Clean Energy Fuels Corp.
Form 4
May 30, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Mitchell Warren I

(Last) (First) (Middle)

3020 OLD RANCH PARKWAY, SUITE 200

(Street)

SEAL BEACH,, CA 90740

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Clean Energy Fuels Corp. [CLNE]

3. Date of Earliest Transaction (Month/Day/Year)
05/28/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/28/2008		M		5,000	A	$ 2.96	85,897	D	
Common Stock	05/28/2008		S		5,000	D	$ 14.21	80,897	D	
Common Stock	05/29/2008		M		1,000	A	$ 2.96	81,897	D	
Common Stock	05/29/2008		M		4,000	A	$ 2.96	85,897	D	
Common Stock	05/29/2008		S		5,000	D	$ 14.6477	80,897	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. P Der Sec (Ins
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Option (right to buy)	$ 2.96	05/28/2008		M			5,000	(1)	12/12/2012	Common Stock	5,000	
Stock Option (right to buy)	$ 2.96	05/29/2008		M			1,000	(1)	12/12/2012	Common Stock	1,000	
Stock Option (right to buy)	$ 2.96	05/29/2008		M			4,000	(2)	06/11/2013	Common Stock	4,000	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Mitchell Warren I 3020 OLD RANCH PARKWAY, SUITE 200 SEAL BEACH,, CA 90740	X			

Signatures

/s/ Mitchell W. Pratt, Attorney-in-Fact	05/30/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The option vested 20% on each anniversary of the date of grant (December 12, 2002), subject to continuing service, and became exercisable in full upon a change of control of the issuer which occurred in October 2005.

(2) The option vested 34% on the first anniversary of the date of grant (June 11, 2003), and 33% on each subsequent anniversary, subject to continuing service, and became exercisable in full upon a change of control of the issuer which occurred in October 2005.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ciation on investments when it believes that an investment has decreased in value, including where collection of a loan is doubtful or if under the in exchange premise when the value of a debt security was to be less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or if under the in exchange premise the value of a debt security were to be greater than amortized cost.

When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related

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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. 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.

Equity-Related Securities and Warrants

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. We have a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the valuation date.

The Company estimates the fair value of warrants using a Black Scholes pricing model. At each reporting date, privately held warrant and equity related 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, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. 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 warrant and related equity. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2011 and 2010:

(in thousands)		Investments at Fair Value as of December 31, 2011		
Description	**12/31/2011**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior secured debt	$ 585,767	$	$	$ 585,767
Preferred stock	30,289			30,289
Common stock	6,769	6,679		90
Warrants	30,045		3,761	26,284
	$ 652,870	$ 6,679	$ 3,761	$ 642,430

(in thousands)		Investments at Fair Value as of December 31, 2010		
Description	**12/31/2010**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior secured debt	$ 394,198	$	$	$ 394,198
Subordinated debt	7,420			7,420
Preferred stock	24,607			24,607
Common stock	22,117	4,943	16,144	1,030
Warrants	23,690		6,289	17,401
	$ 472,032	$ 4,943	$ 22,433	$ 444,656

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The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the year ended December 31, 2011 and 2010.

(in thousands)	Balance, January 1, 2011	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or depreciation[2]	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balances, December 31, 2011
Senior Debt	$ 394,198	$ (4,301)	$ 9,050	$ 454,640	$	$ (263,432)	$	$	$ (4,388)	585,767
Subordinated Debt	7,420					(7,420)				
Preferred Stock	24,607	(1,441)	838	1,860				4,425		30,289
Common Stock	1,030		(940)							90
Warrants	17,401	(1,054)	5,243	6,507	(497)		(51)		(1,265)	26,284
Total	$ 444,656	$ (6,796)	$ 14,191	$ 463,007	$ (497)	$ (270,852)	$ (51)	$ 4,425	$ (5,653)	$ 642,430

(in thousands)	Balance, January 1, 2010	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or depreciation[2]	Purchases, sales, repayments, and exit, net	Transfer in & out of Level 3	Balances, December 31, 2010
Senior Debt	$ 319,129	$ (12,835)	$ (3,076)	$ 98,058	$ (7,078)	$ 394,198
Subordinated Debt				7,420		7,420
Senior Debt-Second Lien	6,005			(6,005)		
Preferred Stock	22,875	(1,250)	(995)	2,603	1,374	24,607
Common Stock	1,773	(15,037)	(743)	15,037		1,030
Warrants	11,076	(1,225)	568	8,650	(1,668)	17,401
Total	$ 360,858	$ (30,347)	$ (4,246)	$ 125,764	$ (7,372)	$ 444,656

(1) Includes net realized gains /(losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.
(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statements of operations.
(3) Transfers in/out of Level 3 relate to the conversion of MaxVision Holding, LLC. debt to equity during the second quarter, the conversion of Gelesis, Inc. debt to equity in the fourth quarter, and the initial public offering of Pacira Pharmaceuticals, Inc.

