

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

August 11, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For The Quarterly Period Ended June 30, 2006**

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.)**

**525 University Ave., Suite 700
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 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 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

On August 1, 2006, there were 13,646,857 shares outstanding of the Registrant's common stock, \$0.001 par value.

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
FORM 10-Q TABLE OF CONTENTS**

| | Page |
|---|------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Consolidated Financial Statements</u> | 3 |
| <u>Consolidated Statements of Assets and Liabilities as of June 30, 2006 (unaudited) and December 31, 2005</u> | 3 |
| <u>Consolidated Schedule of Investments as of June 30, 2006 (unaudited)</u> | 4 |
| <u>Consolidated Schedule of Investments as of December 31, 2005</u> | 11 |
| <u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2006 and 2005 (unaudited)</u> | 15 |
| <u>Consolidated Statements of Changes in Net Assets for the six-month period ended June 30, 2006 and 2005 (unaudited)</u> | 16 |
| <u>Consolidated Statements of Cash Flows for the six-month period ended June 30, 2006 and 2005 (unaudited)</u> | 17 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u> | 18 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 38 |
| <u>Item 4. Controls and Procedures</u> | 38 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 39 |
| <u>Item 1A. Risk Factors</u> | 39 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 40 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 40 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 40 |
| <u>Item 5. Other Information</u> | 40 |
| <u>Item 6. Exhibits</u> | 41 |
| <u>Signatures</u> | 42 |
| <u>EXHIBIT 31.1</u> | |
| <u>EXHIBIT 31.2</u> | |
| <u>EXHIBIT 32.1</u> | |
| <u>EXHIBIT 32.2</u> | |

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. FINANCIAL STATEMENTS

**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

| | June 30, 2006 (unaudited) | December 31, 2005 |
|--|--|------------------------------|
| Assets | | |
| Investments, at value (cost of \$190,355,515 and \$176,004,865, respectively) | \$ 193,571,348 | \$ 176,673,226 |
| Deferred loan origination revenue | (3,222,094) | (2,729,982) |
| Cash and cash equivalents | 23,211,755 | 15,362,447 |
| Interest receivable | 2,089,839 | 1,479,375 |
| Prepaid expenses | 564,422 | 1,310,594 |
| Deferred Tax Asset | | 1,454,000 |
| Property and equipment, net | 84,662 | 77,673 |
| Other assets | 939,176 | 20,546 |
| | | |
| Total assets | 217,239,108 | 193,647,879 |
| Liabilities | | |
| Accounts payable | 679,984 | 150,081 |
| Income tax payable | | 1,709,000 |
| Accrued liabilities | 2,230,038 | 1,436,468 |
| Short-term loan payable | 61,000,000 | 76,000,000 |
| | | |
| Total liabilities | 63,910,022 | 79,295,549 |
| | | |
| Net assets | \$ 153,329,086 | \$ 114,352,330 |
| | | |
| Net assets consist of: | | |
| Par value | \$ 13,647 | \$ 9,802 |
| Paid-in capital in excess of par value | 153,637,428 | 114,524,833 |
| Distributable earnings (accumulated deficit) | (321,989) | (182,305) |
| | | |
| Total net assets | \$ 153,329,086 | \$ 114,352,330 |
| | | |
| Shares of common stock outstanding (\$0.001 par value, 30,000,000 authorized) | 13,646,857 | 9,801,965 |
| | | |
| Net asset value per share | \$ 11.24 | \$ 11.67 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value ^{(3) (4)} |
|---|--------------------|---|------------------|---------------------|--------------------------|
| Acceleron Pharmaceuticals, Inc.(2.62%)* | Biopharmaceuticals | Senior Debt Matures June 2009 Interest rate 10.25% | \$ 4,000,000 | \$ 3,942,412 | \$ 3,942,412 |
| | | Preferred Stock Warrants | | 69,106 | 67,835 |
| Total Acceleron Pharmaceuticals, Inc. | | | | 4,011,518 | 4,010,247 |
| Aveo Pharmaceuticals, Inc. (4.89%) | Biopharmaceuticals | Senior Debt Matures September 2009 Interest rate 10.50% | \$ 7,500,000 | 7,500,000 | 7,500,000 |
| | | Preferred Stock Warrants | | | |
| Total Aveo Pharmaceuticals, Inc. | | | | 7,500,000 | 7,500,000 |
| Guava Technologies, Inc. (2.95%) | Biopharmaceuticals | Senior Debt Matures July 2009 Interest rate Prime + 3.25% | \$ 4,500,000 | 4,412,168 | 4,412,168 |
| | | Preferred Stock Warrants | | 105,399 | 103,501 |
| Total Guava Technologies, Inc. | | | | 4,517,567 | 4,515,669 |
| Labopharm USA, Inc. (5.50%)(6) | Biopharmaceuticals | Senior Debt Matures July 2008 Interest rate 11.95% | \$ 8,369,594 | 8,428,130 | 8,428,130 |
| Total Labopharm USA, Inc. | | | | 8,428,130 | 8,428,130 |
| Merrimack Pharmaceuticals, Inc.(5.15%) | Biopharmaceuticals | Senior Debt Matures October 2008 Interest rate 11.15% | \$ 7,559,592 | 7,461,010 | 7,461,010 |
| | | Preferred Stock Warrants | | 155,456 | 438,523 |
| Total Merrimack Pharmaceuticals, Inc. | | | | 7,616,466 | 7,899,533 |
| Omrix Biopharmaceuticals, Inc. (0.17%) | Biopharmaceuticals | Common Stock Warrants | | 11,370 | 266,493 |
| Total Omrix Biopharmaceuticals, Inc. | | | | 11,370 | 266,493 |
| Paratek Pharmaceuticals, Inc. (5.59%) | Biopharmaceuticals | Senior Debt Matures June 2008 Interest rate 10.60% | \$ 8,518,130 | 8,430,349 | 8,430,349 |

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| | | | | |
|--|---|--------------|-----------|-----------|
| | Preferred Stock Warrants | | 137,396 | 138,967 |
| Total Paratek Pharmaceuticals, Inc. | | | 8,567,745 | 8,569,316 |
| Quatrux Pharmaceuticals Company (3.93%) | Biopharmaceuticals Senior Debt Matures January 2010 Interest rate Prime + 3.00% | \$ 6,000,000 | 5,807,190 | 5,807,190 |
| | Preferred Stock Warrants | | 220,354 | 220,703 |
| Total Quatrux Pharmaceuticals Company | | | 6,027,544 | 6,027,893 |
| | See notes to consolidated financial statements (unaudited). | | | |

4

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾⁽⁴⁾ |
|--|--------------------|--|-------------------------|---------------------------|-------------------------------|
| Sirtris Pharmaceuticals, Inc. (6.52%) | Biopharmaceuticals | Senior Debt Matures April 2011 Interest rate 10.60% | \$ 10,000,000 | \$ 9,915,612 | \$ 9,915,612 |
| | | Preferred Stock Warrants | | 88,829 | 86,414 |
| Total Sirtris Pharmaceuticals, Inc. | | | | 10,004,441 | 10,002,026 |
| TransOral Pharmaceuticals, Inc. (2.61%) | Biopharmaceuticals | Senior Debt Matures October 2009 Interest rate 10.69% | \$ 4,000,000 | 3,966,152 | 3,966,152 |
| | | Preferred Stock Warrants | | 35,630 | 34,429 |
| Total TransOral Pharmaceuticals, Inc. | | | | 4,001,782 | 4,000,581 |
| Total Biopharmaceuticals (39.93%) | | | | 60,686,563 | 61,219,888 |
| Atrenta, Inc. (3.28%) | Software | Senior Debt Matures June 2009 Interest rate 11.50% | \$ 5,000,000 | 4,900,603 | 4,900,603 |
| | | Preferred Stock Warrants | | 102,396 | 102,633 |
| | | Preferred Stock Warrants | | 33,760 | 33,677 |
| Total Atrenta, Inc. | | | | 5,036,759 | 5,036,913 |
| Compete, Inc. (2.61%) | Software | Senior Debt Matures March 2009 Interest rate Prime + 3.50% | \$ 4,000,000 | 3,944,643 | 3,944,643 |
| | | Preferred Stock Warrants | | 62,067 | 60,205 |
| Total Compete, Inc. | | | | 4,006,710 | 4,004,848 |
| Concuity, Inc. (2.40%) | Software | Senior Debt Matures March 2008 Interest rate 9.95% | \$ 3,678,540 | 3,676,498 | 3,676,498 |
| | | Preferred Stock Warrants | | 3,500 | |

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| | | | | | |
|----------------------------|----------|--|--------------|-----------|-----------|
| Total Concuity, Inc. | | | | 3,679,998 | 3,676,498 |
| GameLogic, Inc. (1.96%) | Software | Senior Debt Matures December 2009 Interest rate Prime + 4.125% | \$ 3,000,000 | 2,949,901 | 2,949,901 |
| | | Preferred Stock Warrants | | 52,604 | 50,857 |
| Total GameLogic, Inc. | | | | 3,002,505 | 3,000,758 |
| Gomez, Inc. (1.13%) | Software | Senior Debt Matures December 2007 Interest rate 12.25% | \$ 1,719,873 | 1,703,345 | 1,703,345 |
| | | Preferred Stock Warrants | | 35,000 | 28,159 |
| Total Gomez, Inc. | | | | 1,738,345 | 1,731,504 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value |
|---|----------|---|------------------|---------------------|--------------|
| HighRoads, Inc. (1.54%) | Software | Senior Debt Matures February 2009 Interest rate 11.25% | \$ 2,349,845 | \$ 2,311,555 | \$ 2,311,555 |
| | | Preferred Stock Warrants | | 44,466 | 44,466 |
| HighRoads, Inc. | | | | 2,356,021 | 2,356,021 |
| HighRoads Software, Inc. (3.07%) | Software | Senior Debt Matures February 2008 Interest rate 10.00% | \$ 4,699,490 | 4,666,262 | 4,666,262 |
| | | Preferred Stock Warrants | | 55,963 | 55,963 |
| HighRoads Software, Inc. | | | | 4,722,225 | 4,722,225 |
| HighRoads Systems, Inc. (1.96%) | Software | Senior Debt Matures September 2009 Interest rate Prime + 3.00% | \$ 3,000,000 | 2,967,945 | 2,967,945 |
| | | Preferred Stock Warrants | | 33,742 | 33,742 |
| HighRoads Systems, Inc. | | | | 3,001,687 | 3,001,687 |
| HighRoads Agency, Inc. (1.97%) ⁽⁶⁾ | Software | Senior Debt Matures July 2008 Interest rate 12.00% | \$ 4,000,000 | 3,934,808 | 3,934,808 |
| | | Preferred Stock Warrants | | 96,370 | 96,370 |
| HighRoads Agency, Inc. | | | | 4,031,178 | 4,031,178 |
| HighRoads Proficiency, Inc. (1.31%) | Software | Revolving Line of Credit Matures March 2007 Interest rate Prime + 2.00% | \$ 2,000,000 | 1,965,243 | 1,965,243 |
| | | Preferred Stock Warrants | | 52,135 | 52,135 |
| HighRoads Proficiency, Inc. | | | | 2,017,378 | 2,017,378 |
| HighRoads Division, Inc. (0.02%) | Software | Preferred Stock Warrants | | 39,339 | 39,339 |
| HighRoads Sportvision, Inc. | | | | 39,339 | 39,339 |
| HighRoads Media Corp. (1.75%) | Software | Subordinated Debt Matures December 2007 Interest rate 11.25% | \$ 2,663,637 | 2,640,498 | 2,640,498 |

