

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

December 08, 2006

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Registration Statement No. 333-136918

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED OCTOBER 18, 2006

5,700,000 Shares

Common Stock

We are offering 5,700,000 shares of our common stock. Our common stock is listed on the Nasdaq Global Market under the symbol HTGC. The last reported sale price for our common stock on December 7, 2006 was \$13.99 per share. 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, as amended.

The underwriters have an option to purchase a maximum of 840,000 additional shares to cover over-allotments of shares.

Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, or by telephone by calling collect at (650) 289-3060 or on our website at [www.herculestech.com](http://www.herculestech.com). The information on our website is not incorporated by reference into this prospectus or the accompanying prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

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

**Underwriting**

	<b>Price to Public</b>	<b>Discounts and Commissions</b>	<b>Proceeds to us(1)</b>
Per Share	\$ 13.60	\$ 0.68	\$ 12.92
Total	\$ 77,520,000	\$ 3,876,000	\$ 73,644,000

(1) Expenses payable by us are estimated to be \$250,000.

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

Delivery of the shares of common stock will be made on or about December 13, 2006.

**JMP Securities**

**Credit Suisse**

**Ferris, Baker Watts**

Incorporated

The date of this prospectus supplement is December 7, 2006.

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**You should only rely on the information contained in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective date as of which information is given.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more information. To the extent the information contained in this prospectus supplement, differs from the information contained in the accompanying prospectus the information in this prospectus supplement shall control.

Unless the context requires otherwise, in this prospectus supplement the terms we, us, and/or the Company refer to Hercules Technology Growth Capital, Inc. and its subsidiaries.

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## 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 assuming that the underwriters do not exercise their over-allotment option. 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)(1)	5.0%
Offering expenses	0.3%(2)
Dividend reinvestment plan fees	%(3)
<b>Total stockholder transaction expenses (as a percentage of the public offering price)</b>	<b>5.3%</b>

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

Operating expenses	7.4%(5)(6)
Interest payments on borrowed funds	3.9%(7)
Fees paid in connection with borrowed funds	0.5%(8)
<b>Total annual expenses</b>	<b>11.8%(9)</b>

- (1) Represents the underwriting discount with respect to the shares to be sold by us in this offering.
- (2) The percentage reflects estimated offering expenses of approximately \$250,000.
- (3) 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 in the accompanying prospectus.
- (4) Average net assets attributable to common stock equals estimated weighted average net assets for 2006 which is approximately \$152.2 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,

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 nine months ended September 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 appreciation by approximately \$248,000 for Citigroup s participation in unrealized appreciation 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 nine months ended September 30, 2006, the additional cost of our borrowings as a result of the warrant participation agreement could be approximately 0.47%. 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 appreciation in the related equity investments since inception of the agreement was approximately \$454,000 at September 30, 2006 and is included in accrued liabilities and reduces the unrealized appreciation recognized by us at September 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	\$ 158.84	\$ 355.37	\$ 526.73	\$ 865.14

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 in the accompanying prospectus for additional information regarding our dividend reinvestment plan.



## PROSPECTUS SUPPLEMENT SUMMARY

### 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 growth capital products up and down the capital structure. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity. 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.

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Since inception through September 30, 2006, we have made debt commitments of \$428.7 million to 59 companies. At September 30, 2006, our portfolio had a fair value of \$237.5 million in 55 companies.

From October 1, 2006 through November 22, 2006, we entered into binding agreements to invest approximately \$20.0 million in structured mezzanine debt in two new portfolio companies.

During this same period, we funded the following debt investments totaling \$12.1 million in two new portfolio companies and two existing portfolio companies.

<b>Company</b>	<b>Principal Business</b>	<b>Funded Investment</b>
Affinity Express	Senior Debt	Consumer and Business Services
Elixir Pharmaceuticals, Inc.	Senior Debt	Biopharmaceuticals
ForeScout Technologies, Inc	Senior Debt	Software
NeoScale Systems, Inc.	Senior Debt	Electronics and Computer Hardware
	Total Investments	

In addition, at November 22, 2006, we had unfunded commitments totaling approximately \$105.3 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 five prospective new portfolio companies and one existing portfolio company representing approximately \$35.0 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 November 22, 2006, we had \$91.0 million outstanding under our securitization credit facility.