For the year ended December 31, 2011, approximately $9.1 million and $3.8 million in unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $480,000 in unrealized depreciation was recorded for equity Level 3 investments relating to assets still held at the reporting date.

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 investments that are neither Control Investments nor Affiliate Investments.

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The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments at December 31, 2011 and December 31, 2010:

(in thousands)		December 31, 2011				
Portfolio Company	**Type**	**Fair Value at December 31, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
MaxVision Holding, LLC.	Control	$ 1,027	$ 889	$ (5,158)	$	$
E-Band Communiations, Corp.	Non-Controlled Affiliate		14	(3,425)		
Total		$ 1,027	$ 903	$ (8,583)	$	$

(in thousands)		December 31, 2010				
Portfolio Company	**Type**	**Fair Value at December 31, 2010**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
InfoLogix, Inc.	Control	$ 40,181	$ 3,013	$ 77	$ 128	$ 2,517
E-Band Communiations, Corp.	Non-Controlled Affiliate	3,069		795		
Total		$ 43,250	$ 3,013	$ 872	$ 128	$ 2,517

The Company s investment in InfoLogix, Inc., a company that was a Control Investment as of December 31, 2010, was sold to Stanley Black & Decker (NYSE:SWK) in January 2011. Approximately $8.3 million of realized gains and $8.4 million of net change in unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

Income Recognition

Interest income is recorded on the accrual basis and the Company will recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection.

There was one loan on non-accrual status as of December 31, 2011 with an approximate cost of $7.7 million and fair value of approximately $1.0 million. There were two loans on non-accrual as of December 31, 2010 with an aggregate cost of approximately $11.4 million and fair value of approximately $4.0 million and five loans on non-accrual as of December 31, 2009 with an aggregate cost of approximately $25.5 million and fair value of approximately $10.5 million.

During the years ended December 31, 2011 and 2010, the Company made investments in debt securities, including restructured loans, totaling approximately $433.4 million and $320.4 million, respectively. During the years ended December 31, 2011 and 2010, the Company funded equity investments of approximately $2.1 million and $2.3 million, respectively.

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During the years ended December 31, 2011 and 2010, the Company recognized $9.3 million and $2.6 million in realized gains, respectively from the sale of common stock in its public portfolio companies. During the years ended December 31, 2011 and 2010, the Company recognized realized losses of approximately $6.5 million and $29.0 million, respectively million from equity, loan, and warrant investments in portfolio companies that have been liquidated.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash.

Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. For the years ended December 31, 2011, 2010 and 2009, the Company recognized approximately $1.7 million, $2.3 million and $2.9 million in PIK income, respectively. The Company recognizes nonrecurring fees amortized over the remaining term of the loan relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount (OID) related to early loan pay-off or material modification of the specific debt outstanding.

Loan origination, and commitment fees received in full at the inception of a loan or upon modification 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. The Company had approximately $4.5 million, $6.6 million and $2.4 million of unamortized fees at December 31, 2011, 2010 and 2009, respectively, and approximately $4.4 million, $5.1 million $6.6 million in exit fees receivable at December 31, 2011, 2010 and 2009, respectively.

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At December 31, 2011, approximately 63% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 36% of the loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1% of portfolio company loans had an equipment only lien.

Financing costs

Debt financing costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing and are recognized as prepaid expenses and amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, were as follows:

	As of December 31	
(in thousands)	**2011**	**2010**
Wells Facility	$ 906	$ 250
SBA Debenture	5,828	4,917
Convertible Debt	2,477	
	$ 9,211	$ 5,167

Cash Equivalents

The Company considers money market funds and other highly liquid short-term investments with a maturity of less than 90 days to be cash equivalents.

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Stock Based Compensation

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. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

Income Taxes

We operate to qualify to be taxed as a RIC under the Internal Revenue Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine taxable income. Taxable income includes our net taxable interest, dividend and fee income, as well as our net realized capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. In addition, taxable income generally excludes any unrealized appreciation or depreciation in our investments, because gains and losses are not included in taxable income until they are realized and required to be recognized. Taxable income includes certain income, such as contractual payment-in-kind interest and amortization of discounts and fees that is required to be accrued for tax purposes even though cash collections of such income are generally deferred until repayment of the loans or debt securities that gave rise to such income.