| | | | | |
|--|------------------------------|---|--------------|-----------|
| | Preferred Stock Warrants | | 49,000 | 3 |
| Falisma Corp. | | | 2,689,498 | 2,67 |
| Software (23.00%) | | | 36,321,643 | 35,27 |
| Market Force Information, Inc. (1.31%) | Consumer & Business Products | Subordinated Debt | | |
| | | Matures May 2009 | | |
| | | Interest rate 10.45% | \$ 2,000,000 | 1,978,685 |
| | | Preferred Stock Warrants | | 23,823 |
| Market Force Information, Inc. | | | 2,002,508 | 2,00 |
| | | See notes to consolidated financial statements (unaudited). | | |

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value ^{(3) (4)} |
|--|------------------------------|--|------------------|---------------------|--------------------------|
| Wageworks, Inc. (11.34%) | Consumer & Business Products | Senior Debt Matures November 2008 Interest rate Prime + 4.00% | \$ 16,365,835 | \$ 16,197,859 | \$ 16,197,859 |
| Wageworks, Inc. (0.16%) | | Preferred Stock Warrants | | 251,964 | 1,191,677 |
| | | Preferred Stock | | 249,995 | 249,995 |
| Total Wageworks, Inc. | | | | 16,699,818 | 17,639,521 |
| Total Consumer & Business Products (12.81%) | | | | 18,702,326 | 19,641,666 |
| IKANO Communications, Inc. (0.07%) | Communications & Networking | Preferred Stock Warrants | | 45,460 | 42,450 |
| | | Preferred Stock Warrants | | 72,344 | 69,660 |
| Total IKANO Communications, Inc. | | | | 117,804 | 112,110 |
| Interwise, Inc. (1.61%) | Communications & Networking | Senior Debt Matures August 2008 Interest rate 17.50% | \$ 2,467,438 | 2,467,438 | 2,467,438 |
| Total Interwise, Inc. | | | | 2,467,438 | 2,467,438 |
| Optovia Corporation (3.26%) | Communications & Networking | Senior Debt Matures Septebmer 2006 Interest rate Prime + 7.25% | \$ 5,000,000 | 5,000,000 | 5,000,000 |
| Total Optovia Corporation | | | | 5,000,000 | 5,000,000 |
| Pathfire, Inc. (3.27%) | Communications & Networking | Senior Debt Matures December 2008 Interest rate Prime + 3.65% | \$ 5,000,000 | 4,949,028 | 4,949,028 |
| | | Preferred Stock Warrants | | 63,276 | 63,960 |
| Total Pathfire, Inc. | | | | 5,012,304 | 5,012,990 |
| Ping Identity Corporation (1.96%) | Communications & Networking | Senior Debt Matures June 2009 Interest rate 11.25% | \$ 3,000,000 | 2,953,652 | 2,953,652 |
| | | Preferred Stock Warrants | | 51,801 | 50,090 |
| Total Ping Identity Corporation | | | | 3,005,453 | 3,003,740 |

| | | | | | |
|--------------------------------------|---|--|--------------|-----------|-----------|
| Rivulet Communications, Inc. (2.29%) | Communications & Networking | Senior Debt Matures September 2009 Interest rate Prime + 2.75% | \$ 3,500,000 | 3,451,959 | 3,451,959 |
| | | Preferred Stock Warrants | | 50,710 | 49,020 |
| Rivulet Communications, Inc. (0.16%) | | Preferred Stock | | 250,000 | 250,000 |
| Total Rivulet Communications, Inc. | | | | 3,752,669 | 3,750,979 |
| | See notes to consolidated financial statements (unaudited). | | | | |

7

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|-----------------------------|--|------------------|---------------------|----------------------|
| Simpler Networks Corp. (3.68%) | Communications & Networking | Senior Debt Matures July 2009 Interest rate 11.75% | \$5,000,000 | \$ 4,863,209 | \$ 4,863,209 |
| Simpler Networks Corp. (0.33%) | | Preferred Stock Warrants | | 160,241 | 772,000 |
| Simpler Networks Corp. | | Preferred Stock | | 500,000 | 500,000 |
| | | | | 5,523,450 | 6,136,209 |
| Communications & Networking (16.63%) | | | | 24,879,118 | 25,483,209 |
| Medtronic, Inc. (1.09%) | Medical Devices & Equipment | Senior Debt Matures June 2008 Interest rate Prime + 6.00% | \$1,652,109 | 1,607,292 | 1,607,292 |
| Medtronic, Inc. (0.33%) | | Preferred Stock Warrants | | 67,225 | 65,000 |
| Medtronic, Inc. | | Preferred Stock | | 500,000 | 500,000 |
| | | | | 2,174,517 | 2,172,292 |
| Gynesonics, Inc. (0.01%) | Medical Devices & Equipment | Senior Debt Matures October 2009 Interest rate Prime + 1.25% | | 1,254 | 1,254 |
| Gynesonics, Inc. | | Preferred Stock Warrants | | 17,552 | 17,552 |
| | | | | 18,806 | 18,806 |
| Optiscan Biomedical, Corp. (0.94%) | Medical Devices & Equipment | Senior Convertible Term Loan Matures March 2008 Interest rate 15.00% | \$1,423,169 | 1,368,646 | 1,368,646 |
| Optiscan Biomedical, Corp. (0.65%) | | Preferred Stock Warrants | | 80,486 | 80,486 |
| Optiscan Biomedical, Corp. | | Preferred Stock | | 1,000,000 | 1,000,000 |
| | | | | 2,449,132 | 2,448,132 |
| Power Medical Interventions, Inc. (2.17%) | Medical Devices & Equipment | Senior Debt Matures June 2008 Interest rate 10.71% | \$3,282,949 | 3,258,997 | 3,258,997 |
| Power Medical Interventions, Inc. | | Common Stock Warrants | | 39,195 | 55,000 |
| | | | | 3,298,192 | 3,314,000 |

| | | | | | |
|--|--------------------------------|--|-------------|----------------------|----------------------|
| x Technologies Corp. (3.49%) ⁽⁶⁾ | Medical Devices & Equipment | Senior Debt Matures December 2008 Interest rate 12.40% Preferred Stock Warrants | \$5,500,000 | 5,247,774 313,108 | 5,247,774 103,108 |
| Xillix Technologies Corp. | | | | 5,560,882 | 5,351,882 |
| Medical Devices & Equipment (8.68%) | | | | 13,501,529 | 13,306,882 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value^{(3) (4)} |
|--|---|--|-------------------------|---------------------------|--------------------------------|
| Affinity Express, Inc. (1.01%) | Internet Consumer & Business Services | Senior Debt Matures November 2007 Interest rate 13.50% | \$ 1,318,547 | \$ 1,301,761 | \$ 1,301,761 |
| | | Common Stock Warrants | | 17,000 | 185,369 |
| | | Common Stock Warrants | | 15,000 | 55,941 |
| Affinity Express, Inc. (0.16%) | | Preferred Stock | | 250,000 | 250,000 |
| Total Affinity Express, Inc. | | | | 1,583,761 | 1,793,071 |
| Hedgestreet, Inc. (1.31%) | Internet Consumer & Business Services | Senior Debt Matures March 2009 Interest rate Prime + 3.25% | \$ 2,000,000 | 1,953,956 | 1,953,956 |
| | | Preferred Stock Warrants | | 54,956 | 55,045 |
| Total Hedgestreet, Inc. | | | | 2,008,912 | 2,009,001 |
| Invoke Solutions, Inc. (1.96%) | Internet Consumer & Business Services | Senior Debt Matures December 2008 Interest rate 11.25% | \$ 3,000,000 | 2,964,696 | 2,964,696 |
| | | Preferred Stock Warrants | | 43,826 | 44,042 |
| Total Invoke Solutions, Inc. | | | | 3,008,522 | 3,008,738 |
| RazorGator Interactive Group, Inc. (2.63%) | Internet Consumer & Business Services | Senior Debt Matures January 2008 Interest rate 9.95% | \$ 3,446,622 | 3,440,097 | 3,440,097 |
| | | Preferred Stock Warrants | | 13,050 | 588,025 |
| RazorGator Interactive Group, Inc. (1.11%) | | Preferred Stock | | 1,000,000 | 1,708,178 |
| Total RazorGator Interactive Group, Inc. | | | | 4,453,147 | 5,736,300 |
| Total Internet Consumer & Business Services (8.18%) | | | | 11,054,342 | 12,547,110 |

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| | | | | | |
|---|---------------------------------------|-----------------------------|--------------|------------|-----------|
| Cornice, Inc. (7.93%) | Electronics & Computer Hardware | Senior Debt | | | |
| | | Matures November 2008 | | | |
| | | Interest rate Prime + 4.50% | \$ 4,269,228 | 4,286,994 | 4,286,994 |
| | | Revolving Line of Credit | | | |
| | | Matures November 2006 | | | |
| | | Interest rate Prime + 3.00% | \$ 7,783,279 | 7,612,523 | 7,612,523 |
| | | Preferred Stock Warrants | 101,597 | 98,945 | |
| | | Preferred Stock Warrants | 35,353 | 34,060 | |
| | | Preferred Stock Warrants | 135,403 | 131,869 | |
| Total Cornice, Inc. | | | 12,171,870 | 12,164,391 | |
| Sling Media, Inc. (0.94%) | Electronics & Computer Hardware | Preferred Stock Warrants | 38,968 | 944,475 | |
| | | Preferred Stock | 500,000 | 500,000 | |
| | | | | | |
| Total Sling Media, Inc. | | | 538,968 | 1,444,475 | |
| See notes to consolidated financial statements (unaudited). | | | | | |

