.7	3.1%	8.1	2.8%
Senior debt-second lien with warrants	12.3	2.9%		0.0%
Common Stock	2.8	0.7%		0.0%
Subordinated debt with warrants		0.0%	1.9	0.7%
	$ 415.6	100.0%	$ 283.2	100.0%

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

($ in millions)	September 30, 2007 Investments at Fair Value	September 30, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
United States	$ 410.0	98.7%	$ 269.0	95.0%
Canada	3.6	0.9%	10.5	3.7%
Israel	2.0	0.4%	3.7	1.3%
	$ 415.6	100.0%	$ 283.2	100.0%

The following table shows the fair value of our portfolio by industry sector at September 30, 2007 and December 31, 2006 (excluding unearned income):

($ in millions)	September 30, 2007 Investments at Fair Value	September 30, 2007 Percentage of Total Portfolio	December 31, 2006 Investments at Fair Value	December 31, 2006 Percentage of Total Portfolio
Drug discovery	$ 90.1	21.7%	$ 75.0	26.5%
Communications & networking	87.9	21.2%	19.5	6.9%
Software	36.7	8.8%	40.4	14.3%
Specialty pharmaceuticals	35.8	8.6%	18.0	6.4%
Electronics & computer hardware	32.4	7.8%	30.6	10.8%
Semiconductors	25.9	6.2%	15.9	5.6%
Information services	18.2	4.4%		0.0%
Therapeutic	16.1	3.9%	13.4	4.7%
Internet consumer & business services	13.6	3.3%	11.7	4.1%
Drug delivery	12.2	2.9%	16.6	5.9%
Consumer & business products	8.2	2.0%	21.9	7.7%
Biotechnology tools	8.1	1.9%	5.8	2.0%
Energy	7.8	1.9%	8.5	3.0%
Media/Content/Info	7.4	1.8%		0.0%
Surgical Devices	6.2	1.5%		0.0%
Advanced Specialty Materials & Chemicals	6.1	1.4%		0.0%
Diagnostic	2.9	0.7%	5.9	2.1%
	$ 415.6	100.0%	$ 283.2	100.0%

During the three and nine-month periods ended September 30, 2007, the Company made investments in debt securities totaling $35.2 million and $213.0 million, respectively. In addition, during the three and nine-month periods ended September 30, 2007, the Company made investments in equity securities of approximately $3.2 million and $6.0 million, respectively.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into fee income over the contractual life of the loan. Original discount fees are reflected as an adjustment to the loan yield. The Company had approximately $5.1 million and $3.5 million of unamortized fees at September 30, 2007 and December 31, 2006, respectively, and approximately $1.9 million and $1.0 million in exit fees receivable at September 30, 2007 and December 31, 2006, respectively.

Table of Contents

While not significant to the total debt investment portfolio, the Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the three and nine-month periods ended September 30, 2007, approximately $134,000 and $209,000 in PIK income was recorded. There was no PIK income recorded in prior periods.

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio companies assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At September 30, 2007, approximately 29 portfolio company loans were secured by a first priority security in all of the assets of the portfolio company and 41 portfolio company loans were prohibited from pledging or encumbering their intellectual property. See Part II Item 1A Risk Factors.

3. Borrowings

The Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a securitized credit facility (the Credit Facility) with Citigroup Global Markets Realty Corp. (Citigroup). On December 6, 2006, the Company amended the Credit Facility with an agreement that increased the borrowing capacity under the facility to $150.0 million. On March 30, 2007, this increase was extended to July 31, 2007, and the interest on all borrowings was reduced to LIBOR plus a spread of 1.20%. On May 2, 2007, the Company amended the Credit Facility to extend the expiration date to May 1, 2008, increased the borrowing capacity under the facility to $250.0 million and included Deutsche Bank Securities Inc. as a participant in the Credit Facility along with Citigroup Markets Realty Corp. The credit facility is a one year facility and is renewable on May 1, 2008 with an interest rate of LIBOR plus a spread of 1.20%. The Company paid a structuring fee of $375,000 which will be expensed ratably through maturity.

