

Flexion Therapeutics Inc
Form DEFA14A
April 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant ..
Check the appropriate box:

.. Preliminary Proxy Statement
 .. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 .. Definitive Proxy Statement
 x Definitive Additional Materials
 .. Soliciting Material Pursuant to § 240.14a-12
Flexion Therapeutics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
 .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:
2. Aggregate number of securities to which transaction applies:
3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

*** Exercise Your *Right to Vote* ***

**Important Notice Regarding the Availability of Proxy Materials for the
Stockholder Meeting to Be Held on June 15, 2016.**

Meeting Information

FLEXION THERAPEUTICS, INC.

Meeting Type: Annual Meeting

For holders as of: April 19, 2016

Date: June 15, 2016

Time: 1:30 PM EDT

Location: Marriott Hotel
1 Mall Road
Burlington, MA 01803

FLEXION THERAPEUTICS, INC.

10 MALL ROAD, SUITE 301

BURLINGTON, MA 01803

You are receiving this communication because you hold shares in the above named company.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at www.proxyvote.com or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy materials and voting instructions.

Before You Vote
How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:

1. Notice & Proxy Statement 2. Annual Report

How to View Online:

Have the information that is printed in the box marked by the arrow (located on the following page) and visit: www.proxyvote.com.

How to Request and Receive a PAPER or E-MAIL Copy:

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

- 1) *BY INTERNET*: www.proxyvote.com
2) *BY TELEPHONE*: 1-800-579-1639
3) *BY E-MAIL**: sendmaterial@proxyvote.com

* If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before June 01, 2016 to facilitate timely delivery.

How To Vote

Please Choose One of the Following Voting Methods

Vote In Person: Many stockholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting, you will need to request a ballot to vote these shares.

Vote By Internet: To vote now by Internet, go to www.proxyvote.com. Have the information that is printed in the box marked by the arrow available and follow the instructions.

Vote By Mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

Voting items

The Board of Directors recommends you vote

FOR the following:

1. Election of Directors

Nominees

- 1a. Scott A. Canute
- 1b. Samuel D. Colella

The Board of Directors recommends you vote FOR the following proposal:

- 2 To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2016.

NOTE: Such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

f certain corporate and individual performance objectives discussed above. 2007 was a year of continued progress in achieving the objectives that contribute to the long-term success of the Company. The compensation committee acknowledged the fact that, while management had achieved numerous strategic investment and operational goals and objectives for the year, market conditions had resulted in a significant reduction in the Company's stock price during the latter half of 2007, which adversely affected total return to stockholders for the year.

In determining the amount of each NEO's and certain key employee's base salary the compensation committee considers the scope of their responsibilities, taking into account available competitive market compensation paid by other companies for similar positions as discussed above. The compensation committee considered the CEO's experience, performance, and contribution to our overall corporate performance when determining his base salary for 2007. Base salaries for our other NEOs and certain key employees were also set by the compensation committee, together with the CEO's input, based upon each NEO's individual experience and contribution to the overall performance of our Company.

Base salaries for our executive officers and certain key employees are intended to be competitive with the compensation paid to executives with comparable qualifications, experience and responsibilities in the same or similar businesses of comparable size. In order to attract and retain the outstanding levels of key employees that we need, the compensation committee reviews the Company's base salaries relative to those offered by our comparative group companies and venture capital funds and private equity firms, mezzanine lenders, hedge funds, and other specialty finance companies. Some variation relative to the salaries of the listed comparative group companies and venture capital funds, private equity firms, mezzanine lenders, hedge funds and other specialty finance companies, is allowed when, in the judgment of management and/or the compensation committee, as appropriate, the value of the executive's experience, performance and specific skill set justifies variation. Upon review, the compensation committee determines whether adjustments to certain NEOs' and certain key employees' salaries are necessary to realign salaries with the competitive market for a given position, to recognize NEOs' or key employees' assumption of significant additional responsibilities and related performance increases, or to achieve an appropriate compensation level due to promotion or other internal equity matters. The compensation committee makes all decisions with respect to the base salary compensation of the CEO and together with the Company's CEO evaluates and approves the Company's other NEOs and key employees. Our compensation committee meets outside of the presence of our CEO when reviewing and determining his base salary compensation.

The compensation committee approved an annual base salary increase for our CEO, effective January 1, 2007, in February of 2007, and approved an annual base salary increase, effective January 1, 2008 in February of 2008. The compensation committee approved annual base salary increases for our other NEOs in December of 2007. Salaries for our NEOs as a group were, on average, raised 21% over their beginning fiscal year 2007 base salaries which had been previously set in June 2006, and were based on changes to their responsibilities,

performance and experience, as well as competitive information from our compensation consultant. Following is a table of the annual base salaries for our NEOs as set during the preceding two years:

	Beginning Fiscal Year 2008 Base Salary	Beginning Fiscal Year 2007 Base Salary	Total Percent Increase
Manuel A. Henriquez	\$700,000	\$600,000	16.7%
David M. Lund	\$250,000	\$200,000	25.0%
H. Scott Harvey	\$210,000	\$190,000	10.5%
Samir Bhaumik	\$270,000	\$210,000	28.6%
Parag I. Shah	\$315,000	\$210,000	50.0%

Determination of 2007 Annual Cash Bonus for Our NEOs and Key Employees

Over the course of the year the compensation committee, together with input from our CEO, developed a specific bonus pool for the 2007 operating year to be available for our discretionary annual cash bonus program. The amount determined to be available for this bonus program was at the discretion of the compensation committee, and was dependent upon many factors as outlined previously, including, but not limited to, our current financial performance and performance related contributions of our NEOs and certain key employees in achieving our performance objectives.

The annual cash bonus is an at risk discretionary compensation that is designed to motivate our NEOs and key employees to achieve financial and non-financial goals that are consistent with the Company's 2007 operating plan. At risk discretionary compensation means that it is up to the compensation committee to determine whether any cash bonus amount will be awarded to any of our eligible key employees. In determining the amount of a NEO's and key employee's variable compensation the annual cash bonus the compensation committee evaluates the performance of our NEOs and certain key employees and considers the NEOs and certain key employees performance factors identified above. Within those guidelines, the compensation committee considers the overall funding available for such cash bonus awards, the performance of NEOs and certain key employees, and the desired mix between the various components of total compensation. Discretion is exercised in determining the overall total compensation to be awarded to the NEOs and certain key employees. As a result, the amounts delivered in the form of an annual cash bonus are designed to work together in conjunction with base salary to deliver an appropriate total cash compensation level to the NEOs and certain key employees.