In November 2006, we exercised our warrant in Omrix Biopharmaceuticals, Inc. and sold the shares of common stock received on exercise for net proceeds of \$742,945. In accordance with our participation agreement with Citigroup, 10% of the net proceeds received or approximately \$74,294 was paid to Citigroup. Our net realized gain on the sale of the shares of common stock is approximately \$657,000 which will be recognized in the fourth quarter of 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

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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

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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 September 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.

### **Recent Developments**

During the fourth quarter, we increased our facility with Citigroup by \$25.0 million to \$150.0 million. The increase remains in effect until the earlier of March 31, 2007 or the date on which we complete a securitization. In addition, the Maximum Participation Limit under the warrant participation agreement was increased to \$4.5 million until the earlier of March 31, 2007 or the date on which the Company completes a securitization.

On December 5, 2006, Concuity, one of our grade 4 portfolio companies was sold, resulting in proceeds to us of approximately \$3.7 million.

We also expect that one of our grade 3 portfolio companies will be repaying its loan in full during the fourth quarter in the total amount of approximately \$1.0 to \$2.0 million. However, we can offer no assurances that such repayment will in fact occur.

In October 2006, John Hershey resigned as a Managing Director of the Company and served as a consultant to the Company until November 30, 2006.

We hired Paul Walborsky as a Managing Director. He previously served as founder and CEO of Grupo Arca, Inc., from January 2004 to November 2006. Prior to founding Grupo Arca, Mr. Walborsky was Senior Vice President in the Wealth and Asset Management group of Lehman Brothers from May 2002 to December 2003. Mr. Walborsky was a Senior Vice President of Business Development at Moneyline, Inc. from November 2001 until May 2002. Prior to this, Mr. Walborsky founded and served as Senior Vice President of Corporate Development at WorldStreet Corporation from February 1996 through October 2001. Mr. Walborsky holds a B.A. in Economics from Brandeis University and an M.A. in Finance and Economics from the Lemberg Program at Brandeis University.

### **USE OF PROCEEDS**

We estimate that our net proceeds from the sale of the 5,700,000 shares of common stock we are offering will be approximately \$73.4 million and approximately \$84.2 million, if the underwriters' option is exercised in full, based on a public offering price of \$13.60 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We expect to use the net proceeds from this offering to reduce borrowings, to fund the capital commitment of our SBIC subsidiary and to invest in debt and equity securities and for other general corporate purposes. Amounts repaid under our securitized credit facility will remain available for future borrowings. At November 29, 2006, our securitized credit facility bore interest at one month LIBOR plus 165 basis points and there was approximately \$91.0 million outstanding. This securitized credit facility expires on July 31, 2007. We have not yet determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have flexibility in applying the net proceeds of this offering.

We anticipate that substantially all of the net proceeds from this offering will be used within six to twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.



## UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between us and the underwriters, the underwriters, for whom Credit Suisse Securities (USA) LLC is acting as representative, have agreed to purchase from us the following number of shares of our common stock described in this prospectus supplement at the offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus.

<b>Underwriters</b>	<b>Number of Shares</b>
Credit Suisse Securities (USA) LLC	3,135,000
JMP Securities LLC	1,710,000
Ferris, Baker Watts, Incorporated	855,000
<b>Total</b>	<b>5,700,000</b>

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters will purchase all such shares of the common stock if any of these shares are purchased. The underwriters are obligated to take and pay for all of the shares of common stock offered hereby, if any are taken.

The underwriters have advised us that they propose to offer the shares of common stock to the public at the offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of \$0.408 per share.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 840,000 additional shares. The option may be exercised only to cover any over-allotments of common stock.

The following table provides information regarding the per share and total underwriting discounts and commissions that we will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 840,000 shares of common stock from us.