The Credit Facility is collateralized by loans from the Company s portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Credit Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Credit 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. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The Obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. During the nine months ended September 30, 2007, the Company recorded an additional liability and reduced its unrealized gains by approximately $214,000 to account for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $590,000 at September 30, 2007 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at September 30, 2007. Since inception of the agreement, the Company has paid Citigroup approximately $367,000 under the warrant participation agreement, thereby reducing its realized gains by that amount.

At September 30, 2007, the Company, through its special purpose entity (SPE), had transferred pools of loans and warrants with a fair value of approximately $220.7 million to Hercules Funding Trust I and had drawn $32.2 million under the Credit Facility. Transfers of loans have not met the requirements of Statement of Financial Accounting Standards (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 Credit Facility for the three and nine-month periods ended September 30, 2007 was approximately $20.8 and $52.8 million, respectively, and the average interest rates were approximately 6.69% and 6.49% respectively.

In January 2005, the Company formed HT II and HTM. HT II is licensed as a SBIC. HT II borrows funds from the SBA against eligible investments and additional deposits to regulatory capital. Under the Small Business Investment Act and current SBA policy applicable to SBICs, an SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its Regulatory Capital. As of September 30, 2007, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $127.2 million, subject to periodic adjustments by the

Table of Contents

SBA. With $63.6 million of Regulatory Capital as of September 30, 2007, HT II has the current capacity to issue up to a total of $127.2 million of SBA guaranteed debentures, subject to the payment of a 1% commitment fee to the SBA on the amount of the commitment. Currently, HT II has paid commitment fees of approximately $1.3 million and has a commitment from the SBA to issue a total of $127.2 million of SBA guaranteed debentures, of which $19.8 million was outstanding as of September 30, 2007. There is no assurance that HT II will draw up to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the two most recent fiscal years. In addition, SBICs must devote 20% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through our wholly-owned subsidiary HT II, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II is periodically examined and audited by the SBA s staff to determine its compliance with SBIC regulations. As of September 30, 2007, HT II could draw up to $127.2 million of leverage from the SBA. On April 26, 2007, HT II drew down its first borrowing of $12.0 million under the program and drew an additional $7.8 million on September 26, 2007. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six month periods. The rate for the borrowing originated from March 13, 2007 to September 10, 2007 was set by the SBA as announced on September 26, 2007 at 5.528%. The rate for borrowings made after September 10, 2007 through March 13, 2008 are based on LIBOR plus a spread of 0.30% until the next interest rate set by the SBA occurs. In addition, the SBA charges an annual fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The current annual fee is set at 0.906%. Interest payments are payable semi-annually and there are no principal payments required on these issues prior to maturity.

At September 30, 2007 and December 31, 2006, the Company had the following borrowing capacity and outstandings:

	September 30, 2007		December 31, 2006	
($ in thousands)	**Facility Amount**	**Amount Outstanding**	**Facility Amount**	**Amount Outstanding**
Credit Facility	$ 250,000	$ 32,200	$ 150,000	$ 41,000
SBA Debenture	127,200	19,750		
Total	$ 377,200	$ 51,950	$ 150,000	$ 41,000

4. Income taxes

The Company intends to continue to operate so as to qualify to be taxed as a RIC under the Code and, as such, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required, among other requirements, to distribute at least 90% of its annual investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company s earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company s dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company s stockholders. On September 17, 2007, the Company paid a dividend of $0.30 per share.

For the fiscal year ended December 31, 2006, 11.5% of the distributions to the Company s shareholders was deemed a return of capital. For the quarter ended September 30, 2007, the Company declared a distribution of $0.30 per share. The determination of the tax attributes of the Company s distributions is made annually as of the end of the Company s fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company determined the tax attributes of its distributions year-to-date as of September 30, 2007, approximately $0.88 or 98.1% would be from ordinary income and approximately $0.02 or 1.9% would be a return of capital for stockholders, however there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2007 distributions to shareholders will actually be.