We believe that the discretionary design of our variable cash compensation program supports its overall compensation objectives by allowing for significant differentiation of cash compensation based on executive performance and by providing the flexibility necessary to ensure that overall compensation packages for our NEOs and certain key employees are competitive relative to our market.

We typically determine and award cash bonuses for our NEOs and certain key employees during the first quarter of the following year. In evaluating the performance of our NEOs and certain key employees to arrive at their 2007 cash bonus awards, the compensation committee considered the performance factor achievements against our corporate objectives as discussed above under Assessment of Corporate Performance. In addition, the compensation committee, after considering all factors discussed above, noted that all NEOs and key employees met, or substantially achieved, all aspects of, the compensation committee's performance factors in all critical performance areas. The compensation committee also reviewed the CEO's evaluation of the NEOs and certain key employee's performance achievements. When a NEO's or key employee's performance exceeds expectations and performance goals established during the year, actual cash bonus compensation for the NEO or key employee may exceed the specified bonus pool amount at the discretion of our compensation committee.

In February 2008, after due deliberation, the compensation committee awarded the following annual cash bonuses to our NEOs relating to their performance during the year ending 12/31/2007:

	2007 Annual Cash Bonus
Manuel A. Henriquez	\$ 1,000,000
David M. Lund	\$ 160,000
H. Scott Harvey	\$ 145,000
Samir Bhaumik	\$ 336,000
Parag I. Shah	\$ 325,000

Long-term Equity Retention and Incentive Awards

Our principal objective in awarding incentive stock option and/or restricted stock awards to eligible NEOs and key employees is to retain and align each NEO's and key employee's interests with our success and the financial interests of our stockholders by linking a portion of such NEOs or key employee's compensation with the Company's long-term goals. We continue to believe that the use of stock and stock-based awards offers the best approach to achieving our retention and long-term performance goals. Our equity program is designed to encourage our key employees to work with a long-term view of the Company's performance and to reinforce their long-term affiliation with the Company by imposing vesting schedules over several years of employment. The compensation committee awards incentive stock option and/or restricted stock awards on a discretionary basis and such awards depend in each case on the performance of the executive or key employee under consideration, and in the case of new hires, their potential performance. Incentive stock option awards are priced at the closing price of the stock on the date the compensation committee meets and the grant is issued.

Determination of 2007 Long-term Equity Incentive Awards for Our NEOs

The compensation committee reviewed the performance of our NEOs and certain key employees following the end of our 2007 fiscal year relative to the long-term equity incentive and retention awards program the compensation committee administers. As a result of these deliberations, the compensation committee awarded the following long-term equity incentive and retention awards, in the form of restricted stock and stock options to our NEOs related to their 2007 year's performance as set forth in the table below. The value of the stock option awards was determined using the Black Scholes Methodology. The stock options were granted with an exercise price of \$12.20 per share which was the Company's closing stock price on February 25, 2008, the effective date of grant. Each stock option award was subject to a three year vesting schedule. The value of the restricted stock was determined to be the company's closing price on February 25, 2008, the date of the grant. Each restricted stock award was subject to a four year forfeiture schedule.

	2007 Restricted Stock Award (granted 2/25/2008)	Fair Value of Restricted Stock Awards	2007 Stock Option Award (granted 2/25/2008)	Black Scholes Value of Option Awards
Manuel A. Henriquez	56,250	\$ 686,250	250,716	\$ 232,148
David M. Lund	16,000	\$ 195,200	35,817	\$ 33,164
H. Scott Harvey	15,000	\$ 183,000	15,043	\$ 13,929
Samir Bhaumik	23,000	\$ 280,600	71,633	\$ 66,328
Parag I. Shah	36,000	\$ 439,200	204,155	\$ 189,035

Although we have no stock ownership policy, we encourage stock ownership in the Company, as we believe such ownership aligns named executive offer incentives with our best interests.

Potential Payments Upon Termination or Change of Control

Upon specified covered transactions (as defined in the 2004 Equity Incentive Plan, as amended), in which there is an acquiring or surviving entity, the Board may provide for the assumption of some or all outstanding awards, or for the grant of new awards in substitution, by the acquirer or survivor or an affiliate of the acquirer or survivor, in each case on such terms and subject to such conditions as the Board determines. In the absence of such an assumption or if there is no substitution, except as otherwise provided in the award, each award will become fully exercisable prior to the covered transaction on a basis that gives the holder of the award a reasonable opportunity, as determined by the Board, to participate as a stockholder in the covered transaction following exercise, and the award will terminate upon consummation of the covered transaction. A covered transaction includes the following: (i) a merger or other transaction in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company's then outstanding common stock by a single person or entity or by a group of persons and/or entities; (ii) a sale of substantially all of the company's assets; (iii) a dissolution or liquidation of the company; or (iv) a change in a majority of the Board's composition unless approved by a majority of the directors continuing in office.

No executive officer or employee of the Company has a written employment or severance agreement. As a result, no executive officer is entitled to any severance payments.

Compensation Committee Report

March [], 2008

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our deliberations and discussions with management, we recommend to the Board that the Compensation Discussion and Analysis be included in Hercules Technology Growth Capital, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 and the 2008 proxy statement.

Respectfully Submitted,

The Compensation Committee

Allyn C. Woodward, Jr., Chairman

Robert P. Badavas

Joseph W. Chow

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically incorporated by reference therein.

Summary Compensation Table

The following table provides information concerning the compensation of the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers for fiscal 2007 and 2006.