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
June 30, 2006
(unaudited)

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value^{(3) (4)} |
|--|---------------------------------------|--|-------------------------|----------------------------|--------------------------------|
| ViDeOnline Communications, Inc. (0.33%) | Electronics & Computer Hardware | Senior Debt Matures May 2009 Interest rate 15.00% | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| | | Preferred Stock | | | |
| | | Warrants | | | |
| Total ViDeOnline Communications, Inc. | | | | 500,000 | 500,000 |
| Total Electronics & Computer Hardware (9.20%) | | | | 13,210,838 | 14,108,866 |
| Ageia Technologies (5.23%) | Semiconductors | Senior Debt Matures August 2008 Interest rate 10.25% | \$ 8,000,000 | 7,931,118 | 7,931,118 |
| | | Preferred Stock | | | |
| | | Warrants | | 99,190 | 92,020 |
| Ageia Technologies (0.33%) | | Preferred Stock | | 500,000 | 500,000 |
| Total Ageia Technologies | | | | 8,530,308 | 8,523,138 |
| Cradle Technologies (1.28%) | Semiconductors | Senior Debt Matures December 2008 Interest rate Prime + 4.70% | \$ 1,947,643 | 1,883,883 | 1,883,883 |
| | | Preferred Stock | | | |
| | | Warrants | | 79,150 | 78,480 |
| Total Cradle Technologies | | | | 1,963,033 | 1,962,363 |
| Total Semiconductors (6.84%) | | | | 10,493,341 | 10,485,501 |
| Lilliputian Systems, Inc. (0.98%) | Energy | Senior Debt Matures March 2010 Interest rate 9.75% | \$ 1,500,000 | 1,457,355 | 1,457,355 |
| | | Preferred Stock | | | |
| | | Warrants | | 48,460 | 48,604 |
| Total Lilliputian Systems, Inc. | | | | 1,505,815 | 1,505,959 |

| | | |
|-----------------------------|-----------|-----------|
| Total Energy (0.98%) | 1,505,815 | 1,505,959 |
|-----------------------------|-----------|-----------|

| | | |
|-----------------------------|---------------|---------------|
| Total Investments (126.25%) | \$190,355,515 | \$193,571,348 |
|-----------------------------|---------------|---------------|

* Value as a percent of net assets

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

(2) Tax cost at June 30, 2006 equals book cost. Gross unrealized appreciation, gross unrealized depreciation, and net appreciation totaled \$4,507,950, \$1,292,117 and \$3,215,833, respectively.

(3) Except for a warrant in one publicly traded company, all investments are restricted at June 30, 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) Citigroup has an equity participation right on loans collateralized under the Citigroup facility. The value of their participation right on unrealized gains in the related equity investments was approximately \$378,347 at June 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the Company at June 30, 2006.
- (5) All investments are less than 5% owned.
- (6) Non-U.S. company or the company's principal place of business is outside of the

United States.

See notes to consolidated financial statements (unaudited).

10

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2005

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾⁽⁴⁾ |
|--|--------------------|---|-------------------------|---------------------------|-------------------------------|
| Acceleron Pharmaceuticals, Inc. (3.50%)* | Biopharmaceuticals | Senior Debt | | | |
| | | Matures June 2009 | | | |
| | | Interest rate 10.25% | \$4,000,000 | \$3,932,539 | \$ 3,932,539 |
| | | Preferred Stock | | | |
| | | Warrants | | 69,106 | 68,054 |
| Total Acceleron Pharmaceuticals, Inc. | | | | 4,001,645 | 4,000,593 |
| Guava Technologies, Inc. (3.94%) | Biopharmaceuticals | Senior Debt | | | |
| | | Matures July 2009 | | | |
| | | Interest rate Prime + 3.25% | \$4,500,000 | 4,397,111 | 4,397,111 |
| | | Preferred Stock | | | |
| | | Warrants | | 105,399 | 103,837 |
| Total Guava Technologies, Inc. | | | | 4,502,510 | 4,500,948 |
| Labopharm USA, Inc. (8.63%) | Biopharmaceuticals | Senior Debt | | | |
| | | Matures July 2008 | | | |
| | | Interest rate 11.95% | \$9,837,901 | 9,869,420 | 9,869,420 |
| Labopharm USA, Inc. (1.20%) | | Common Stock | | 112,335 | 1,367,268 |
| Total Labopharm USA, Inc. | | | | 9,981,755 | 11,236,688 |
| Merrimack Pharmaceuticals, Inc. (7.89%) | Biopharmaceuticals | Senior Debt | | | |
| | | Matures October 2008 | | | |
| | | Interest rate 11.15% | \$9,000,000 | 8,878,668 | 8,878,668 |
| | | Preferred Stock | | | |
| | | Warrants | | 155,456 | 140,675 |
| Total Merrimack Pharmaceuticals, Inc. | | | | 9,034,124 | 9,019,343 |
| Omrix Biopharmaceuticals, Inc. (4.16%) | Biopharmaceuticals | Senior Debt | | | |
| | | Matures March 2008 | | | |
| | | Interest rate 11.45% | \$4,709,994 | 4,701,782 | 4,701,782 |
| | | Common Stock | | | |
| | | Warrants | | 11,370 | 58,399 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2005

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

| | | | | | |
|--|---|---|---------------|-------------------|-------------------|
| Total Consumer & Business Products (17.34%) | | | | 18,881,954 | 19,827,725 |
| IKANO Communications, Inc. (14.44%) | Communications Senior Debt & Networking | Matures December 2008 Interest rate 9.25% | \$ 16,454,540 | 16,402,789 | 16,402,789 |
| | | Preferred Stock Warrants | | 45,460 | 43,710 |
| | | Preferred Stock Warrants | | 72,344 | 71,000 |
| Total IKANO Communications, Inc. | | | | 16,520,593 | 16,517,499 |
| Interwise, Inc. (2.46%) | Communications Senior Debt & Networking | Matures August 2008 Interest rate 17.50% | \$ 2,809,653 | 2,809,653 | 2,809,653 |
| Total Interwise, Inc. | | | | 2,809,653 | 2,809,653 |
| Occam Networks, Inc. (2.79%) | Communications Senior Debt & Networking | Matures December 2007 Interest rate 11.95% | \$ 2,559,827 | 2,540,021 | 2,540,021 |
| | | Preferred Stock Warrants | | 14,000 | 286,364 |
| | | Common Stock Warrants | | 17,000 | 368,935 |
| Total Occam Networks, Inc. | | | | 2,571,021 | 3,195,320 |
| Optovia Corporation (4.37%) | Communications Senior Debt & Networking | Matures September 2006 Interest rate Prime + 7.25% | \$ 5,000,000 | 5,000,000 | 5,000,000 |
| Total Optovia Corporation | | | | 5,000,000 | 5,000,000 |
| | See notes to consolidated financial statements (unaudited). | | | | |

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2005

| Portfolio Company | Industry | Type of Investment ⁽¹⁾ | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|-----------------------------|--|------------------|---------------------|----------------------|
| Pathfire, Inc. (4.38%) | Communications & Networking | Senior Debt Matures December 2008 Interest rate Prime + 3.65% | \$5,000,000 | \$ 4,938,482 | \$ 4,938,482 |
| | | Preferred Stock Warrants | | 63,276 | 64,100 |
| Pathfire, Inc. | | | | 5,001,758 | 5,002,600 |
| Total Communications & Networking (28.44%) | | | | 31,903,025 | 32,525,000 |
| Adiana, Inc. (1.76%) | Medical Devices & Equipment | Senior Debt Matures June 2008 Interest rate Prime + 6.00% | \$2,000,000 | 1,943,979 | 1,943,979 |
| | | Preferred Stock Warrants | | 67,225 | 66,400 |
| Adiana, Inc. (0.44%) | | Preferred Stock | | 500,000 | 500,000 |
| Adiana, Inc. | | | | 2,511,204 | 2,510,300 |
| Optiscan Biomedical, Corp. (1.54%) | Medical Devices & Equipment | Senior Convertible Term Loan Matures March 2008 Interest rate 15.00% | \$1,753,164 | 1,683,063 | 1,683,063 |
| | | Preferred Stock Warrants | | 80,486 | 81,100 |
| Optiscan Biomedical, Corp. (0.87%) | | Preferred Stock | | 1,000,000 | 1,000,000 |
| Optiscan Biomedical, Corp. | | | | 2,763,549 | 2,764,200 |
| Power Medical Interventions, Inc. (3.52%) | Medical Devices & Equipment | Senior Debt Matures June 2008 Interest rate 10.71% | \$4,000,000 | 3,969,515 | 3,969,515 |
| | | Common Stock Warrants | | 39,195 | 56,400 |
| Power Medical Interventions, Inc. | | | | 4,008,710 | 4,026,000 |
| Xillix Technologies Corp. (4.83%) | Medical Devices & Equipment | Senior Debt Matures December 2008 Interest rate 12.40% | \$5,500,000 | 5,195,589 | 5,195,589 |
| | | Preferred Stock Warrants | | 313,108 | 325,600 |
| Xillix Technologies Corp. | | | | 5,508,697 | 5,521,200 |
| Total Medical Devices & Equipment (12.96%) | | | | 14,792,160 | 14,821,800 |

| | | | | | |
|--|---------------------------------------|--|--------------|------------------|------------------|
| finity Express, Inc. (1.54%) | Internet Consumer & Business Services | Senior Debt Matures November 2007 Interest rate 13.50% | \$ 1,583,531 | 1,560,450 | 1,560,450 |
| | | Common Stock Warrants | | 17,000 | 187,900 |
| | | Common Stock Warrants | | 15,000 | 12,900 |
| finity Express, Inc. (0.22%) | | Preferred Stock | | 250,000 | 250,000 |
| al Affinity Express, Inc. | | | | 1,842,450 | 2,011,300 |
| oke Solutions, Inc. (1.31%) | Internet Consumer & Business Services | Senior Debt Matures December 2008 Interest rate 11.25% | \$ 1,500,000 | 1,457,391 | 1,457,391 |
| | | Preferred Stock Warrants | | 43,826 | 44,100 |
| al Invoke Solutions, Inc. | | | | 1,501,217 | 1,501,500 |
| orGator Interactive Group, Inc. (3.64%) | Internet Consumer & Business Services | Senior Debt Matures January 2008 Interest rate 9.95% | \$ 4,104,553 | 4,095,853 | 4,095,853 |
| | | Preferred Stock Warrants | | 13,050 | 64,800 |
| orGator Interactive Group, Inc. (0.87%) | | Preferred Stock | | 1,000,000 | 1,000,000 |
| al RazorGator Interactive Group, Inc. | | | | 5,108,903 | 5,160,600 |
| al Internet Consumer & Business Service (7.58%) | | | | 8,452,570 | 8,673,500 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2005