	<b>Per Share</b>	<b>No Exercise</b>	<b>Total Full Exercise</b>
Public offering Price	\$ 13.60	\$ 77,520,000	\$ 88,944,000
Underwriting discounts and commissions	\$ 0.68	\$ 3,876,000	\$ 4,447,200
Proceeds, before expenses, to us	\$ 12.92	\$ 73,644,000	\$ 84,496,800

The underwriters propose to offer the common stock directly to the public initially at the offering price set forth on the cover page of this prospectus supplement. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms.

We expect to incur total expenses of approximately \$250,000, excluding underwriting discounts and commissions, in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

We, our directors and senior executive officers have agreed that during the 75 days after the date of this prospectus supplement, subject to certain exceptions, they will not, without the prior written consent of Credit Suisse Securities (USA) LLC, offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a Disposition ), any shares, any options or warrants to purchase any shares or any securities convertible into or redeemable or exchangeable for shares now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition. The foregoing restriction has been expressly agreed to preclude the holder of the securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a disposition of securities during the Lock-Up period, even if such securities would be disposed of by someone other than the holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any securities. Notwithstanding anything herein to the contrary, if (i) during the last 17 days of the Lock-Up Period, the Company issues an earnings

release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period, the foregoing restrictions shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. These lock-up agreements will cover approximately 604,436 shares of our outstanding common stock and shares underlying warrants in the aggregate and will not cover shares of common stock received as a result of participation in our dividend reinvestment plan or shares received as a result of the exercise of options and will not cover the issuance by the Company of shares to the directors in lieu of cash compensation. Credit Suisse Securities (USA) LLC may, in its sole discretion, allow any of these parties to dispose of common stock or other securities prior to the expiration of the 75 day period. There are, however, no agreements between Credit Suisse Securities (USA) LLC and the parties that would allow them to do so as of the date of this prospectus supplement.

Until the distribution of the common stock is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriters and certain selling group members to bid for and purchase the common stock. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common stock.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty and market making bids in accordance with Regulation M under the Securities Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment transactions involve sales by the underwriters of the shares of common stock in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit representatives to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.



These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market.

The underwriters will deliver an accompanying prospectus and prospectus supplement to all purchasers of shares of common stock in the short sales. The purchases of shares of common stock in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of shares of common stock covered by this prospectus supplement.

The underwriters are not obligated to engage in any of the transactions described above. If they do engage in any of these transactions, they may discontinue them at any time.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each underwriter represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of securities to the public in that Relevant Member State prior to the publication of a prospectus in relation to the securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State at any time,

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters severally represents, warrants and agrees as follows:

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling with Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and

it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

Our common stock is quoted on the Nasdaq Global Market under the trading symbol HTGC.

In the ordinary course of their businesses, the underwriters and/or their affiliates have in the past performed, and many continue to perform, investment banking, broker dealer, lending, financial advisory or other services for us for which they have received, or may receive, customary compensation.

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The principal address of Credit Suisse is Eleven Madison Avenue, New York, NY 10010. The principal address of Ferris, Baker Watts, Incorporated is 100 Light Street, Baltimore, MD 21202. The principal address of JMP Securities LLC is 600 Montgomery Street, San Francisco, CA 94111.

This offering is being conducted in compliance with Rule 2810 of the Conduct Rules of the National Association of Securities Dealers, Inc.

### **Notice to Canadian Residents**

#### **Resale Restrictions**

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

#### **Representations of Purchasers**

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

where required by law, that the purchaser is purchasing as principal and not as agent,

the purchaser has reviewed the text above under Resale Restrictions, and

the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the common stock to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

#### **Rights of Action Ontario Purchasers Only**

Under Ontario securities legislation, certain purchasers who purchase a security offered by this prospectus supplement and prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the common stock, for rescission against us in the event that the prospectus or this prospectus supplement contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, will not be liable

for all or any portion of the damages that are proven to not represent the depreciation in value of the common stock as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

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