Name and Principal Position	Year	Salary (\$) ⁽¹⁾	Bonus (\$) ⁽²⁾	Restricted Stock Awards (\$) ⁽³⁾	Option Awards (\$) ⁽⁴⁾	All Other Compensation (\$) ^{(5) (11)}	Total (\$)
<i>Chief Executive Officer</i>							
Manuel A. Henriquez	2007	\$ 590,791	\$ 1,000,000		\$ 498,161 ⁽⁶⁾		\$ 2,088,952
	2006	466,667	1,000,000		279,200 ⁽⁶⁾		1,745,867
<i>Chief Financial Officer</i>							
David M. Lund	2007	202,083	160,000		51,263 ⁽⁷⁾		413,346
	2006	180,000	100,000		26,900 ⁽⁷⁾		306,900
<i>Chief Legal Officer</i>							
H. Scott Harvey	2007	190,000	145,000		85,961 ⁽⁸⁾		420,961
	2006	170,000	100,000		66,800 ⁽⁸⁾		336,900
<i>Senior Managing Director</i>							
Samir Bhaumik	2007	206,306	336,000		61,549 ⁽⁹⁾		603,855
	2006	195,417	25,000		43,400 ⁽⁹⁾		263,817
<i>Senior Managing Director</i>							
Parag I. Shah	2007	221,063	325,000		91,965 ⁽¹⁰⁾		638,028
	2006	195,417	272,500		41,500 ⁽¹⁰⁾		509,417

- (1) Salary column amounts represent base salary compensation received by each NEO for the listed fiscal year.
- (2) Bonus column amounts represent the annual cash bonus earned during the fiscal year and awarded and paid out during the first quarter of the following fiscal year.
- (3) The Company did not award restricted stock to any NEOs during 2007. However, pursuant to the terms of the 2004 Plan, NEOs were granted restricted stock awards during the first quarter of 2008. See the information set forth under 2004 Plan included herein.
- (4) Option Awards column amounts represent the portion of the grant date fair value of the stock option grants made to the NEOs during 2007 and in prior years that was recognized as expense for financial reporting purposes during 2007 in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payments. See Note 1 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 regarding assumptions underlying valuation of equity awards.
- (5) The Company did not make contributions to its 401(K) Plan on behalf of any of the NEOs during 2007, however it intends to do so during 2008.
- (6) Represents expense in 2007 and 2006 for options to purchase 1,152,400 shares and 702,400 shares, respectively, of our common stock issued under our 2004 Plan, as amended.
- (7) Represents expense in 2007 and 2006 for options to purchase 120,000 shares and 85,000 shares, respectively, of our common stock issued under our 2004 Plan, as amended.
- (8) Represents expense in 2007 and 2006 for options to purchase 201,000 shares and 171,000 shares, respectively, of our common stock issued under our 2004 Plan, as amended.
- (9) Represents expense in 2007 and 2006 for options to purchase 149,900 shares and 137,900 shares, respectively, of our common stock issued under our 2004 Plan, as amended.
- (10) Represents expense in 2007 and 2006 for options to purchase 217,900 shares and 137,900 shares, respectively, of our common stock issued under our 2004 Plan, as amended.
- (11) Officers do not receive any perquisites or other personal benefits from the Company.

Grants of Plan Based Awards

The following table sets forth certain information with respect to the options granted during the fiscal year ended December 31, 2007 to each of our NEOs:

Name and Principal Position	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽¹⁾	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards (\$) ⁽²⁾⁽³⁾
<i>Chief Executive Officer</i> Manuel A. Henriquez	01/25/2007		450,000	\$ 14.02	\$ 654,124
<i>Chief Financial Officer</i> David M. Lund	01/25/2007		35,000	\$ 14.02	50,876
<i>Chief Legal Officer</i> H. Scott Harvey	01/25/2007		30,000	\$ 14.02	43,608
<i>Senior Managing Director</i> Samir Bhaumik	01/25/2007		12,000	\$ 14.02	17,443
<i>Senior Managing Director</i> Parag I. Shah	01/25/2007		80,000	\$ 14.02	116,289

- (1) The Company did not grant awards of restricted stock to any of its NEOs during 2007. However, pursuant to the terms of the 2004 Plan, NEOs did receive grants of shares of restricted stock during the first quarter of 2008. See the information set forth under 2004 Equity Incentive Plan included herein.
- (2) 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.
- (3) The amounts reported in the Options Awards column represents the grant date fair value of the stock option grants made to the Named Executive Officers during 2007 in accordance with the provisions of SFAS No. 123R, Share-Base Payments. See Note 1 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 regarding assumptions underlying the valuation of equity awards.

Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding incentive stock option awards classified as exercisable and unexercisable as of December 31, 2007 for each of the named executive officers:

Name and Principal Position	Incentive Stock Option Awards				Stock Awards ⁽³⁾			
	Number of Securities Underlying Unexercised Options (#) Exercisable ⁽¹⁾	Number of Securities Underlying Unexercised Options (#) Unexercisable ⁽²⁾	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
<i>Chief Executive Officer</i>								
Manuel A. Henriquez	125,000		\$ 15.00	06/23/11				
	504,167	100,833	13.00	06/17/12				
	45,994	51,406	12.14	06/16/13				
		450,000	14.02	01/25/14				
<i>Chief Financial Officer</i>								
David M. Lund	32,222	7,778	13.00	07/15/12				
	21,250	23,750	12.14	06/16/13				
		35,000	14.02	01/25/14				
<i>Chief Legal Officer</i>								
H. Scott Harvey	12,821		15.00	06/23/11				
	117,500	23,500	13.00	06/17/12				
	14,167	15,833	12.14	06/16/13				
		30,000	14.02	01/25/14				
<i>Senior Managing Director</i>								
Samir Bhaumik	6,000		15.00	12/13/11				
	31,667	6,333	13.00	06/17/12				
	44,342	49,558	12.14	06/16/13				
		12,000	14.02	01/25/14				
<i>Senior Managing Director</i>								
Parag I. Shah	5,500		15.00	12/13/11				
	31,667	6,333	13.00	06/17/12				
	44,578	49,822	12.14	06/16/13				
		80,000	14.02	01/25/14				

(1) No options were exercised or transferred during the year ended December 31, 2007.

(2) Options expiring in 2011 to Messrs. Henriquez and Harvey were 100% vested on the date of grant. Options to Messrs. Bhaumik and Shah expiring in 2011 were 25% vested one year after the date of grant and the remainder will vest ratably over the succeeding 24 months. All other options generally vest 33% one year after the date of grant and the remainder will vest ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant.