| Portfolio Company | Industry | Type of Investment⁽¹⁾ | Principal Amount | Cost⁽²⁾ | Value⁽³⁾⁽⁴⁾ |
|---|------------------------|---|-------------------------|---------------------------|-------------------------------|
| Cornice Inc. (11.24%) | Electronics & Computer | Senior Debt | | | |
| | | Matures November 2008 | | | |
| | Hardware | Interest rate Prime + 4.50% | \$5,000,000 | \$ 4,915,455 | \$ 4,915,455 |
| | | Revolving Line of Credit | | | |
| | | Matures November 2006 | | | |
| | | Interest rate Prime + 3.00% | \$7,834,131 | 7,663,375 | 7,663,375 |
| | | Preferred Stock Warrants | | 101,597 | 99,336 |
| | | Preferred Stock Warrants | | 35,353 | 34,230 |
| | | Preferred Stock Warrants | | 135,403 | 132,390 |
| Total Cornice, Inc. | | | 12,851,183 | 12,844,786 | |
| Sling Media, Inc. (4.29%) | Electronics & Computer | Senior Debt | | | |
| | | Matures January 2009 | | | |
| | Hardware | Interest rate 10.25% | \$4,000,000 | 3,965,029 | 3,965,029 |
| | | Preferred Stock Warrants | | 38,968 | 945,365 |
| Total Sling Media, Inc. | | | 4,003,997 | 4,910,394 | |
| Total Electronics & Computer Hardware (15.53%) | | | | 16,855,180 | 17,755,180 |
| Ageia Technologies (7.00%) | Semiconductor | Senior Debt | | | |
| | | Matures August 2008 | | | |
| | | Interest rate 10.25% | \$8,000,000 | 7,914,586 | 7,914,586 |
| | | Preferred Stock Warrants | | 99,190 | 93,518 |
| Ageia Technologies | | Preferred Stock | 500,000 | 500,000 | |
| Total Ageia Technologies | | | 8,513,776 | 8,508,104 | |
| Cradle Technologies (1.75%) | Semiconductors | Senior Debt | | | |
| | | Matures December 2008 | | | |
| | | Interest rate Prime + 4.70% | \$2,000,000 | 1,923,049 | 1,923,049 |
| | | Preferred Stock Warrants | | 79,150 | 78,730 |

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

* Value as a percent of net assets

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

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

(3) Except for common stock held in Labopharm Biopharmaceuticals, all investments are restricted at December 31, 2005 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted

securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

- (4) Citigroup has an equity participation right on warrants collateralized under the Citigroup facility. The value of their participation right on unrealized gains in the related equity investments was approximately \$342,000 at December 31, 2005 and is included in accrued.
- (5) All investments are less than 5% owned.

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three Months Ended June | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|----------------------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Investment income: | | | | |
| Interest | \$ 6,175,831 | \$ 1,720,281 | \$ 11,810,370 | \$ 2,395,885 |
| Fees | 612,080 | 192,543 | 1,464,674 | 270,912 |
| Total investment income | 6,787,911 | 1,912,824 | 13,275,044 | 2,666,797 |
| Operating expenses: | | | | |
| Interest | 1,357,893 | 444,444 | 3,034,875 | 444,444 |
| Loan fees | 286,688 | 433,333 | 537,481 | 433,333 |
| Compensation and benefits | 1,127,238 | 869,874 | 2,332,320 | 1,364,828 |
| General and administrative | 1,418,584 | 442,770 | 2,603,977 | 645,419 |
| Stock-based compensation | 130,000 | 56,000 | 253,000 | 80,000 |
| Total operating expenses | 4,320,403 | 2,246,421 | 8,761,653 | 2,968,024 |
| Net investment income (loss) before provision for income tax and investment gains and losses | 2,467,508 | (333,597) | 4,513,391 | (301,227) |
| Income tax (benefit) expense | (771,823) | | 988,177 | |
| Net investment income (loss) | 3,239,331 | (333,597) | 3,525,214 | (301,227) |
| Net realized gain on equity investment | 1,599,422 | | 3,144,443 | |
| Net (decrease) increase in unrealized appreciation on investments | (1,472,381) | 1,043,392 | (798,292) | 1,043,392 |
| Net gain on investments | 127,041 | 1,043,392 | 2,346,151 | 1,043,392 |
| Net increase in net assets resulting from operations | \$ 3,366,372 | \$ 709,795 | \$ 5,871,365 | \$ 742,165 |
| Net investment income (loss) before provision for income tax and investment gains and losses: | | | | |
| Basic | \$ 0.19 | \$ (0.07) | \$ 0.40 | \$ (0.08) |
| Diluted | \$ 0.19 | \$ (0.06) | \$ 0.39 | \$ (0.07) |
| Change in net assets per common share: | | | | |

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| | | | | | | | | |
|-------------------------------------|----|------------|----|-----------|----|------------|----|-----------|
| Basic | \$ | 0.26 | \$ | 0.14 | \$ | 0.52 | \$ | 0.19 |
| Diluted | \$ | 0.26 | \$ | 0.14 | \$ | 0.51 | \$ | 0.18 |
| Weighted average shares outstanding | | | | | | | | |
| Basic | | 12,859,474 | | 5,121,000 | | 11,394,175 | | 4,006,000 |
| Diluted | | 12,944,601 | | 5,242,000 | | 11,479,302 | | 4,119,000 |

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 | | Paid-In | Distributable | |
|---|---------------------|--------------|----------------|----------------------|----------------|
| | Shares | Par | Capital | earnings | Net |
| | | Value | | (accumulated | Assets |
| | | | | deficit) | |
| Balance at December 31, 2004 | 2,059,270 | \$ 2,059 | \$ 27,117,896 | \$ (2,041,822) | \$ 25,078,133 |
| Issuance of common shares, net of offering costs | 268,134 | 268 | 3,870,542 | | 3,870,810 |
| Issuance of shares in lieu of 5 year warrants | 298,598 | 299 | (299) | | |
| Issuance of shares on exercise of 1 year warrants | 1,175,963 | 1,176 | 12,428,744 | | 12,429,920 |
| Issuance of common shares in IPO, net of offering costs | 6,000,000 | 6,000 | 70,971,088 | | 70,977,088 |
| Stock-based compensation | | | 80,000 | | 80,000 |
| Increase in net assets from operations: | | | | | |
| Net investment loss | | | | (301,227) | |
| Net unrealized appreciation on investments | | | | 1,043,392 | |
| Net increase in net assets resulting from operations | | | | 742,165 | 742,165 |
| Balance at June 30, 2005 | 9,801,965 | \$ 9,802 | \$ 114,467,971 | \$ (1,299,657) | \$ 113,178,116 |
| Balance at December 31, 2005 | 9,801,965 | \$ 9,802 | \$ 114,524,833 | \$ (182,305) | \$ 114,352,330 |
| Issuance of common shares | 432,900 | 433 | 4,999,567 | | 5,000,000 |
| Issuance of common shares in Rights Offering, net of offering costs | 3,411,992 | 3,412 | 33,860,028 | | 33,863,440 |

| | | | | | | |
|--|------------|-----------|----------------|----|-------------|----------------|
| Stock-based compensation | | | 253,000 | | | 253,000 |
| Distribution to shareholders | | | | | (6,011,049) | (6,011,049) |
| Increase in net assets from operations: | | | | | | |
| Net investment income | | | | | 3,525,214 | |
| Net realized gain on investments | | | | | 3,144,443 | |
| Net unrealized depreciation on investments | | | | | (908,121) | |
| Net unrealized appreciation on equity investments | | | | | (1,839,781) | |
| Net unrealized appreciation on warrants | | | | | 1,949,610 | |
| Net increase in net assets resulting from operations | | | | | 5,871,365 | 5,871,365 |
| Balance at June 30, 2006 | 13,646,857 | \$ 13,647 | \$ 153,637,428 | \$ | (321,989) | \$ 153,329,086 |

See notes to consolidated financial statements (unaudited).

Table of Contents

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net increase in net assets resulting from operations | \$ 5,871,365 | \$ 742,165 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: | | |
| Purchase of investments | (65,850,000) | (70,330,000) |
| Principal payments received on investments | 48,823,968 | 937,529 |
| Net unrealized appreciation on investments | 541,407 | (1,043,392) |
| Net unrealized appreciation on investments due to lender | (23,001) | |
| Net realized gain on sale of equity investment | (2,280,541) | |
| Accretion of loan discounts | (709,406) | (82,129) |
| Accretion of loan exit fees | (276,981) | (87,312) |
| Depreciation | 20,638 | 8,517 |
| Stock-based compensation | 253,000 | 80,000 |
| Amortization of deferred loan origination revenue | (1,162,048) | (270,912) |
| Change in operating assets and liabilities: | | |
| Interest receivable | (475,402) | (562,557) |
| Prepaid expenses and other current assets | 888,091 | (618,340) |
| Income tax receivable | (533,423) | |
| Deferred tax asset | 1,454,000 | |
| Accounts payable | 529,903 | 718,510 |
| Income tax payable | (1,709,000) | |
| Accrued liabilities | 799,019 | 687,969 |
| Deferred loan origination revenue | 1,654,160 | 1,640,984 |
| | | |
| Net cash used in operating activities | (12,184,251) | (68,178,968) |
| Cash flows from investing activities: | | |
| Proceeds from sale of equity investment | 2,594,002 | |
| Purchases of capital equipment | (27,627) | (31,457) |
| Other long-term assets | (385,207) | (18,046) |
| | | |
| Net cash provided by (used in) investing activities | 2,181,168 | (49,503) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net | 38,863,440 | 87,277,818 |
| Dividends paid | (6,011,049) | |
| (Repayment) proceeds of credit facilities | (15,000,000) | 25,000,000 |
| | | |
| Net cash provided by financing activities | 17,852,391 | 112,277,818 |
| | | |
| Net increase in cash | 7,849,308 | 44,049,347 |

| | | |
|--|---------------|---------------|
| Cash and cash equivalents at beginning of period | 15,362,447 | 8,678,329 |
| Cash and cash equivalents at end of period | \$ 23,211,755 | \$ 52,727,676 |

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. 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 and Chicago, Illinois 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). The Company intends to elect to be regulated for federal income tax purposes as a regulated investment company (RIC) for the 2006 tax year. If the Company qualifies as a RIC for the year ended December 31, 2006, the election will be effective as of January 1, 2006.