Table of Contents

At March 31, 2006, as a C corporation, the Company had a deferred tax asset of approximately $181,000. During the second quarter of 2006, a full valuation reserve was recorded against this asset in anticipation that the Company would not have a future federal tax expense to offset the deferred tax asset. In addition, during the first quarter of 2006, the Company recorded a tax expense in the amount of approximately $1.8 million that was reversed in the second quarter as the Company was not subject to federal income or excise taxes in 2006. As a result, the Company recorded a tax benefit of approximately $800,000 in the second quarter of 2006.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As required, we adopted FIN 48 as of January 1, 2007. We conducted a review of all open tax year s income recognition and expense deduction filing positions and income tax returns filed (federal and state) for determination of any uncertain tax positions that may require recognition of a tax liability. This review encompassed an analysis of all book/tax difference adjustments as well as the timing of income and expense recognition for all tax years still open under the statute of limitations. As a result, we determined that it is more likely than not that each tax position taken on a previously filed return or to be taken on current tax returns will be sustained on examination based on the technical merits of the positions and therefore, no recognition of a tax liability on an uncertain tax position for FIN 48 purposes is anticipated.

5. Stockholders Equity

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

In January 2005, the Company notified its shareholders of its intent to elect to be regulated as a BDC. 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. Concurrent with the announcement of the BDC election, the Company 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 approximately $12.4 million. All unexercised 1 Year Warrants were then cancelled. The outstanding 5 Year Warrants will expire in June 2009.

A summary of activity in the 5 Year Warrants initially attached to units issued for the nine months ended September 30, 2007 is as follows:

	Five-Year Warrants
Warrants outstanding at December 31, 2006	616,672
Warrants issued	
Warrants cancelled	
Warrants exercised	(244,735)
Warrants outstanding at September 30, 2007	371,937

The Company received net proceeds of approximately $3.1 million from the exercise of the 5-Year Warrants in the period ended September 30, 2007.

On October 20, 2006, the Company raised approximately $30.0 million, net of estimated issuance costs, in a public offering of 2.5 million shares of its common stock.

Table of Contents

On December 12, 2006, the Company raised approximately $74.1 million, net of estimated issuance costs, in a public offering of 5.7 million shares of its common stock.

On January 3, 2007, in connection with the December 12, 2006 common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 840,000 shares of common stock for additional net proceeds of approximately $10.9 million.

On June 4, 2007, the Company raised approximately $102.2 million, net of issuance costs, in a public offering of 8.0 million shares of its common stock. On June 19, 2007, in connection with the same common stock issuance, the underwriters exercised their over-allotment option and purchased an additional 1.2 million shares of common stock for additional net proceeds of approximately $15.4 million.

6. Earnings per Share

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

	Three months ended September 30, 2007	2006	Nine months ended September 30, 2007	2006
Net increase in net assets resulting from operations	$ 7,178,118	$ 1,572,639	$ 21,778,968	$ 7,444,003
Weighted average common shares outstanding	32,427,000	13,661,000	26,864,000	12,158,000
Change in net assets per common share - basic	$ 0.22	$ 0.12	$ 0.81	$ 0.61
Net increase in net assets resulting from operations	$ 7,178,118	$ 1,572,639	$ 21,778,968	$ 7,444,003
Weighted average common shares outstanding	32,427,000	13,661,000	26,864,000	12,158,000
Dilutive effect of warrants and stock options	99,000	118,000	128,000	119,000
Weighted average common shares outstanding, assuming dilution	32,526,000	13,779,000	26,992,000	12,277,000
Change in net assets per common share - assuming dilution	$ 0.22	$ 0.11	$ 0.81	$ 0.61

The calculation of change in net assets per common share - assuming dilution, excludes all anti-dilutive shares. For the three months ended September 30, 2007 and 2006, the number of anti-dilutive shares, as calculated based on the weighted average closing price of our common stock for the periods, was approximately 2,142,000 and 1,858,000 shares, respectively. For the nine months ended September 30, 2007 and 2006, the number of anti-dilutive shares, as calculated based on the weighted average closing price of our common stock for the periods, was approximately 1,066,000 and 1,858,000 shares, respectively.