(3) The Company did not make any stock awards during 2007. However, during 2007 the Company received an exemptive order from the SEC permitting it to award restricted stock to its employees under certain conditions, and NEOs received grants of restricted stock during the first quarter of 2008. See the information set forth under 2004 Equity Incentive Plan and Compensation of Directors included herein.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2007 with respect to compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	(a) Number of Securities	(b) Weighted-average exercise price of	(c) Number of securities remaining available for future issuance
---------------	-----------------------------	---	---

Edgar Filing: Flexion Therapeutics Inc - Form DEFA14A

	to be issued upon exercise of outstanding options, restricted stock and warrants	outstanding options, restricted stock and warrants	under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders			
2004 Equity Incentive Plan ⁽¹⁾	2,900,513	\$ 13.02	4,003,892
2006 Non-Employee Director Plan	26,668	\$ 13.43	973,332
Equity compensation plans not approved by stockholders			
Total	2,927,181	\$ 13.02	4,977,224

(1) No restricted stock awards were granted to employees during fiscal year 2007.

2004 Equity Incentive Plan

Our Board and our stockholders have approved the 2007 Amendment and Restatement of the Hercules Technology Growth Capital, Inc. 2004 Equity Incentive Plan, for the purpose of attracting and retaining the services of executive officers, directors and other key employees. Under the 2004 Plan, as amended, our compensation committee may award incentive stock options within the meaning of Section 422 of the Code, or ISOs, to employees, and nonstatutory stock options to employees and employee directors.

Under the 2004 Plan, as amended, we have authorized for issuance up to 7,000,000 shares of common stock. Participants in the 2004 Plan may receive awards of options to purchase our common stock and/or restricted shares, as determined by our compensation committee. Options granted under the 2004 Plan generally may be exercised for a period of no more than ten years from the date of grant unless the option agreement provides for an earlier expiration. Unless sooner terminated by our Board, the 2004 Plan will terminate on the tenth anniversary of its adoption and no additional awards may be made under the 2004 Plan after that date. The 2004 Plan provides that all awards granted under the plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act applicable to us.

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

Under the 2004 Plan, as amended, we are permitted to issue restricted stock to all key employees and all directors of the Company and its affiliates consistent with such terms and conditions as the compensation committee shall deem appropriate. Our compensation committee determines the time or times at which such shares of restricted stock will become exercisable and the terms on which such shares will remain exercisable. Any shares of restricted stock for which forfeiture restrictions have not lapsed at the point at which the participant terminates his employment will terminate immediately and such shares will be returned to the Company and will be available for future awards under this plan.

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

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

As of February 25, 2008 the Board granted 146,250 shares of restricted stock to our NEOs. Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah received 56,250, 16,000, 15,000, 23,000 and 36,000 shares, respectively,

2006 Non-Employee Director Plan

Our Board and our stockholders have approved the 2006 Plan, as amended. Under current SEC rules and regulations applicable to BDCs, a BDC may not grant options to non-employee directors. On February 15, 2007, we received exemptive relief from the SEC to permit us to grant options to non-employee directors as a portion of their compensation for service on our Board. The following is a summary of the material features of the 2006 Plan.

The Company has instituted the 2006 Plan for the purpose of advancing the interests of the Company by providing for the grant of awards under the 2006 Plan to eligible non-employee directors. The 2006 Plan authorizes the issuance to non-employee directors of non-statutory stock options (NSOs) to purchase shares of common stock at a specified exercise price per share and/or restricted stock. NSOs granted under the 2006 Plan will have a per share exercise price of no less than the current market value of a share of stock as determined in good faith by the Board on the date of the grant. The amount of the options that may be granted are limited by the terms of the 2006 Plan, which prohibits any grant that would cause the Company to be in violation of Section 61(a)(3) of the 1940 Act.

Under the 2006 Plan, non-employee directors will each receive an initial grant of an option to purchase 10,000 shares of stock upon initial election to such position. The options granted will vest over two years, in equal installments on each of the first two anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. In addition, each non-employee director shall automatically be granted an option to purchase 15,000 shares of stock on the date of such non-employee director's re-election to the Board and such grant will vest over three years, in equal installments on each of the first three anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. The compensation committee has the authority to determine from time to time which of the persons eligible under the 2006 Plan shall be granted awards; when and how each award shall be granted, including the time or times when a person shall be permitted to exercise an award; and the number of shares of stock with respect to which an award shall be granted to such person. The exercise price of options granted under the 2006 Plan is set at the closing price of the Company's market price on the Nasdaq Global Select Market as of the date of grant and will not be adjusted unless the Company receives an exemptive order from the SEC or written confirmation from the staff of the SEC that the Company may do so (except for adjustments resulting from changes in the Company's capital structure, such as stock dividends, stock splits and reverse stock splits).

Unless sooner terminated by the Board, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The 2006 Plan provides that all awards granted under the 2006 Plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act.

The compensation committee will determine the period during which any options granted under the 2006 Plan shall remain exercisable, provided that no option will be exercisable after the expiration of ten years from the date on which it was granted. Options granted under the 2006 Plan are not transferable other than by will or the laws of descent and distribution, or by gift, and will generally be exercisable during a non-employee director's lifetime only by such non-employee director. In general, any portion of any options that are not then exercisable will terminate upon the termination of the non-employee director's services to the Company. Generally, any portion of any options that are exercisable at the time of the termination of the non-employee director's services to the Company will remain exercisable for the lesser of (i) a period of three months (or one year if the non-employee director's services to the Company terminated by reason of the non-employee director's death) or (ii) the period ending on the latest date on which such options could have been exercised had the non-employee director's services to the Company not terminated. In addition, if the Board determines that a non-employee director's service to the Company terminated for reasons that cast such discredit on the non-employee director as to justify immediate termination of the non-employee director's options, then all options then held by the non-employee director will immediately terminate.

