

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

October 18, 2006

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### **8,444,150 Shares Common Stock**

This prospectus relates to the offer, from time to time, of 8,000,000 shares of our common stock, par value \$0.001 per share by us and the resale of up to 444,150 shares of our common stock by certain current stockholders.

We may offer, from time to time, up to 8,000,000 shares of our common stock in one or more offerings. The shares of common stock may be offered at prices and terms to be described in one or more supplements to this prospectus. The offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering.

The shares of our common stock which is offered for resale by this prospectus is offered for the accounts of the current holders of such common stock, whom we refer to as the selling holders. We will not receive any of the proceeds from the shares of common stock sold by the selling holders. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling holders.

We are a specialty finance company that provides debt and equity growth capital to technology-related and life sciences companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as additional offices in the Boston, Boulder and Chicago areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity.

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

Our common stock is traded on the Nasdaq Global Market under the symbol HTGC. On October 9, 2006, the last reported sale price of a share of our common stock on the Nasdaq Global Market was \$13.39.

**An investment in our common stock involves risks and involves a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 10 to read about risks that you should consider before investing in our common stock, including the risk of leverage.**

This prospectus contains important information you should know before investing in our common stock. Please read it before making an investment decision and keep it for future reference. Shares of closed-end investment companies have in the past frequently traded at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this offering.

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

We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at 525 University Avenue, Suite 700, Palo Alto, California 94301 or by telephone calling collect at (650) 289-3060 or on our website at [www.herculestech.com](http://www.herculestech.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

The date of this prospectus is October 18, 2006

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**You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Hercules Technology Growth Capital, Inc. have not changed since the date hereof.**

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## SUMMARY

*This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. The following summary is qualified in its entirety by reference to the more detailed information and financial statements appearing elsewhere in this prospectus. In this prospectus, unless the context otherwise requires, the Company, Hercules Technology Growth Capital, we, us and our refer to Hercules Technology Growth Capital, Inc. and our wholly-owned subsidiaries Hercules Technology II, L.P. and Hercules Technology SBIC Management, LLC.*

### Our Company

We are a specialty finance company that provides debt and equity growth capital to technology-related and life sciences companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may invest in select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as our additional offices in the Boston, Boulder, Chicago and Columbus areas. Our goal is to be the leading structured mezzanine capital provider of choice for venture capital and private equity backed technology-related and life sciences companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology and life science industries and to offer a full suite of capital products up and down the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity. We use the term structured mezzanine debt investment to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured mezzanine debt investments will typically be secured by some or all of the assets of the portfolio company.

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, health care services and information systems companies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

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

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

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

Our management team, which includes Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, is currently comprised of 15 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

From July 1, 2006 through September 29, 2006, we entered into binding agreements to invest approximately \$81.5 million in structured mezzanine debt in nine new portfolio companies and one existing portfolio company and made a \$250,000 equity investment in one existing portfolio company.

During this same period, we funded the following debt investments totalling \$67.2 million in nine new portfolio companies and five existing portfolio companies and made two equity investments, one in a new portfolio company and one in an existing portfolio company.

<b>Company</b>		<b>Principal Business</b>	<b>Funded Investment</b>
Affinity Express, Inc.	Senior Debt	Consumer and Business Services Electronics and Computer	\$ 296,298
Agami Systems, Inc.	Senior Debt	Hardware	7,000,000
Atrenta, Inc.	Equity	Software	250,000
Aveo Pharmaceuticals	Senior Debt	Biopharmaceuticals	7,500,000
BabyUniverse, Inc.	Senior Debt	Consumer and Business Products	5,000,000
BARRX Medical, Inc.	Equity	Medical Devices and Equipment	1,500,000
EpiCept Corporation	Senior Debt	Biopharmaceuticals	10,000,000
ForeScout Technologies, Inc.	Senior Debt	Software	1,000,000
Gynesonics, Inc.	Senior Debt	Medical Devices and Equipment	2,000,000
Hedgestreet, Inc.	Senior Debt	Consumer and Business Services	3,000,000
Intelliden, Inc.	Senior Debt	Software	3,000,000
iWatt, Inc.	Senior Debt	Semiconductors Electronics and Computer	2,000,000
Luminuous Devices, Inc.	Senior Debt	Hardware	10,000,000
Novasys Medical, Inc.	Senior Debt	Medical Devices and Equipment	6,000,000
Oatsystems, Inc.	Senior Debt	Software	3,000,000
Portola Pharmaceuticals, Inc.	Senior Debt	Biopharmaceuticals	5,625,000
		<b>Total investments</b>	<b>\$ 67,171,298</b>