On June 11, 2005, the Company raised approximately \$70.9 million, net of issuance costs, from an initial public offering (IPO) of 6,000,000 shares of its common stock. On April 21, 2006, the Company raised approximately \$34.0 million, net of issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at \$10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering.

In January 2005, the Company formed Hercules Technology II, L.P. (HT II) and Hercules Technology SBIC Management, LLC (HTM). On May 3, 2005, HT II filed an application with the Small Business Administration (the SBA) to become licensed as a Small Business Investment Company (SBIC) and on June 24, 2005, the HT II received a letter of acknowledgement of receipt of this application. Upon receipt of this letter from the SBA, HT II was eligible to make pre-approved investments. If HT II's application to the SBIC program is ultimately approved by the SBA, then it will be able to borrow funds from the SBA against eligible pre-approved investments and additional contributions to regulatory capital. At June 30, 2006, the Company has a net investment of \$2.5 million in HT II, and there is one outstanding investment in the amount of \$1.9 million, which was funded in 2005. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HTM is the general partner.

In July 2005, the Company formed Hercules Funding I LLC and Hercules Funding Trust I, an affiliated statutory trust, and executed a \$125 million securitized credit facility, as amended, with Citigroup Global Markets Realty Corp. (see Note 4).

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany 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

Table of Contents

(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, 2005, filed with the Securities and Exchange Commission on March 7, 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.

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 consistent procedures and the recommendations of the Valuation Committee of the Board of Directors. At June 30, 2006, approximately 89% of the Company's total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors.

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 process, fair value may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

When originating a debt instrument, the Company 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

Table of Contents

there are other factors that lead to a determination of a lower valuation for the debt or equity security. Conversely, an unrealized gain is recorded when the investment has appreciated in value. Securities that are traded in the over the counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Board of Directors estimates the fair value of warrants and other equity-related securities in good faith using a Black-Scholes pricing model and consideration of the issuer's earnings, sales to third parties of similar securities, the comparison to publicly traded securities, and other factors. Any resulting discount on the loan from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

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 the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. 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 June 30, 2006 and 2005, all of the Company's investments were in Non-Control/Non-Affiliate companies.

Security transactions are recorded on the trade-date basis.

A summary of the composition of the Company's investment portfolio as of June 30, 2006 and December 31, 2005 at fair value is shown as follows:

| | June 30, 2006 | | December 31, 2005 | |
|---------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| (\$ in millions) | | | | |
| Senior debt with warrants | \$ 180.4 | 93.2% | \$ 163.4 | 92.4% |
| Subordinated debt | 7.7 | 4.0% | 8.4 | 4.8% |
| Preferred stock | 5.5 | 2.8% | 3.5 | 2.0% |
| Common stock | | 0.0% | 1.4 | 0.8% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

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

| | June 30, 2006 | | December 31, 2005 | |
|-------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| (\$ in millions) | | | | |
| United States | \$ 176.8 | 91.3% | \$ 155.9 | 88.2% |
| Canada | 13.8 | 7.1% | 16.8 | 9.5% |
| Israel | 3.0 | 1.6% | 4.0 | 2.3% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

Table of Contents

The following table shows the fair value of our portfolio by industry sector at June 30, 2006 and December 31, 2005 (excluding unearned income):

| (\$ in millions) | June 30, 2006 | | December 31, 2005 | |
|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Biopharmaceuticals | \$ 61.2 | 31.6% | \$ 43.6 | 24.7% |
| Software | 35.3 | 18.2% | 29.0 | 16.4% |
| Communications & networking | 25.5 | 13.2% | 32.5 | 18.4% |
| Consumer & business products | 19.6 | 10.1% | 19.8 | 11.2% |
| Electronics & computer hardware | 14.1 | 7.3% | 17.8 | 10.1% |
| Medical devices | 13.3 | 6.9% | 14.8 | 8.4% |
| Internet consumer & business services | 12.6 | 6.5% | 8.7 | 4.9% |
| Semiconductors | 10.5 | 5.4% | 10.5 | 5.9% |
| Energy | 1.5 | 0.8% | | 0.0% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

During the three- and six- month periods ended June 30, 2006, the Company made investments in debt securities totaling \$32,100,000 and \$64,600,000, respectively. In addition, during the three- and six- month periods ended June 30, 2006, the Company made investments in equity securities of \$750,000 and \$1,250,000, 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 adjustments to the loan yield. The Company had approximately \$3.2 million and \$2.7 of unamortized fees at June 30, 2006 and December 31, 2005, respectively, and approximately \$655,595 and \$351,000 million in exit fees receivable at June 30, 2006 and December 31, 2005, respectively.

3. Credit Facility

On April 12, 2005, the Company entered into a bridge loan credit facility (the "Bridge Loan Credit Facility" or the "Loan") with Alcmene Funding, L.L.C. ("Alcmene"), a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of the Company. The Loan was subsequently amended on August 1, 2005 and March 6, 2006. The Loan was originally a \$25 million senior secured term loan, allowing for up to an additional \$25 million of discretionary supplemental senior secured loans. On August 1, 2005, the Company amended the Loan with an agreement extending the term of the Bridge Loan Credit Facility to April 12, 2006. The amendment eliminated the loan extension fee, revised the interest rate effective August 1, 2005 to LIBOR plus 5.6% through December 31, 2005 and thereafter to 13.5% per annum, and amended certain collateral rights and financial covenants. On March 6, 2006, the Company entered into an agreement to repay \$10.0 million of the \$25.0 million outstanding under its Bridge Loan Credit Facility. The Company also extended the maturity of the remaining \$15.0 million to June 30, 2006 and decreased the interest rate from 13.5% to 10.86% per annum. On May 10, 2006, the Company repaid the \$15.0 million outstanding

Table of Contents

under the Bridge Loan Credit Facility and paid a \$500,000 loan fee due on maturity plus all accrued and unpaid interest through the date of repayment. At June 30, 2006, the Bridge Loan Credit Facility is no longer outstanding.

4. Securitization Agreement

On August 1, 2005, the Company, through Hercules Funding Trust I, an affiliated statutory trust, executed a \$100 million securitized credit facility (the Citigroup Facility) with Citigroup Global Markets Realty Corp. (Citigroup). The Company's ability to make draws on the Citigroup Facility was to expire on July 31, 2006, however, it was extended for an additional 364-day period with the lenders' consent on July 28, 2006. Prior to its July 31, 2007 expiration date, Citigroup Facility may be extended for an additional 364-day period with the lenders' consent. If the Citigroup Facility is not extended, any principal amounts then outstanding will be amortized over a six-month period through a termination date in January 2008.

The Citigroup Facility is collateralized by loans from the Company's portfolio companies, and includes an advance rate of approximately 55% of eligible loans. The Citigroup Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests, and to certain interest payment terms. In addition, the Citigroup Facility provides that Citigroup shall have a participation right equal to 10% of any realized gains, to a maximum of \$3.0 million, on equity instruments included in the loan collateral. At June 30, 2006, the Company has recorded an accrued liability of approximately \$378,000 related to unrealized gains on equity investments currently included in the collateral pool.

Interest on borrowings under the Citigroup Facility are paid monthly and are charged at one-month LIBOR plus a spread of 1.65%. The Company also paid a loan origination fee equal to 0.25% of the Citigroup Facility. On March 6, 2006, the Company amended the Citigroup facility with an agreement that increased the borrowing capacity under the facility to \$125.0 million, increased the advance rate to 60% of eligible loans and increased the eligible capacity for loans by geographic region. The amendment allows for an interest rate of LIBOR plus 2.5% on amounts borrowed in excess of \$100.0 million and an interest rate of LIBOR plus 5.0% for amounts borrowed in excess of 55% of eligible loans. The Company paid a restructuring fee of \$150,000 that will be expensed ratably through maturity on July 31, 2006.

At June 30, 2006, the Company, through its special purpose entity (SPE), had transferred pools of loans with a fair value of approximately \$157.3 million to Citibank and had drawn \$61.0 million under the facility. Transfers of loans have not met the requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for sales treatment and are, therefore, treated as secured borrowings, with the transferred loans remaining in investments and the related liability recorded in borrowings. The average debt outstanding under the Citigroup Facility for the three and six months ended June 30, 2006 was approximately \$62.9 and \$64.8 million, respectively, and the average interest rate were approximately 6.73% and 6.50%, respectively.

5. Income Taxes

During the second quarter ended June 30, 2006, the Company determined that it is more likely than not that it will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. The Company intends to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of its 2006 tax return and would be effective as of January 1, 2006. If the

Table of Contents

Company meets the required qualification tests of a RIC, any income timely distributed to its shareholders will not be subject to corporate level federal income or excise taxes in those years that the company qualifies as a RIC. At March 31, 2006, the Company had a deferred tax asset of approximately \$181,000. During the second quarter, 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 would not be subject to federal income or excise taxes in 2006. As a result, the Company recorded a tax benefit of approximately \$800,000 million in the second quarter.

6. Shareholders Equity

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

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 \$12,429,920. All unexercised 1 Year Warrants were then cancelled.

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

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

On September 7, 2005, the Company registered 3,801,905 shares of common stock and 673,223 5-year warrants pursuant to its obligations under a registration rights agreement between the Company and certain shareholders. The Company will not receive any proceeds from the sale of these securities.

On March 7, 2006, the Company issued 432,900 shares of common stock for approximately \$5.0 million in a private placement. The shares of common stock are subject to a registration rights agreement between the Company and the purchasers. The shares were registered pursuant to a registration statement that was declared effective on June 7, 2006.

Table of Contents

On April 21, 2006, the Company raised approximately \$34.0 million, net of estimated issuance costs, from a rights offering of 3,411,992 shares of its common stock. The shares were sold at \$10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering.