Under the 2006 Plan, non-employee directors upon initial election to such position after June 21, 2007 will automatically be granted 3,333 shares of restricted stock. The forfeiture restrictions for such initial shares of restricted stock will lapse as to one-half of the restricted stock on the first anniversary of the date of grant and as to an additional one-half of the restricted stock on the second anniversary of the date of grant. In addition, each non-employee director shall automatically be granted 5,000 shares of restricted stock on the date of such non-employee director's re-election to the Board and the forfeiture restrictions on such shares will lapse as to one-third of such shares on the anniversary of such grant over three years, provided that the non-employee director remains in service on such dates.

During 2007, effective upon the Company's receipt of the SEC exemptive order, and pursuant to the exemptive relief so provided, each independent director was immediately awarded certain restricted shares in accordance with the terms and conditions outlined within the exemptive order. Specifically, our class I directors, Messrs. Badavas and Chow, were each awarded 1,667 restricted shares that vested pro rata monthly over their remaining 1 year term, and our class II director, Mr. Woodward, was awarded 3,334 restricted shares that vest pro rata monthly over his remaining 2 year term.

The compensation committee administers the 2006 Plan. Under the 2006 Plan, options and/or restricted stock may be granted from time-to-time for up to a maximum of 1,000,000 shares of common stock. If there is a change in the capital structure of the Company by reason of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Board will make appropriate adjustments to the number and class of shares of stock subject to the 2006 Plan and each option outstanding under it. In the event of a consolidation, merger, stock sale, a sale of all or substantially all of the Company's assets, a dissolution or liquidation of the Company or other similar events (a Covered Transaction), the Board may provide for the assumption of some or all outstanding options or for the grant of new substitute options by the acquirer or survivor. If no such assumption or substitution occurs, all outstanding options will become exercisable prior to the Covered Transaction and will terminate upon consummation of the Covered Transaction.

The Board may at any time or times amend the 2006 Plan or any outstanding award for any purpose which may at the time be permitted by law, and may at any time terminate the 2006 Plan as to any future grants of awards; provided, that except as otherwise expressly provided in the 2006 Plan the Board may not, without the participant's consent, alter the terms of an award so as to affect adversely the participant's rights under the award, unless the Board expressly reserved the right to do so at the time of the grant of the award.

Compensation Committee Interlocks and Insider Participation

All members of the Compensation Committee are independent directors and none of the members are present or past employees of the Company. No member of the Compensation Committee: (i) has had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K under the Exchange Act; or (ii) is an executive officer of another entity, at which one of our executive officers serves on the Board.

Certain Relationships and Related Transactions

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

In February 2004, we issued and sold 400 shares of our Series A-1 preferred stock to JMP Group LLC, the ultimate parent entity of JMP Securities LLC, for an aggregate purchase price of \$2.5 million and, in connection with such sale, we paid a \$175,000 placement fee to JMP Securities LLC. In addition, we issued and sold 100 shares of our Series A-2 preferred stock to an entity related to Mr. Henriquez for an aggregate purchase price of \$125,000, and we issued and sold 100 shares of our Series A-2 preferred stock to Mr. Howard for an aggregate

purchase price of \$125,000. Our Series A-1 preferred stock held a liquidation preference over our Series A-2 preferred stock and also carried separate, preferential voting rights. In June 2004, each share of Series A-1 preferred stock and Series A-2 preferred stock was exchanged for 208.3333 units with the same terms as the units sold in our June 2004 private offering.

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

We have entered into a letter agreement with Farallon Capital Management, L.L.C. that provides that prior to the date that is two years after certain investment funds controlled by Farallon Capital Management, L.L.C. cease to own at least 10% of our outstanding common stock and without the written consent of Farallon Capital Management, L.L.C., we will not (i) take any action to alter or repeal the resolution adopted by our Board exempting from the Business Combination Act any business combination between us and certain investment funds managed by Farallon Capital Management, L.L.C. in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company's common stock by investment funds controlled by Farallon Capital Management, L.L.C.

We have also entered into a letter agreement with JMP Asset Management LLC that provides that prior to the date that is two years after certain investment funds controlled by JMP Asset Management LLC cease to own at least 10% of our outstanding common stock and without the written consent of JMP Asset Management LLC that we will not (i) take any action to alter or repeal the resolution adopted by our Board exempting from the Business Combination Act any business combination between us and certain investment funds managed by JMP Asset Management LLC in a manner that would make the Business Combination Act applicable to acquisitions of our stock by such investment funds or (ii) amend the applicable provision of our bylaws in a manner that would make the Control Share Acquisition Act applicable to an acquisition of the Company's common stock by investment funds controlled by JMP Asset Management LLC.

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

On April 12, 2005, we entered into our Bridge Loan Credit Facility with Alcmene Funding, LLC, a special purpose entity affiliated with Farallon Capital Management, L.L.C., one of our significant stockholders. In connection with the closing of the Bridge Loan Credit Facility, we paid a \$500,000 upfront fee and will be obligated to pay additional fees under the terms of the facility. On August 1, 2005, we amended our Bridge Loan Credit Facility. The amendment agreement extended the term of the loan to April 12, 2006, eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. The loan fees are being amortized over the remaining ten-month period. On March 6, 2006, we entered into an amendment of our Bridge Loan Facility pursuant to which we repaid \$10 million to Alcmene Funding LLC, extended the maturity date to June 30, 2006 and decreased the interest rate to 10.86%. On May 10, 2006, we repaid the remaining \$15.0 million of the Bridge Loan Credit Facility and paid a \$500,000 loan fee due on maturity and all

accrued and unpaid interest through the date of repayment. At December 31, 2006, the Bridge Loan Credit Facility was no longer outstanding.

At March 2, 2006, we entered into an agreement with various affiliates of Farallon Capital Management, L.L.C. to sell \$5 million of common stock, priced at the net asset value on February 28, 2006. On March 20, 2006, we completed the sale of 432,900 shares of common stock to the Farallon funds at a price per share of \$11.55, which was the net asset value per share at February 28, 2006.

In conjunction with the Company's Rights offering completed on April 21, 2006, the Company agreed to pay JMP Securities LLC a fee of approximately \$700,000 as co-manager of the offering.

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.

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.