In addition, at September 29, 2006, we had unfunded commitments totaling approximately \$95.7 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the 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. In addition, we had extended non-binding term sheets to six prospective new portfolio companies representing approximately \$58.5 million of structured mezzanine debt investments. These investments are subject to finalization of our due diligence and approval process as well as negotiation of definitive agreements with the prospective portfolio company and, as a result, may not result in



completed investments.

As of September 29, 2006, we had \$91.0 million outstanding under our securitization credit facility.

During September 2006, we sold the assets of Optovia Corporation for approximately \$2.6 million. We will record a realized loss on this investment in the third quarter which is estimated to be approximately \$2.7 million, which includes approximately \$380,000 of legal expenses and incentive fees paid to a third party and members of Optovia's management.

On October 16, 2006, we announced the declaration of a dividend of \$0.30 per share payable on December 1, 2006 to stockholders of record as of November 6, 2006.

## **Our Market Opportunity**

We believe that technology-related companies compete in one of the largest and most rapidly growing sectors of the U.S. economy and that continued growth is supported by ongoing innovation and performance improvements in technology products as well as the adoption of technology across virtually all industries in response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on structured mezzanine investments in technology-related and life-science companies for the following reasons:

*Technology-Related Companies Underserved by Traditional Lenders.* We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies, in part because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending that has resulted in tightened credit standards in recent years. More importantly, we believe traditional lenders are typically unable to underwrite the risk associated with financial sponsor-backed emerging-growth or expansion-stage companies effectively.

*Unfulfilled Demand for Structured Debt Financing by Technology-Related Companies.* Private debt capital from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that this demand is currently unfulfilled, in part because historically the largest capital providers to technology-related companies have exited the market, while at the same time lending requirements of traditional lenders have become more stringent. We therefore believe we entered the structured lending market at an opportune time.

*Structured Mezzanine Debt Products Complement Equity Financing from Venture Capital and Private Equity Funds.* We believe that our structured mezzanine debt products will provide an additional source of growth capital for technology-related companies that may otherwise only be able to obtain equity financing through incremental investments by their existing investors. Generally, we believe emerging-growth and expansion-stage companies target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth prior to subsequent equity financing rounds or liquidity events.

*Lower Valuations for Private Technology-Related Companies.* During the downturn in technology-related industries that began in 2000, the markets saw sharp and broad declines in valuations of venture capital and private equity-backed technology-related companies. We believe that the valuations currently assigned to these companies in private financing rounds will allow us to build a portfolio of equity-related securities at attractive valuation levels.

## **Our Business Strategy**

Our strategy to achieve our investment objective includes the following key elements:

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

*Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities.* We expect that our investments will have the potential to produce attractive risk-adjusted returns through current income as well as capital

appreciation from our equity-related investments. We believe that we can mitigate the risk of loss on our debt investments through the combination of principal amortization, cash interest payments, relatively short maturities, taking security interests in the assets of our portfolio companies, requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or

private equity firm at the time we make our investment. Our debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment.

*Provide Customized Financing Complementary to Financial Sponsors' Capital.* We offer a broad range of investment structures and have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We believe that our debt investments will be viewed as an attractive source of capital and that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

*Invest at Various Stages of Development.* We provide growth capital to technology-related companies at all stages of development, which we believe provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally choose to make investments during a particular stage in a company's development.

*Benefit from Our Efficient Organizational Structure.* We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds.

*Deal Sourcing Through Our Proprietary Database.* We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process, including sourcing, originations, transaction monitoring and post-investment performance. As of June 30, 2006, our proprietary SQL-based database system included over 8,900 technology-related companies and over 1,900 venture capital private equity sponsor/investors, as well as various other industry contacts.