A summary of activity in the 5 Year Warrants initially attached to units issued for the six months ended June 30, 2006 is as follows:

| | Five-Year Warrants |
|---|-------------------------------|
| Warrants outstanding at December 31, 2005 | 616,672 |
| Warrants issued | |
| Warrants cancelled | |
| Warrants exercised | |
| Warrants outstanding at June 30, 2006 | 616,672 |

A summary of common stock options and warrant activity under the Company's equity incentive plan for the six months ended June 30, 2006, is as follows:

| | Common Stock Options | Five-Year Warrants |
|----------------------------------|---------------------------------|-------------------------------|
| Outstanding at December 31, 2005 | 1,337,436 | 56,551 |
| Granted | 536,500 | |
| Exercised | | |
| Cancelled | (43,000) | |
| Outstanding at June 30, 2006 | 1,830,936 | 56,551 |

7. Earnings per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Weighted average common shares outstanding | 12,859,474 | 5,121,000 | 11,394,175 | 4,006,000 |
| Dilutive effect of warrants | 85,127 | 121,000 | 85,127 | 113,000 |
| Weighted average common shares outstanding, assuming dilution | 12,944,601 | 5,242,000 | 11,479,302 | 4,119,000 |

Weighted average common shares outstanding, assuming dilution, includes the incremental effect of shares that would be issued upon the assumed exercise of warrants. The Company has excluded all outstanding stock options from the calculation of diluted net income (loss) per share because these securities are antidilutive for all periods presented. These excluded common share equivalents could be dilutive in the future. Options for approximately 1,831,000 and 1,403,000 shares of common stock have been excluded for the three months ended June 30, 2006 and 2005, respectively.

Table of Contents

8. Related-Party Transactions

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

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

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.

9. 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.

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

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 has filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan. No shares may be issued out of the 2006 Plan until such time as relief is provided by the SEC, and, as such, no shares were issued as of June 30, 2006.

Table of Contents**10. Financial Highlights**

Following is a schedule of financial highlights for the six months ended June 30, 2006 and 2005:

| | Six Months Ended June 30, | |
|---|----------------------------------|-----------------------|
| | 2006 | 2005 |
| Per share data: | | |
| Net asset value at beginning of period | \$ 11.67 | \$ 12.18 |
| Net investment income (loss) | 0.31 | (0.03) |
| Net realized gain on investments | 0.28 | |
| Net unrealized appreciation | (0.07) | 0.11 |
| Total from investment operations | 0.52 | 0.08 |
| Net decrease in net assets from capital share transactions | (0.44) | (0.72) |
| Dividends paid | (0.53) | |
| Stock-based compensation expense included in investment loss ⁽¹⁾ | 0.02 | 0.01 |
| Net asset value at end of period | \$ 11.24 | \$ 11.55 |
| Ratios and supplemental data: | | |
| Per share market value at end of period | \$ 12.10 | 12.90% |
| Total return | 11.28% ⁽²⁾ | 17.11% ⁽³⁾ |
| Shares outstanding at end of period | 13,646,857 | 9,801,965 |
| Weighted average number of common shares outstanding | 11,394,175 | 4,005,932 |
| Net assets at end of period | \$ 153,329,086 | \$ 113,178,116 |
| Ratio of operating expense to average net assets (annualized) | 13.67% | 13.55% |
| Ratio of net investment income before provision for income tax expense and investment gains and losses (annualized) | 7.04% | -1.37% |
| Average debt outstanding | \$ 70,889,503 | \$ 10,972,222 |
| Weighted average debt per common share | \$ 6.22 | \$ 2.74 |
| Portfolio turnover | 1.31% | 0.00% |

(1) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to Financial Accounting Standards No. 123 (revised 2004), net investment loss includes the expense associated with

the granting of
stock options
which is offset
by a
corresponding
increase in
paid-in capital.

(2) The total return
for the period
ended June 30,
2006 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.

(3) The total return
for the period
ended June 30,
2005 is for a
shareholder who
owned common
shares
throughout the
period, and
received one
additional
common share
for every two 5
Year Warrants
cancelled.
Shareholders
who purchased
common shares
on January 26,
2005, exercised
1 Year
Warrants, or
purchased
common shares
in the initial
public offering
will have a

different total
return. The
Company
completed its
initial public
offering on
June 11, 2005;
prior to that date
shares were
issued in private
placements.

11. Commitments and Contingencies

In June 2006, the Company entered into a lease agreement for new office headquarters located in Palo Alto, California. The lease is scheduled to commence in October 2006 and terminates in December 2013.

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

12. Subsequent Event

On July 19, 2006, the Board of Directors approved a dividend of \$0.30 per share to shareholders of record as of July 31, 2006 and payable on August 28, 2006.

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 both this Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and the following Item 3 Quantitative and Qualitative Disclosure about Market Risk include forward-looking statements. Such forward-looking statements are subject to the safe harbor created by that section. 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, continues, intends, target, projects, contemplates, believes, estimates, predicts, potential, or continue, or the negative terms, or other similar expressions generally identify forward-looking statements.

The forward-looking statements made in these Items 2 and 3 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. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies. We originate our investments through our principal office located in Silicon Valley, as well as our additional offices in the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. 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

Table of Contents

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 or less.

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code (the Code). During the second quarter ended June 30, 2006, the Company determined that it is more likely than not that it will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC.

Portfolio and Investment Activity

We commenced investment operations in September 2004 and entered into our first debt investment in November 2004. The total value of our investment portfolio was \$193.6 million at June 30, 2006 as compared to \$176.7 million at December 31, 2005. During the three and six months ended June 30, 2006, we made debt commitments to six and 17 new portfolio companies totaling \$38.5 million and \$113.1, respectively. We funded \$32.1 million to 10 companies including three existing portfolio companies, and \$64.6 million to 20 companies during the three and six-months ended June 30, 2006, respectively. We also made equity investments in two and one existing portfolio companies totaling \$750,000 and \$1.3 million during the three and six-months ended June 30, 2006, respectively, bringing total equity investments at fair value to approximately \$5.5 million at June 30, 2006. At June 30, 2006, we had unfunded contractual commitments of \$85.2 million to 18 portfolio companies.

During the three and six months ended June 30, 2006, we received normal principal repayments of approximately \$7.4 million and \$15.4 million, respectively, a total of five companies made early repayments totaling \$29.7 million, and we received paydowns of \$3.7 million on one working line of credit. Total portfolio investment activity (exclusive of unearned income) as of and for the six-month period ended June 30, 2006 was as follows:

| (\$ in millions) | June 30, 2006 |
|--|--------------------------|
| Beginning Portfolio | \$ 176.7 |
| Purchase of investments | 64.6 |
| Equity investments | 1.3 |
| Principal payments received on investments | (19.3) |
| Early pay-offs | (29.7) |
| Accretion of loan discounts | 0.7 |
| Net Unrealized appreciation on investments | (0.7) |
| Ending Portfolio | \$ 193.6 |

Table of Contents

The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2006 and December 31, 2005 (excluding unearned income):

| (\$ in millions) | June 30, 2006 | | December 31, 2005 | |
|---------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Senior debt with warrants | \$ 180.4 | 93.2% | \$ 163.4 | 92.4% |
| Subordinated debt | 7.7 | 4.0% | 8.4 | 4.8% |
| Preferred stock | 5.5 | 2.8% | 3.5 | 2.0% |
| Common stock | | 0.0% | 1.4 | 0.8% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

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

| (\$ in millions) | June 30, 2006 | | December 31, 2005 | |
|------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States | \$ 176.8 | 91.3% | \$ 155.9 | 88.2% |
| Canada | 13.8 | 7.1% | 16.8 | 9.5% |
| Israel | 3.0 | 1.6% | 4.0 | 2.3% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

The following table shows the fair value of our portfolio by industry sector at June 30, 2006 and December 31, 2005 (excluding unearned income):

| (\$ in millions) | June 30, 2006 | | December 31, 2005 | |
|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Biopharmaceuticals | \$ 61.2 | 31.6% | \$ 43.6 | 24.7% |
| Software | 35.3 | 18.2% | 29.0 | 16.4% |
| Communications & networking | 25.5 | 13.2% | 32.5 | 18.4% |
| Consumer & business products | 19.6 | 10.1% | 19.8 | 11.2% |
| Electronics & computer hardware | 14.1 | 7.3% | 17.8 | 10.1% |
| Medical devices | 13.3 | 6.9% | 14.8 | 8.4% |
| Internet consumer & business services | 12.6 | 6.5% | 8.7 | 4.9% |
| Semiconductors | 10.5 | 5.4% | 10.5 | 5.9% |
| Energy | 1.5 | 0.8% | | 0.0% |
| | \$ 193.6 | 100.0% | \$ 176.7 | 100.0% |

We use an investment grading system, which grades each investment on a scale of 1 to 5, to characterize and monitor our expected level of returns on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at

fair value as of June 30, 2006 and December 31, 2005:

| (\$ in millions) | June 30, 2006 | | December 31, 2005 | |
|---------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Investment Grading | | | | |
| 1 | \$ 11.9 | 6.5% | \$ 9.9 | 5.8% |
| 2 | 132.5 | 73.1 | 150.3 | 87.5 |
| 3 | 25.2 | 13.9 | 5.8 | 3.4 |
| 4 | 11.7 | 6.5 | 4.5 | 2.6 |
| 5 | | | 1.3 ⁽¹⁾ | 0.7 |
| | \$ 181.3 | 100.0% | \$ 171.8 | 100.00% |

(1) Reflects the value of the assets of this portfolio company that were sold in January 2006 for which we received approximately \$1.3 million in cash distributions. We received an additional contingent payment of approximately \$469,000 in the first quarter of 2006, and approximately \$361,000 in the second quarter of 2006. We may receive future distributions related to this sale but such distributions are contingent on future

deliverables.

Table of Contents

As of June 30, 2006, our investments had a weighted average investment grading of 2.21 as compared to 2.04 at March 31, 2006. Our policy is to reduce the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria and their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and have therefore been downgraded until the funding is complete or their operations improve. At June 30, 2006, nine portfolio companies have been graded at 3 and three portfolio companies have been graded 4 as compared to four and one portfolio companies, respectively, at December 31, 2005.

At June 30, 2006, the weighted average yield to maturity of our loan obligations was approximately 12.80% as compared to 12.87% at December 31, 2005. Yields to maturity are computed using interest rates as of June 30, 2006 and December 31, 2005 and include amortization of loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and are based on the assumption that all contractual loan commitments have been fully funded.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$20.0 million, with an average initial principal balance of between \$3.0 million and \$7.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from 8.0% to 14.0% (based on current interest rate conditions). In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, or prepayment fees, and diligence fees, which may be required to be included in income prior to receipt. In some cases, we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property. Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth and expansion-stage companies. In addition, certain loans may include an interest-only period ranging from three to six months. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date. Our mezzanine debt investments also generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation.