In connection with the sale of public equity investments, the Company paid JMP Securities LLC approximately \$22,200 and \$12,100 in brokerage commissions during the years ended December 31, 2007 and 2006, respectively.

In the ordinary course of business, we enter into transactions with portfolio companies that may be considered related party transactions. In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with us, we have implemented certain policies and procedures whereby our executive officers screen each of our transactions for any possible affiliations, close or remote, between the proposed portfolio investment, us, companies controlled by us and our employees and directors.

We will not enter into any agreements unless and until we are satisfied that no affiliations prohibited by the 1940 Act exist or, if such affiliations exist, we have taken appropriate actions to seek Board review and approval or exemptive relief for such transaction. The Board reviews these procedures on an annual basis.

In addition, our code of ethics, which is signed by all employees and directors, requires that all employees and directors avoid any conflict, or the appearance of a conflict, between an individual's personal interests and the interests of the Company. Pursuant to the code of ethics, which is available on our website at www.herculestech.com, each employee and director must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to the Audit Committee. The Audit Committee is charged with monitoring and making recommendations to the Board regarding policies and practices relating to corporate governance. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by the Board.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act and the disclosure requirements of Item 405 of SEC Regulation S-K require that our directors and executive officers, and any persons holding more than 10% of any class of our equity securities report their ownership of such equity securities and any subsequent changes in that ownership to the SEC, The Nasdaq Stock Market and to us. Based solely on a review of the written statements and copies of such reports furnished to us by our executive officers, directors and greater than 10% beneficial owners, we believe that during fiscal 2007 all Section 16(a) filing requirements applicable to the executive officers, directors and stockholders were timely satisfied, except that (i) due to an administrative error, Form 4 reports due by January 29, 2007 reflecting option awards to purchase common shares granted to Messrs. Harvey, Henriquez and Lund were filed late on February 20, 2007, and (ii) due to an administrative error Form 4 reports for our independent directors, Messrs. Badavas, Chow and Woodward reflecting the award of restricted common shares could not be filed until August 1, 2007.

PROPOSAL II: RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The audit committee and the non-interested directors have selected Ernst & Young LLP to serve as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2008. This selection is subject to ratification or rejection by the stockholders of the Company.

Ernst & Young LLP has advised the Company that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its affiliates. It is expected that a representative of Ernst & Young LLP will be present at the meeting and will have an opportunity to make a statement if he or she chooses and will be available to answer questions.

Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted for ratification of the selection of Ernst & Young LLP as the independent registered public accounting firm of the Company.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE SELECTION OF ERNST & YOUNG LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY.

PRINCIPLE ACCOUNTANT FEES AND SERVICES

The following aggregate fees by Ernst & Young LLP, the Company's Independent Registered Public Accounting Firm, were billed to the Company for work attributable to 2007 and 2006 audit, tax and other services.

	Fiscal Year Ended December 31, 2007	Fiscal Year Ended December 31, 2006
Audit Fees	\$ 572,438	\$ 726,602
Audit-Related Fees		
Tax Fees	34,251	90,295
All Other Fees	2,500	2,260
Total Fees:	\$ 609,189	\$ 819,157

Services rendered by Ernst & Young in connection with fees presented above were as follows:

Audit Fees. For fiscal years 2007 and 2006, audit services include fees associated with the annual audit of the Company's financial statements, audit of management's report on internal control over financial reporting, the quarterly reviews of the financial statements included in the Company's Form 10-Q filings, and comfort letters and consents included in other SEC filings.

Audit-Related Fees. We did not incur any audit-related fees during fiscal 2007 or 2006. Examples of such services that traditionally are performed by the independent accountant would include assurance related services such as attest services that are not required by statute or regulation.

Tax Fees. Tax fees in fiscal year 2006 include professional fees for tax compliance and tax advice.

All Other Fees. Fees for other services would include fees for products and services other than the services reported above. Other fees billed in fiscal 2006 relate to on-line technical accounting software service. The Audit Committee has considered the compatibility of non-audit services with the auditor's independence.

Audit Committee Report

The audit committee of the Board operates under a written charter adopted by the Board. The audit committee is currently composed of Messrs. Badavas, Chow and Woodward.

Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with auditing standards generally accepted in the United States and expressing an opinion on the conformity of those audited financial statements in accordance with accounting principles generally accepted in the United States. The audit committee's responsibility is to monitor and oversee these processes. The audit committee is also directly responsible for the appointment, compensation and oversight of the Company's independent registered public accounting firm.

Pre-Approval Policy

The audit committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by Ernst & Young LLP, the Company's independent registered public accounting firm. The policy requires that the audit committee pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor's independence. In accordance with the pre-approval policy, the audit committee generally includes at its first meeting of every year a discussion and pre-approval of such services and the expected costs of such services for the year.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval at the first audit committee meeting of the year must be submitted to the audit committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the audit committee. However, the audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

Review with Management

The audit committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the audit committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States.

Review and Discussion with Independent Registered Public Accounting Firm

The audit committee has discussed with Ernst & Young LLP, the Company's independent registered public accounting firm, matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees). The audit committee received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board, and has discussed with the auditors the auditors' independence. The audit committee has also considered the compatibility of non-audit services with the auditors' independence.

During 2007, the audit committee met with members of senior management and the independent registered public accounting firm to review the certifications provided by the Chief Executive Officer and Chief Financial Officer under the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), the rules and regulations of the SEC and the overall certification process. At these meetings, company officers reviewed each of the Sarbanes-Oxley certification requirements concerning internal control over financial reporting and any fraud, whether or not material, involving management or other employees with a significant role in internal control over financial reporting.

Conclusion

Based on the audit committee's discussion with management and the independent registered public accounting firm, the audit committee's review of the audited financial statements, the representations of management and the report of the independent registered public accounting firm to the audit committee, the audit committee recommended that the Board include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the SEC. The audit committee also recommended the selection of Ernst & Young LLP to serve as the independent registered public accounting firm for the year ended December 31, 2008.

Respectfully submitted on March 11, 2008 by the members of the Audit Committee of the Board,

Robert P. Badavas, Chairman

Joseph W. Chow

Allyn C. Woodward, Jr.