### **Dividend Reinvestment Plan**

We have adopted an opt-out dividend reinvestment plan through which distributions are paid to stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash. See **Dividend Reinvestment Plan**. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

### **Taxation**

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

### **Use of Proceeds**

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We will not receive any proceeds from the sale of the common stock by the selling holders.

### **Leverage**

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage as of June 30, 2006 was approximately 351%. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. As of June 30, 2006, we had outstanding \$61.0 million drawn under our securitization credit facility. See Management's Discussion & Analysis of Financial Condition Borrowings. Our subsidiary received final approval to be licensed under the Small Business Investment Act of 1958 on September 27, 2006; as such, we intend to borrow money from the Small Business Administration.

### **Distributions**

We intend to continue to distribute quarterly dividends to our stockholders, whether or not we elect to be treated as a RIC. The amount of our quarterly distributions will be determined by our Board of Directors out of assets legally available for distribution. We intend to elect to be treated as a RIC when we file our 2006 federal income tax return, and as such, to distribute with respect to 2006 (and annually thereafter) to our stockholders at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. In addition, prior to the end of our first tax year as a RIC, we will be required to make a distribution to our stockholders equal to the amount of any undistributed earnings and profits from the period prior to our RIC election. Currently, we intend to retain some or all of our realized net long-term capital gains in order to build our per share net asset value. As a result, we will elect as a RIC to make deemed distributions of such amounts to our stockholders. We may, in the future, make actual distributions to our stockholders of some or all of our realized net long-term capital gains. See Distributions.

### **Principal Risk Factors**

Investing in us involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. In addition, we expect that our portfolio will continue to consist primarily of securities issued by privately-held technology-related companies, which generally require additional capital to become profitable. These investments may involve a high degree of business and financial risk, and they are generally illiquid. Our portfolio companies typically will require additional outside capital beyond our investment in order to succeed or to fully repay the amounts owed to us. A large number of entities compete for the same kind of investment opportunities as we seek.

We borrow funds to make our investments in portfolio companies. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings magnify the potential for gain and loss on amounts invested and, therefore increase the risks associated with investing in our common stock. Also, we are subject to certain risks associated with valuing our portfolio, changing interest rates, accessing additional capital, fluctuating quarterly results, and operating in a regulated environment. See Risk Factors beginning on page 9 for a discussion of factors you should carefully consider before deciding whether to invest in our common stock.

### **Certain Anti-Takeover Provisions**

Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for our company. This could delay or prevent a

transaction that could give our stockholders the opportunity to realize a premium over the price for their securities.

### General Information

Our principal executive offices are located at 525 University Avenue, Suite 700, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Waltham, Massachusetts; Boston, Massachusetts; Boulder, Colorado; and the Chicago, Illinois area. We maintain a website on the Internet at [www.herculestech.com](http://www.herculestech.com). Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

### Fees and Expenses

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Technology Growth Capital.

#### Stockholder Transaction Expenses (as a percentage of the public offering price):

Sales load (as a percentage of offering price) <sup>(1)</sup>	%
Offering expenses	<del>0%</del>
Dividend reinvestment plan fees	<del>0%</del>
Total stockholder transaction expenses (as a percentage of the public offering price)	0.1%

#### Annual Expenses (as a percentage of net assets attributable to common stock):(4)

Operating expenses	7.1% <sup>(5)(6)</sup>
Interest payments on borrowed funds	3.8% <sup>(7)</sup>
Fees paid in connection with borrowed funds	0.7% <sup>(8)</sup>
Total annual expenses	11.6% <sup>(9)</sup>

<sup>(1)</sup> In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load. We will not pay any underwriting discount or commission, and we will not receive any of the proceeds from shares sold by the selling stockholders.

<sup>(2)</sup> The percentage reflects estimated offering expenses of approximately \$100,000.

<sup>(3)</sup> The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan.