7. Related-Party Transactions

In conjunction with the Company s public offering completed on December 7, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately $1.2 million as co-manager of the offering. In conjunction with the over-allotment exercise completed in January 2007, the Company paid JMP Securities a fee of approximately $171,000.

During February 2007, Farallon Capital Management, L.L.C and its related affiliates and Manuel Henriquez, the Company s CEO, exercised warrants to purchase 132,480 and 75,075 shares of the Company s common stock, respectively. The exercise price of the warrants was $10.57 per share resulting in net proceeds to the company of approximately $2.2 million.

In conjunction with the Company s public offering completed on June 4, 2007 and the related over-allotment exercise, the Company agreed to pay JMP Securities LLC a fee of approximately $1.6 million as co-manager of the offering.

8. Equity Incentive Plan

The Company and its stockholders have 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, the Company is authorized to issue 7,000,000 shares of common stock. Unless terminated earlier by the Company s Board of Directors, the 2004 Plan will terminate on June 9, 2014, and no additional awards may be made under the 2004 Plan after that date.

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock.

Unless terminated earlier by the Company s Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on February 15, 2007.

Table of Contents

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

In conjunction with the amendment and in accordance with the exemptive order, on June 21, 2007 the Company made an automatic grant of shares of restricted common stock to Messrs. Badavas, Chow and Woodward, its independent Board of Directors, in the amounts of 1,667, 1,667 and 3,334 shares, respectively. The shares were issued pursuant to the 2006 Plan on July 31, 2007 and vest 33% on an annual basis from the date of grant. Deferred compensation cost of approximately $90,000 will be recognized ratably over the three year vesting period.

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 5). 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.

A summary of common stock options and warrant activity under the Company s 2004 Plan for the nine months ended September 30 is as follows:

	Common Stock Options	Five-Year Warrants
Outstanding at December 31, 2006	1,881,013	56,551
Granted	938,000	
Exercised		(45,859)
Cancelled	(36,500)	
Outstanding at September 30, 2007	2,782,513	10,692
Weighted-average exercise price at September 30, 2007	$ 13.15	$ 10.57

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At September 30, 2007 options for approximately 1.3 million shares were exercisable at a weighted average exercise price of approximately $13.15 per share with a weighted average exercise term of 4.5 years. The outstanding five year warrants have an expected life of five years.

The Company determined that the fair value of options granted during the nine month periods ended September 30, 2007 and 2006 was approximately $1.4 million and approximately $817,000, respectively. During the nine month periods ended September 30, 2007 and 2006, approximately $842,000 and $429,000 of share-based cost was expensed, respectively. As of September 30, 2007, there was $1.7 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.0 years. The fair value of options granted in 2007 and 2006 was based upon a Black-Scholes option pricing model using the assumptions in the following table for each of the nine month periods ended September 30, 2007:

	2007	2006
Expected Volatility	24%	24%
Expected Dividends	8%	8%
Expected term (in years)	4.5	4.5
Risk-free rate	4.47-4.92%	4.8-5.05%

Table of Contents

9. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30, 2007	2006
Per share data:		
Net asset value at beginning of period	$ 11.65	$ 11.67
Net investment income	0.84	0.58
Net realized gain on investments		(0.21)
Net unrealized appreciation on investments	(0.03)	0.25
Total from investment operations	0.81	0.62
Net increase/(decrease) in net assets from capital share transactions	0.38	(0.44)
Distributions	(0.90)	(0.83)
Stock-based compensation expense included in investment income (1)	0.03	0.04
Net asset value at end of period	$ 11.97	$ 11.06
Ratios and supplemental data:		
Per share market value at end of period	$ 13.27	12.83
Total return (2)	-0.56%	13.93%
Shares outstanding at end of period	32,539,413	13,676,318
Weighted average number of common shares outstanding	26,864,000	12,158,000
Net assets at end of period	$ 389,627,681	$ 151,294,819
Ratio of operating expense to average net assets (annualized)	6.69%	12.87%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets (annualized)	9.67%	7.45%
Average debt outstanding	$ 59,809,000	$ 76,458,000
Weighted average debt per common share	$ 2.23	$ 6.29
Portfolio turnover	0.45%	1.23%