PROPOSAL III: AUTHORIZATION OF THE COMPANY TO SELL UP TO 20 PERCENT OF THE COMPANY'S COMMON STOCK AT A NET PRICE BELOW THE COMPANY'S THEN CURRENT NET ASSET VALUE PER SHARE

The Company is a closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. The 1940 Act prohibits the Company from selling shares of its common stock at a price below the current net asset value per share of such stock, with certain exceptions. One such exception would permit the Company to sell shares of its common stock during the next year at a price below the Company's then current net asset value per share, or NAV, if its stockholders approve such a sale and the Company's directors make certain determinations.

Pursuant to this provision, the Company is seeking the approval of its common stockholders so that it may, in one or more public or private offerings of its common stock, sell shares of its common stock in an amount not to exceed 20% of its outstanding common stock as of the date when this proposal is approved by the stockholders at a price below its then current NAV, subject to certain conditions discussed below. If approved, the authorization would be effective for a period expiring on the earlier of the one year anniversary of the date of the Company's 2008 Annual Meeting of Stockholders and the date of the Company's 2009 Annual Meeting of Stockholders, which is expected to be held in May 2009.

Effect of Approval to Authorize the Company to sell up to 20 Percent of the Company's Common Stock at a Net Price Below the Company's Then Current Net Asset Value per Share

Generally, equity securities sold in public securities offerings are priced based on market prices, rather than NAV per share. The Company is seeking the approval of a majority of its common stockholders of record to offer and sell shares of its common stock at prices that, net of underwriting discount or commissions, may be less than NAV so as to permit management the flexibility in pricing new share issuances it may require from time to time during the authorized period as a result of market conditions.

Although the Company's common stock has previously traded at a premium above NAV, in recent months the Company's common stock has traded below NAV, which is not uncommon for BDCs like the Company. Given the recent volatility in the stock market, we cannot predict whether our common stock will resume trading at a premium to NAV or continue trading at a discount to NAV in the future.

The following table lists the high and low closing sales prices for our common stock, the closing sales price as a percentage of NAV and quarterly dividends per share. On [April 9], 2008, the last reported closing sale price of our common stock was \$[] per share.

	NAV ⁽¹⁾	Closing Sales Price		Premium of High Sales Price to NAV ⁽²⁾	Premium of Low Sales Price to NAV ⁽²⁾	Declared Dividends
		High	Low			
Year ended December 31, 2005						
Second Quarter ⁽³⁾	\$ 11.55	\$ 13.19	\$ 12.45	114.22%	107.8%	\$ 0.00
Third Quarter	\$ 11.71	\$ 14.41	\$ 11.90	123.11%	101.6%	\$ 0.00
Fourth Quarter	\$ 11.67	\$ 12.68	\$ 9.71	108.7%	83.2%	\$ 0.00
Extra Dividend						\$ 0.03
Year ended December 31, 2006						
First Quarter	\$ 11.63	\$ 11.99	\$ 10.50	103.1%	90.3%	\$ 0.30
Second Quarter	\$ 11.24	\$ 12.53	\$ 10.88	111.5%	96.8%	\$ 0.30
Third Quarter	\$ 11.06	\$ 12.90	\$ 11.11	116.6%	100.5%	\$ 0.30
Fourth Quarter	\$ 11.65	\$ 14.25	\$ 12.59	122.3%	108.1%	\$ 0.30
Year ended December 31, 2007						
First Quarter	\$ 11.68	\$ 14.50	\$ 12.77	124.1%	109.3%	\$ 0.30
Second Quarter	\$ 12.05	\$ 14.71	\$ 12.80	122.1%	106.2%	\$ 0.30
Third Quarter	\$ 11.97	\$ 14.02	\$ 11.32	117.1%	84.6%	\$ 0.30
Fourth Quarter	\$ 13.33	\$ 13.60	\$ 10.87	102.0%	81.5%	\$ 0.30

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
- (2) Calculated as the respective high or low closing sales price divided by NAV.
- (3) Commencement of operations.

Reasons for Approval to Authorize the Company to Sell up to 20 Percent of the Company's Common Stock at a Price Below the Company's Then Current Net Asset Value per Share

As a BDC and a regulated investment company (RIC) for tax purposes, the Company is dependent on its ability to raise capital through the issuance of common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to achieve pass-through tax treatment, which prevents the Company from using those earnings to support new investments. Further, BDCs must maintain a debt to equity ratio of less than 1:1, which requires the Company to finance its investments with at least as much equity as debt in the aggregate. The Company maintains sources of liquidity, but generally attempts to remain close to fully invested and does not hold substantial cash for the purpose of making new investments. Therefore, to continue to build the Company's investment portfolio, and thereby support maintenance and growth of the Company's dividends, the Company strives to maintain consistent access to capital through the public and private equity markets enabling it to take advantage of investment opportunities as they arise.

Without the approval of a majority of its common stockholders to sell stock at prices below its current NAV per share, the Company would be precluded from selling shares of its common stock to raise capital during periods where the market price for its common stock is below its current NAV and may be precluded from selling shares when the market price for its common stock is not sufficiently above its current NAV so that the price at which shares would be sold, net of underwriting discounts or commissions, would not be less than its current NAV.

The Company believes that having the flexibility to issue its common stock below NAV in certain instances will benefit all of its stockholders. The Company expects that it will be periodically presented with attractive opportunities that require the Company to make an investment commitment quickly. Because the Company generally attempts to remain fully invested and it does not intend to maintain cash for the purpose of making these investment commitments, the Company may be unable to capitalize on investment opportunities presented to it unless it is able to quickly raise additional capital. The market value of the Company's common stock may periodically trade at a small premium above its NAV or fall below its NAV, resulting in a net price per share below NAV, which is not uncommon for BDCs like the Company. Alternatively, the Company's NAV could increase without a commensurate increase in the Company's stock price.

If either of these events were to occur, absent the approval of this proposal by stockholders, the Company may not be able to effectively access the capital markets to enable it to take advantage of attractive investment opportunities.