Results of Operations***Comparison of the Three and Six-Months Ended June 30, 2006 and 2005*****Operating Income**

Interest income totaled approximately \$6.2 and \$11.8 million for the three and six-month periods ended June 30, 2006, respectively, compared with \$1.7 and \$2.4 million for the three and six-month periods ended June 30, 2005. Income from commitment and facility fees totaled approximately \$612,000 and \$1.5 million for the three and six-month periods ended June 30, 2006, respectively, as compared with \$193,000 and \$271,000 for the three and six-month periods ended June 30, 2005. The increases in investment income and income from

Table of Contents

commitment and facility fees for both periods presented are the result of higher average loan balances outstanding due to origination activity and yield from the related investments. At June 30, 2006, we had approximately \$3.2 million of deferred revenue related to commitment and facility fees, as compared to approximately \$1.7 million as of June 30, 2005. We expect to generate additional interest income and loan fees as we continue to originate additional investments.

Operating Expenses

Operating expenses totaled approximately \$4.3 million and \$8.8 million during the three and six-month periods ended June 30, 2006, respectively, compared with \$2.2 million and \$3.0 million during the three and six-month periods ended June 30, 2005, respectively. Operating expenses for the three and six-month periods ended June 30, 2006 included interest expense, loan fees and unused commitment fees under our Bridge Loan Credit Facility and the Citigroup Facility of approximately \$1.6 million and \$3.6 million, respectively, compared with \$878,000 for the three and six-month periods ended June 30, 2005. The increase in interest expense and loan fees was due to the additional debt outstanding under the Citigroup Facility that was not outstanding in the first half of 2005.

Employee compensation and benefits were approximately \$1.1 million and \$2.3 million for the three and six-month periods ended June 30, 2006, compared with \$870,000 and \$1.4 million during the three and six-month periods ended June 30, 2005, respectively. The increase in compensation expense was directly related to increasing our headcount from 13 employees at June 30, 2005 to 19 employees at June 30, 2006.

General and administrative expenses increased to \$1.4 million and \$2.6 million for the three and six-month periods ended June 30, 2006, up from \$443,000 and \$645,000 during the three and six-month periods ended June 30, 2005, respectively. The increase for both periods was primarily due to increased Board of Director expenses, legal expenses, professional service costs related to our status as a public company and the creation of our SBIC subsidiaries, higher business insurance expense as a public company as well as increased business development expenses.

In addition, we incurred approximately \$130,000 and \$253,000 of stock-based compensation expense in the three and six-month periods ended June 30, 2006, as compared to \$56,000 and \$80,000 in 2005, respectively. The increase in stock-based compensation expense was the result of the options outstanding for the entire period in 2006 as compared to a partial period in 2005.

We anticipate that operating expenses will increase over the next twelve months as we continue to incur higher interest expense on higher average outstanding debt balances, increase the number of our employees to support our growth and incur additional expenses related to being a public company, including expenses related to the implementation of the requirements under the Sarbanes-Oxley Act.

Net Investment Income (Loss) Before Income Tax Expense and Investment Gains and Losses

Net investment income before provision for income tax expense for the three and six-months ended June 30, 2006 totaled \$2.5 million and \$4.5 million as compared with net investment loss before provision for income tax expense of approximately \$334,000 and \$301,000 for the three and six-months ended June 30, 2005. These changes are made up of the items described above.

Net Investment Gains

During the three-months ended June 30, 2006, we generated a net realized gain totaling approximately \$1.2 million from the sale of common stock of one biopharmaceutical portfolio company, and we recognized a gain of approximately \$360,000 from additional recoveries on one portfolio company that was sold during the

Table of Contents

first quarter of 2006. This brings the total realized gains for the three and six-month periods ended June 30, 2006 to \$1.6 million and \$3.1 million, respectively. There were no realized gains during the three and six-months periods ended June 30, 2005.

For the three and six-months ended June 30, 2006, the net decrease in unrealized investment appreciation totaled approximately \$1.5 million and \$799,000, compared with a net increase in unrealized investment appreciation of \$1.0 million for the three and six-month periods ended June 30, 2005. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors.

At June 30, 2006, cumulative gross unrealized appreciation totaled approximately \$4.5 million in 15 of our portfolio investment companies and approximately \$1.3 million of gross unrealized depreciation on 26 of our portfolio investment companies. At June 30, 2005, the cumulative gross unrealized appreciation totaled approximately \$1.1 million in 10 of our portfolio companies and approximately \$38,000 of gross unrealized depreciation on nine of our portfolio investment companies. The net decrease in unrealized appreciation totaling approximately \$1.5 million for the three-months ended June 30, 2006 was the result of the conversion of an unrealized gain on a warrant in one portfolio company to a realized gain upon the exercise and sale of the portfolio company's common stock in the second quarter.

Income Taxes

During the second quarter ended June 30, 2006, we determined that it is more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC. At March 31, 2006, we had a deferred tax asset of approximately \$181,000. During the second quarter, a full valuation reserve was recorded against this asset in anticipation that we would not have a future federal tax expense to offset the deferred tax asset. In addition, during the first quarter of 2006, we recorded a tax expense in the amount of approximately \$1.8 million that was reversed in the second quarter as we would not be subject to federal income or excise taxes in 2006. As a result, we recorded a tax benefit of approximately \$800,000 million in the second quarter.

Net Increase in Net Assets Resulting from Operations and Earnings Per Share

For the three and six-months ended June 30, 2006, net income totaled approximately \$3.4 million and \$5.9 million, respectively, compared to net income of approximately \$710,000 and \$742,000 for the three and six-months ended June 30, 2005. These changes are made up of the items previously described.

Basic and diluted net income per share for the three and six-months ended June 30, 2006 was \$0.26 and \$0.52 and \$0.51, respectively, as compared to a basic and diluted income per share of \$0.14 and \$0.19 and \$0.18 for the three and six-months ended June 30, 2005.

Financial Condition, Liquidity, and Capital Resources

At June 30, 2006 and December 31, 2005, we had approximately \$23.3 million and \$15.4 million in cash and cash equivalents, respectively. In addition, at June 30, 2006 and December 31, 2005, we had approximately

Table of Contents

\$64.0 million and \$49.0 million, respectively, in available borrowing capacity under our Citigroup Facility, subject to existing terms and advance rates. We primarily invest cash on hand in interest bearing deposit accounts.

On April 21, 2006, we raised approximately \$34.0 million, net of issuance costs, from a rights offering of 3,411,992 shares of common stock. The shares were sold at \$10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering. Funds raised in the offering were partially used to pay off the remaining \$15.0 million outstanding under the Bridge Loan Credit Facility and to pay down \$10.0 million under our Citigroup Facility.

For the six-months ended June 30, 2006, net cash used in operating activities totaled approximately \$12.2 million. This use of cash was due primarily due to \$65.9 million used for investments in our portfolio companies offset by proceeds of \$48.8 million in principal repayments, a \$2.3 million realized gain on the sale of stock of two portfolio companies and the reverse of \$1.7 million of income tax payable. Cash provided by investing activities for the six-months ended June 30, 2006 totaled \$2.2 million and was primarily due to proceeds from the sale of common stock in two portfolio companies. Net cash provided by financing activities totaled \$17.9 million for the six-months ended June 30, 2006. In March and April, we received \$5.0 and \$33.9 million in proceeds from the sale of common stock, respectively, offset by a paydown of \$15 million under our credit facility, and a dividend payment of \$6.0 million. During the six-months ended June 30, 2006, we borrowed and repaid \$10.0 million under our Citigroup Facility.

As of June 30, 2006, net assets totaled \$153.3 million, with a net asset value per share of \$11.24, and we had approximately \$23.2 million in cash and cash equivalents. We intend to generate additional cash primarily from future borrowings as well as cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. After we have used our current capital resources, we expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. Our asset coverage as of June 30, 2006 was approximately 351%.

We anticipate that we will continue to fund our investment activities through a combination of debt and additional equity capital over the next year. As of June 30, 2006, based on eligible loans in the investment portfolio and existing advance rates, we had approximately \$25.0 million of borrowing capacity available under our existing \$125.0 million securitized credit facility from Citigroup and \$136.4 million of loans outstanding under the facility. As additional new loans are originated and funded, we will be able to increase our borrowing capacity under the Citigroup Facility beyond the current \$25.0 million. Advances under the facility bear interest at one-month LIBOR plus 165 basis points. We anticipate that portfolio fundings entered into in succeeding periods will allow us to utilize the full borrowing capacity of the Citigroup Facility.

On April 21, 2006, we raised approximately \$34.0 million, net of estimated issuance costs, from a rights offering of 3,411,992 shares of our common stock. The shares were sold at \$10.55 per share which was equivalent to 95% of the volume weighted average price of shares traded during the ten days immediately prior to the expiration date of the offering. We believe these funding sources combined with cash on hand at June 30,

Table of Contents

2006, cash provided from operations and financing activities will allow us to continue investing activities for six to nine months.

Off Balance Sheet Arrangements

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies will not be reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of June 30, 2006, we had unfunded commitments of approximately \$85.2 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of June 30, 2006:

| | Total | Payments due by period (dollars in thousands) | | | |
|--|------------------|--|-----------------|-----------------|------------------|
| | | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations⁽¹⁾ | | | | | |
| Borrowings ⁽²⁾ | \$ 61,000 | \$ 61,000 | \$ | \$ | \$ |
| Operating Lease Obligations | 4,004 | 619 | 1,647 | 1,098 | 640 |
| Total | \$ 65,004 | \$ 61,619 | \$ 1,647 | \$ 1,098 | \$ 640 |

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

(2) Borrowings under our Citigroup credit facility are listed based on the contractual maturity of the credit 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.

Borrowings

In April 2005, we entered into a bridge loan credit facility with Alcmene, a special purpose vehicle that is an affiliate of Farallon Capital Management, L.L.C., a shareholder of Hercules, which we refer to as the Bridge Loan Credit Facility. The Bridge Loan Credit Facility was a \$25 million secured term loan, which provided for \$25 million of available borrowings, all of which was drawn down on April 12, 2005. The Bridge Loan Credit Facility allows for up to an additional \$25 million of discretionary supplemental senior secured loans. All amounts outstanding under this credit facility were initially due and payable on October 12, 2005.