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

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

10. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans, to the Company s portfolio companies. The balance of unused commitments to extend credit at September 30, 2007 totaled approximately $107.7 million. Since this commitment 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 2013. Total rent expense amounted to approximately $552,000 and $198,000 during the nine-month periods ended September 30, 2007 and 2006, respectively.

The following table shows our contractual obligations as of September 30, 2007:

Contractual Obligations[1]	Payments due by period ($ in thousands) Total	Less than 1 year [2][3]	1-3 years	3-5 years	After 5 years
Borrowings [4]	$ 51,950	$ 32,200	$	$	$ 19,750
Operating Lease Obligations	3,163	647	1,465	1,008	43
Total	$ 55,113	$ 32,847	$ 1,465	$ 1,008	$ 19,793

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

(2) Borrowings under our Credit Facility are listed based on the contractual maturity of the facility. Actual repayments could differ significantly due to prepayments by our existing portfolio companies, modifications of our current agreements with our existing portfolio companies and modification of the credit facility.

Table of Contents

(3) We also have a warrant participation agreement with Citigroup. See Note 3.

(4) Includes borrowings under our Credit Facility and the SBA debentures.

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

11. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 (FAS 157), Fair Value Measurements. Among other requirements, FAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. FAS 157 is effective for the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of FAS 157 on its financial position and results of operations. As of September 30, 2007, the Company does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

12. Subsequent Events

On October 10, 2007, the SEC granted exemptive relief permitting the Company to issue stock options to its non-employee directors pursuant to the 2006 Non-Employee Director Plan. Pursuant to the order, Messrs. Badavas and Chow were automatically granted 5,000 options each, and Mr. Woodward was automatically granted 10,000 options. All options were granted at the closing stock price of $13.40 on October 10, 2007 and vest 33% one year after the date of grant and ratably over the succeeding 24 months.

On November 1, 2007, the Board of Directors declared a dividend of $0.30 per share for the third quarter, payable on December 17, 2007 to shareholders of record as of November 16, 2007.

Table of Contents

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

Forward-Looking Statements

The information set forth in this report includes forward-looking statements. Such statements may include, but are not limited to: projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs, or plans of Hercules, as well as assumptions relating to the foregoing. The terms may, will, should, expects, plans, anticipates, could, target, projects, contemplates, believes, estimates, predicts, potential, or continue, or the negatives of these terms, or other similar e generally identify forward-looking statements.

The forward-looking statements made in this Form 10-Q speak only to events as of the date on which the statements are made. You should not place undue reliance on such forward-looking statements, as substantial risks and uncertainties could cause actual results to differ materially from those projected in or implied by these forward-looking statements due to a number of risks and uncertainties affecting its business. The forward-looking statements contained in this Form 10-Q are made as of the date hereof, and Hercules assumes no obligation to update the forward-looking statements for subsequent events.

Overview

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at all stages of development from seed and emerging growth to expansion and established development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies and lower middle market companies. We source our investments through our principal office located in Silicon Valley, as well as our additional offices in the Boston, Boulder, Chicago, Costa Mesa and Columbus areas. Additionally, we are expanding our Southern California presence, with the addition of two highly experienced technology equity venture investors and one PhD to our life sciences team during the quarter ended September 30, 2007. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life science companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of companies active in the technology and life science industries and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity investments. 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.