If this proposal is approved, the Company does not anticipate selling its common stock below its NAV unless it has identified attractive near term investment opportunities that the Board, including a majority of the disinterested directors, as defined in the 1940 Act, reasonably believes will lead to a long-term increase in NAV. Further, to the extent the Company issues shares of its common stock below NAV in a publicly registered transaction, the Company's market capitalization and the number of its publicly tradable common stock will increase, thus potentially affording all common stockholders greater liquidity. To the extent the Company issues shares below NAV in a private transaction, the per share price will be the fair market value as determined by the Board.

Edgar Filing: Flexion Therapeutics Inc - Form DEFA14A

Conditions for the Company to Sell up to 20 Percent of the Company's Common Stock at a Net Price Below the Company's Then Current Net Asset Value per Share

If this proposal is approved, the Company will only sell shares of its common stock at a net price below NAV per share if the following conditions are met:

a majority of the Company's directors who have no financial interest in the sale have approved the sale;

a majority of such directors who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any distributing commission or discount; and

following such issuance, not more than 20% of the company's then outstanding shares as of the date of stockholder approval will have been issued at a price less than NAV.

Consequences of Approval to Sell up to 20 Percent of the Company's Common Stock at a Net Price Below the Company's Then Current Net Asset Value per Share

Before voting on this proposal or giving proxies with regard to this matter, common stockholders should consider the potentially dilutive effect of the issuance of shares of the Company's common stock at less than NAV per share on the NAV per outstanding share of common stock prior to such an issuance. Any sale of common stock at a price below NAV would result in an immediate dilution to existing common stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a stockholder's interest in the earnings and assets of the Company and voting interest in the Company than the increase in the assets of the Company resulting from such issuance. The Board of the Company will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance.

The following table represents the possible dilutive effect to a hypothetical shareholder of Company ABC if an additional 20% of Company ABC's outstanding stock were issued.

Company ABC has 5,000,000 total shares outstanding, \$150,000,000 in total assets and \$ 25,000,000 in total liabilities. The NAV per share of the common stock of Company ABC is \$25.00. The following table illustrates the reduction to NAV and the dilution experienced by Existing Shareholder following the sale of 1,000,000 shares, or 20%, of ABC Company's common stock at \$ 23.75 per share, a price below its NAV per share.

	Prior to Sale Below NAV	Following Sale Below NAV	Percentage Change
<i>Reduction to NAV</i>			
Total Shares Outstanding	5,000,000	6,000,000	20%
NAV per share	\$ 25.00	\$ 24.59	(1.63)%
<i>Dilution to Existing Shareholder</i>			
Shares Held by Existing Shareholder	50,000	50,000 ⁽¹⁾	0.0%
Percentage Held by Existing Shareholder	1.00%	0.83%	(16.67)%
Total Interest of Existing Shareholder	\$ 1,250,000	\$ 1,229,688	(1.63)%

(1) Assumes that Existing Shareholder does not purchase additional shares in equity offering of shares below NAV.

The 1940 Act establishes a connection between common share sale price and NAV because, when stock is sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares is not accompanied by a proportionate increase in the net assets of the issuer. Common stockholders should also consider that existing holders of the Company's common stock have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock will dilute such existing stockholders' holdings of common stock as a percentage of shares outstanding to the extent existing stockholders do not participate in and purchase sufficient shares in the offering to maintain their percentage interest. Further, if current stockholders of the Company either do not purchase any shares in an offering conducted by the Company or do not purchase sufficient shares in the offering to maintain their percentage interest, regardless of whether such offering is above or below the then current NAV, their voting power will be diluted.

Required Vote

Approval of this proposal requires the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the meeting which are not held by affiliated persons of the Company.

For purposes of this proposal, the 1940 Act defines a majority of the outstanding shares as: (1) 67% or more of the voting securities present at such meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of such company, whichever is the less. Abstentions and broker non-votes will have the effect of a vote against this proposal.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO AUTHORIZE THE COMPANY TO SELL SHARES OF ITS COMMON STOCK DURING THE NEXT YEAR AT A PRICE BELOW THE COMPANY'S THEN CURRENT NET ASSET VALUE PER SHARE.

OTHER BUSINESS

The Board knows of no other business to be presented for action at the meeting. If any matters do come before the meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the meeting unless certain securities law requirements are met.

SUBMISSION OF STOCKHOLDER PROPOSALS

The Company expects that the 2009 Annual Meeting of Stockholders will be held in May 2009, but the exact date, time, and location of such meeting have yet to be determined. A stockholder who intends to present a proposal at that annual meeting pursuant to the SEC's Rule 14a-8 must submit the proposal in writing to the Company at its address in Palo Alto, California, and the Company must receive the proposal on or before January 15, 2009, in order for the proposal to be considered for inclusion in the Company's proxy statement for that meeting. The submission of a proposal does not guarantee its inclusion in the Company's proxy statement or presentation at the meeting.

Under the Company's current Bylaws, nominations for directors and proposals of business, other than those to be included in the Company's proxy materials following the procedures described in Rule 14a-8, may be made by shareholders entitled to vote at the meeting if notice is timely given and if the notice contains the information required in the Bylaws. Except as noted below, to be timely a notice with respect to the 2009 Annual Meeting of Stockholders must be delivered to the secretary of the Company no earlier than the 150th day prior to the first

anniversary of the date of mailing of the notice for the preceding year's annual meeting nor later than 5:00 p.m., Eastern Time, on the 12th day prior to the first anniversary of the date of the mailing of the notice for the preceding year's annual meeting. For the Company's 2009 annual meeting, the Company must receive such proposals and nominations no earlier than December 1, 2008 and no later than December 31, 2008. If the date of the annual meeting has been changed by more than thirty calendar days from the first anniversary of the date of the preceding year's annual meeting, stockholder proposals or director nominations must be so received not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above. Proposals must comply with the other requirements contained in the Company's Bylaws, including supporting documentation and other information. Proxies solicited by the Company will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

Notices of intention to present proposals at the 2009 annual meeting should be addressed to H. Scott Harvey, 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

You are cordially invited to attend the annual meeting of stockholders in person. Whether or not you plan to attend the meeting, you are requested to complete, date, sign and promptly return the accompanying proxy card in the enclosed postage-paid envelope.

By Order of the Board

/s/ Scott Harvey

Scott Harvey

Secretary

Palo Alto, California

[April], 2008