On August 1, 2005, we amended our Bridge Loan Credit Facility with Alcmene Funding, LLC. The amended 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. At December 31, 2005, the interest rate under the Bridge Loan Credit Facility was 9.76% per year. We had \$25.0 million of outstanding

Table of Contents

borrowings under the Bridge Loan Credit Facility at December 31, 2005. On March 6, 2006, we repaid \$10 million of the Bridge Loan Credit Facility, and the interest rate was reduced 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.

On August 1, 2005, we, through Hercules Funding Trust I, our affiliated statutory trust, executed a \$100 million securitized credit facility with Citigroup Global Markets Realty Corp., which we refer to as the Citigroup Facility. Our ability to make draws on the Citigroup Facility expires on July 31, 2006 unless extended prior to such date for an additional 364-day period with the lender's consent. On July 28, 2006, we extended the Citigroup Facility for an additional one year period under the existing terms and conditions. The Citigroup Facility is collateralized by loans from our portfolio companies, and includes an advance rate of approximately 55% of eligible loans. Interest on borrowings under the Citigroup Facility will be paid monthly and will be charged at one-month LIBOR plus a spread of 1.65%. We also paid a loan origination fee equal to 0.25% of the Citigroup Facility and will be subject to an unused commitment fee of 0.25%. The Citigroup Facility contains covenants that, among other things, require us to maintain a minimum net worth and to restrict the loans securing the Citigroup Facility to certain dollar amounts, to concentrations in certain geographic regions and industries, to certain loan grade classifications, to certain security interests and to certain interest payment terms. There was \$61.0 million of outstanding borrowings under the Citigroup Facility at June 30, 2006.

In addition, we expect to pursue additional debt financing from the Small Business Administration under its Small Business Investment Company program. We may also seek to enter into an additional securitization facility.

Dividends

On July 19, 2006, we declared a dividend of \$0.30 per common share for holders of record on July 31, 2006. This dividend totaled approximately \$4.1 million and will be distributed on August 28, 2006.

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

| Date Declared | Record Date | Payment Date | Amount Per Share |
|----------------------|--------------------|---------------------|-------------------------|
| October 27, 2005 | November 1, 2005 | November 17, 2005 | \$ 0.025 |
| December 9, 2005 | January 6, 2006 | January 27, 2006 | 0.300 |
| April 3, 2006 | April 10, 2006 | May 5, 2006 | 0.300 |
| July 19, 2006 | July 31, 2006 | August 28, 2006 | 0.300 |
| | | | \$ 0.925 |

RIC Election

During the second quarter ended June 30, 2006, we determined that we is more likely than not that we will be able to qualify as a RIC for tax reporting purposes for the year ended December 31, 2006. If we meet the required qualification tests of a RIC, any income timely distributed to our shareholders will not be subject to corporate level federal income or excise taxes in those years that we qualify as a RIC. We intend to elect to be regulated as a RIC for 2006. The election will be submitted with the filing of our 2006 tax return and would be effective as of January 1, 2006. At March 31,

Table of Contents

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

As long as we qualify as a RIC, we will not be taxed on our investment company taxable income or realized net capital gains, to the extent that such taxable income and gains are distributed to stockholders on a timely basis. We may be required, however, to pay federal income taxes on any unrealized net built-in gains in the assets held by us during the period in which we were not (or in which we failed to qualify as) a RIC that are recognized within the following 10 years, unless we make a special election to pay corporate-level tax on such built-in gains at the time of our RIC election or an exception applies. Annual tax distributions generally will differ from net income for the fiscal year due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation, which are not included in taxable income.

In order to qualify as a RIC under Subchapter M of the Code, and to avoid corporate level tax on any distributed income, we must, in general, for each taxable year: (1) have in effect at all times during the taxable year an election to be treated as a business development company, (2) derive at least 90% of our gross income from dividends, interest, gains from the sale of securities and other specified types of income, (3) meet asset diversification requirements as defined in the Code, and (4) distribute to stockholders at least 90% of our investment company taxable income as set forth in the Code. In addition, prior to the end of our first taxable year as a RIC, we must distribute to our stockholders all earnings and profits from periods prior to our qualification as a RIC.

If we qualify and elect for tax treatment as a RIC, we intend to take the steps necessary to qualify for the federal tax benefits allowable to RICs, including distributing annually to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses. Unless a stockholder elects otherwise, these distributions will be reinvested in additional shares of our common stock through our dividend reinvestment plan. While we are a RIC, we generally intend to retain any realized net long-term capital gains in excess of realized net short-term capital losses and to elect to treat such net capital gain as deemed distributions to our stockholders. We may, in the future, make actual distributions to our stockholders of some or all of such net capital gains. There can be no assurance that we will qualify for treatment as a RIC in 2006 or in any future years.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to (i) the asset coverage test for borrowings applicable to us as a business development company under the 1940 Act and (ii) provisions in our future credit facilities, if any. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of the federal income tax benefits allowable to a RIC. We cannot assure stockholders that they will receive any distributions or distributions at any particular level.

Table of Contents

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the period reported. On an ongoing basis, our management evaluates its estimates and assumptions, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in our estimates and assumptions could materially impact our results of operations and financial condition.

Valuation of Portfolio Investments. The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

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

At June 30, 2006, approximately 89% of our total assets represented investments in portfolio companies of which greater than 99% are valued at fair value by the Board of Directors. Value, as defined in Section 2(a) (41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Since there is typically no readily available market value for the investments in our portfolio, we value substantially all of our investments at fair value as determined in good faith by our Board pursuant to a valuation policy and a consistent valuation process. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board may differ significantly from the value that would have been used had a ready market existed for such investments, and the differences could be material.

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

With respect to private debt and equity securities, each investment is valued using industry valuation benchmarks, and, where appropriate, the value is assigned a discount reflecting the illiquid nature of the investment, and our minority, non-control position. When a qualifying external event such as a significant purchase transaction, public offering, or subsequent debt or equity sale occurs, the pricing indicated by the external event will be used to corroborate our private debt or equity valuation.

Interest Income. Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. Loan facility fees, original issue discount, commitment fees, and market premium or

Table of Contents

discount are deferred and amortized into interest income as adjustments to the related loan's yield over the contractual life of the loan. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible.

Fee Income. Fee income includes fees for due diligence and structuring, as well as fees for transaction services and management services rendered by us to portfolio companies and other third parties. These fees are generally recognized as income when the services are rendered.

Stock-Based Compensation. We have issued and may, from time to time, issue additional stock options to employees and consultants under our 2004 Equity Incentive Plan. We follow Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* (FAS 123R), to account for stock options granted. Under FAS 123R, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates. As of June 30, 2006, 36 of our loan agreements were at fixed rates and 10 loans were at variable rates. Over time some of our investments will be at variable rates. We may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive and chief legal officers under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15 and 15d-15 of the Exchange Act. As of the end of the period covered by this quarterly report on Form 10-Q, our chief executive and chief legal officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by us in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its chief executive and chief legal officers, as appropriate to allow timely decisions regarding required disclosure.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis, to improve the controls and procedures over time, and to correct any deficiencies that we may discover in the future. Our goal is to ensure that senior management has timely access to all material financial and non-financial information concerning our business. While we believe that the present design of our disclosure controls and procedures is effective to achieve this goal, future events affecting our business may cause us to modify disclosure controls and procedures.

Table of Contents

Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

Important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2005. These factors are supplemented by the following item:

We invest in businesses and may make additional investments in businesses located in or having some relationship to Israel. As a result, our investee companies are subject to political, economic, and military conditions in that country. The State of Israel experiences continued civil unrest primarily in the areas that have been under its control since 1967 and has also recently been engaged in escalated conflict with Hezbollah groups near the border with Lebanon. No prediction can be made as to whether these problems will be resolved. These investments could be adversely affected if major hostilities involving Israel should occur or if trade between Israel and its current trading partners were interrupted or curtailed. In addition, in such event, if the peace process in the Middle East were interrupted or discontinued, these investments may be materially adversely affected.

In addition, we are exposed to risks that could negatively affect our future results of operations. The additional risks we are exposed to in these cases include but are not limited to:

tariffs and trade barriers;

tax issues, such as tax law changes and variations in tax laws as compared to the United States;

cultural and language differences;

foreign exchange controls;

crime, strikes, riots, civil disturbances, terrorist attacks and wars; and

deterioration of political relations with the United States.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 30, 2006, the Company held its Annual Meeting of Stockholders. The following four matters were submitted to the stockholders for consideration:

1. To elect one director of the Company who will serve for three years, or until his successor is elected and qualified;

The following Directors, who did not stand for election at the 2006 Annual Meeting, also currently sit on our Board of Directors: Manuel A. Henriquez, whose terms expire in 2007; and Robert P. Badavas and Joseph W. Chow, whose terms expire in 2008.

2. To ratify the selection of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006;

3. To approve the 2006 Non-employee Director Plan; and

4. To approve the amended and restated 2004 Equity Incentive Plan, reducing the number of shares available and making such other changes as described more fully in the proxy statement.

The results of the shares voted with regard to each of these matters are as follows:

| | | For | Against | | |
|--|----------------|------------|---------|-------------|-----------|
| 1. Election of director | | | | | |
| | Allyn Woodward | 10,250,630 | 4,361 | | |
| | | | | Broker | |
| | | For | Against | Abstentions | Non-Votes |
| 2. Ratification of appointment of Ernst & Young LLP as auditors: | 10,239,750 | 12,556 | 2,685 | | |
| 3. Approve the 2006 Non-employee Director Plan: | 6,297,754 | 686,450 | 1,900 | 3,268,797 | |
| 4. Approve the amended and restated 2004 Equity Incentive Plan: | 6,827,471 | 154,157 | 4,566 | 3,268,797 | |

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit

Number Description

- | | |
|------|---|
| 31.1 | Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Principal Financial and Accounting Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Chief Executive Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Principal Financial and Accounting Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERCULES TECHNOLOGY GROWTH
CAPITAL, INC.
(Registrant)

Dated: August 11, 2006

/s/ Manuel A. Henriquez
Manuel A. Henriquez
**Chairman, President, and Chief Executive
Officer**

Dated: August 11, 2006

/s/ David M. Lund
David M. Lund
**Vice President of Finance and Senior Corporate
Controller (Principal Financial and Accounting
Officer)**

Table of Contents

EXHIBIT INDEX

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