- (4) Average net assets attributable to common stock equals estimated weighted average net assets for 2006 which is approximately \$153.0 million.
- (5) Operating expenses represent our estimated expenses for the year ending December 31, 2006. This percentage for the year ended December 31, 2005, was approximately 7.9%.
- (6) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (7) Interest payments on borrowed funds represents estimated annualized interest payments on borrowed funds for 2006. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under the Citigroup facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equals \$3,750,000 (the Maximum Participation Limit ). The obligations under the warrant

participation agreement continue even after the Citigroup facility is terminated until the Maximum Participation Limit has been reached. Since inception of the agreement, we have paid Citigroup approximately \$195,000 under the warrant participation agreement thereby reducing our realized gains. During 2005, we recorded a liability and reduced our unrealized gain by approximately \$342,000 for unrealized gains in our warrant and equity investments due Citigroup under our warrant participation agreement. In addition, we recorded a liability and reduced our realized gain by approximately \$59,000 for amounts due to Citigroup from the sale of equity securities in 2005. During the six months ended June 30, 2006, we reduced our realized gain by approximately \$136,000 for Citigroup's participation in the gain on sale of an equity security and we recorded an additional liability and reduced our unrealized gain by approximately \$172,000 for Citigroup's participation in unrealized gains in the warrant portfolio. Based on our estimated average borrowings for the year ending December 31, 2006 and the annualized amount of the reduction we recorded for our unrealized gains for the six months ended June 30, 2006, the additional cost of our borrowings as a result of the warrant participation agreement could be approximately 0.4%. There can be no assurances that the unrealized gains on the warrants will not be higher or lower at the end of the year due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. The value of their participation right on unrealized gains in the related equity investments since inception of the agreement was approximately \$378,000 at June 30, 2006 and is included in accrued liabilities and reduces the unrealized gain recognized by the us at June 30, 2006.

- (8) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2006.
- (9) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 157.03	\$ 350.88	\$ 520.62	\$ 858.22

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or lesser than those shown. Moreover, while the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or lesser than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

### Selected Consolidated Financial Data

*The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations on page 29 and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2005 and 2004 presented below, and the selected income statement data for fiscal 2005 and the period from February 2, 2004 through the end of fiscal 2004, have been derived from our audited financial statements included elsewhere herein, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The selected balance sheet data as of June 30, 2006 presented below and the selected income statement data for the fiscal quarter then ended have been derived from our unaudited financial statements included elsewhere herein. In the opinion of management, the quarterly financial information derived from unaudited financial information, reflects all adjustments (consisting only of normal recurring adjustments) which are necessary to present fairly the results for the interim period. The historical data are not necessarily indicative of results to be expected for any future period.*

	<b>Six Months</b>		<b>Period from</b>
	<b>Ended</b>	<b>Year Ended</b>	<b>February 2,</b>
	<b>June 30,</b>	<b>December 31,</b>	<b>2004</b>
	<b>2006</b>	<b>2005<sup>(1)</sup></b>	<b>to December 31,</b>
	<b>(unaudited)</b>		<b>2004<sup>(1)</sup></b>
<b>Statement of Operations Data:</b>			
Investment Income:			
Interest	\$ 11,810,370	\$ 9,791,214	\$ 214,100
Fees	1,464,674	875,429	
Total investment income	13,275,044	10,666,643	214,100
Operating expenses:			
Interest	3,034,875	1,800,536	
Loan fees	537,481	1,098,507	
Compensation and benefits	2,332,320	3,705,784	1,164,504
General and administrative	2,603,977	2,285,038	411,418
Stock-based compensation <sup>(2)</sup>	253,000	252,000	680,000
Total operating expenses	8,761,653	9,141,865	2,255,922
Net investment income (loss) before provision for income tax expense and investment gains and losses	4,513,391	1,524,778	(2,041,822)
Income tax expense	988,177	255,000	
Net investment income (loss)	3,525,214	1,269,778	(2,041,822)
Net realized gain on equity investment	3,144,443	481,694	
Net increase (decrease) in unrealized appreciation on investments	(798,292)	353,093	
Net gain on investments	2,346,151	834,787	

Net increase (decrease) in net assets resulting from operations	\$ 5,871,365	\$ 2,104,565	\$ (2,041,822)
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	<b>June 30, 2006 (Unaudited)</b>	<b>As of December 31, 2005</b>	<b>As of December 31, 2004</b>
<b>Balance Sheet Data:</b>			
Investments, at value	\$ 193,571,348	\$ 176,673,226	\$ 16,700,000