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

We may engage in the asset management business by providing investment advisory services to externally managed funds that may be formed in the future. We may, from time to time, serve as the investment manager of such funds and may receive management and other fees for such services. Such funds may have overlapping investment objectives and may invest in asset classes similar to those targeted by us.

Portfolio and Investment Activity

The total value of our investment portfolio was $415.6 million at September 30, 2007 as compared to $283.2 million at December 31, 2006. We have had low originations for the quarter ended September 30, 2007 as a result of seasonal slowdown, which we have experienced in the past. We expect originations and fundings to increase during the fourth quarter of 2007, as evidenced by our unfunded commitments and pending commitments of approximately $107.7 million and $133.0 million, respectively, as of September 30, 2007. During the three and nine-month periods ended September 30, 2007, we made debt commitments to eight and 37 portfolio companies totaling $40.2 million and $289.8, respectively. We funded debt investments of $35.2 million to 22 companies and $213.0 million to 61 companies during the three and nine-month periods ended September 30, 2007, respectively. During the three and nine-month periods ended September 30, 2007, we also received normal principal repayments of approximately $18.3 million and $46.1 million, and early repayments and recoveries of $16.3 million and $29.8 million from four and 11 companies, respectively. We also received pay downs of $2.0 and $11.1 million on working capital lines of credit for the three and nine-month periods ended September 30, 2007. We also made equity investments in four and ten portfolio companies totaling $3.3 million and $6.1 million during the three and nine-month periods ended September 30, 2007, respectively. At September 30, 2007, our equity investments have a fair value of approximately $15.6 million. At September 30, 2007, we had unfunded contractual commitments of $107.7 million to 28 portfolio companies. In addition, as of September 30, 2007, we executed non-binding term sheets with nine prospective portfolio companies, representing approximately $133.0 million. These proposed investments are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Total portfolio investment activity (exclusive of unearned income) as of and for the period ended September 30, 2007 was as follows:

($ in millions)	September 30, 2007
Beginning Portfolio	$ 283.2
Purchase of investments	213.0
Equity Investments	6.1
Principal payments received on investments	(46.1)
Early pay-offs and recoveries	(40.9)
Proceeds from sale of investments	(1.6)
Accretion of loan discounts	1.6
Net realized and unrealized change in investments	0.3
Ending Portfolio	$ 415.6

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2007 and December 31, 2006 (excluding unearned income):

	September 30, 2007		December 31, 2006	
($ in millions)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior debt with warrants	$ 387.8	93.3%	$ 273.2	96.5%
Preferred stock	12.7	3.1%	8.1	2.8%
Senior debt-second lien with warrants	12.3	2.9%		0.0%
Common Stock	2.8	0.7%		0.0%
Subordinated debt with warrants		0.0%	1.9	0.7%
	$ 415.6	100.0%	$ 283.2	100.0%

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

	September 30, 2007		December 31, 2006	
($ in millions)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 410.0	98.7%	$ 269.0	95.0%
Canada	3.6	0.9%	10.5	3.7%
Israel	2.0	0.4%	3.7	1.3%
	$ 415.6	100.0%	$ 283.2	100.0%

Table of Contents

The following table shows the fair value of our portfolio by industry sector at September 30, 2007 and December 31, 2006 (excluding unearned income):

	September 30, 2007		December 31, 2006	
($ in millions)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug discovery	$ 90.1	21.7%	$ 75.0	26.5%
Communications & networking	87.9	21.2%	19.5	6.9%
Software	36.7	8.8%	40.4	14.3%
Specialty pharmaceuticals	35.8	8.6%	18.0	6.4%
Electronics & computer hardware	32.4	7.8%	30.6	10.8%
Semiconductors	25.9	6.2%	15.9	5.6%
Information services	18.2	4.4%		0.0%
Therapeutic	16.1	3.9%	13.4	4.7%
Internet consumer & business services	13.6	3.3%	11.7	4.1%
Drug delivery	12.2	2.9%	16.6	5.9%
Consumer & business products	8.2	2.0%	21.9	7.7%
Biotechnology tools				