We have distributed and currently intend to distribute sufficient dividends to eliminate taxable income. We are subject to a nondeductible federal excise tax of 4% if we do not distribute at least 98% of our investment company taxable income in any calendar year and 98.2% of our capital gain net income for each one year period ending on October 31. We did not record an excise tax provision for the years ended December 31, 2011 and 2010. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines.

Dividends

Dividends and distributions to common stockholders are approved by the Board of Directors on a quarterly basis and the dividend payable is recorded on the ex-dividend date.

We have adopted an opt out dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividend automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. During 2011, 2010 and 2009, the Company issued approximately 167,000, 199,000 and 307,000 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

Segments

The Company lends to and invests in portfolio companies in various technology-related companies, including clean technology, life science, and lower middle market companies. The Company separately evaluates

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the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment.

Reclassifications

Certain prior period information has been reclassified to conform to current year presentation.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 was issued concurrently with International Financial Reporting Standards No.13 (IFRS 13), Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements as is currently required under ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820). The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. ASU 2011-04 eliminates the concepts of in-use and in-exchange when measuring fair value of all financial instruments. For Level 3 fair value measurements, the ASU requires that our disclosure include quantitative information about significant unobservable inputs, a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs, and a description of our valuation process. Public companies are required to apply ASU 2011-04 prospectively for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of the adoption of ASU 2011-04 on its financial statements and disclosures.

2. Investments

Investments consist of securities issued by privately- and publicly-held companies consisting of senior debt, subordinated debt, warrants and preferred equity securities. Our investments are identified in the accompanying consolidated schedule of investments. Our debt securities are payable in installments with final maturities generally from 3 to 7 years and are generally collateralized by all assets of the borrower.

A summary of the composition of the Company s investment portfolio as of December 31, 2011 and 2010 at fair value is shown as follows:

	December 31, 2011		**December 31, 2010**	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 482,268	73.9%	$ 357,963	75.8%
Senior secured debt	133,544	20.4%	59,251	12.6%
Preferred stock	30,181	4.6%	26,813	5.7%
Senior debt-second lien with warrants		0.0%	8,094	1.7%
Common Stock	6,877	1.1%	19,911	4.2%
	$ 652,870	100.0%	$ 472,032	100.0%

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

(in thousands)	December 31, 2011 Investments at Fair Value	December 31, 2011 Percentage of Total Portfolio	December 31, 2010 Investments at Fair Value	December 31, 2010 Percentage of Total Portfolio
United States	$ 634,736	97.2%	$ 438,585	92.9%
England	8,266	1.3%	10,653	2.3%
Iceland	4,970	0.7%		0.0%
Ireland	3,842	0.6%		0.0%
Canada	672	0.1%	20,876	4.4%
Israel	384	0.1%	1,918	0.4%
	$ 652,870	100.0%	$ 472,032	100.0%

The following table shows the fair value of our portfolio by industry sector as of December 31, 2011 and 2010 (excluding unearned income):

(in thousands)	December 31, 2011 Investments at Fair Value	December 31, 2011 Percentage of Total Portfolio	December 31, 2010 Investments at Fair Value	December 31, 2010 Percentage of Total Portfolio
Drug Discovery & Development	$ 131,428	20.1%	$ 52,777	11.2%
Internet Consumer & Business Services	117,542	18.0%	7,255	1.5%
Clean Tech	64,587	9.9%	25,722	5.4%
Drug Delivery	62,665	9.6%	35,250	7.5%
Information Services	45,850	7.0%	10,857	2.3%
Specialty Pharma	39,384	6.0%	63,607	13.5%
Media/Content/Info	38,476	5.9%	25,300	5.4%
Therapeutic	35,911	5.5%	2,223	0.5%
Communications & Networking	28,618	4.4%	65,098	13.8%
Software	27,850	4.3%	96,508	20.4%
Biotechnology Tools	18,693	2.9%	5,987	1.3%
Diagnostic	15,158	2.3%	14,911	3.2%
Surgical Devices	11,566	1.8%	10,172	2.1%
Semiconductors	9,733	1.5%	3,227	0.7%
Consumer & Business Products	4,186	0.6%	45,316	9.6%
Electronics & Computer Hardware	1,223	0.2%	7,819	1.6%
Energy		0.0%	3	0.0%
	$ 652,870	100.0%	$ 472,032	100.0%

During the years ended December 31, 2011 and 2010, the Company made investments in debt securities totaling $433.6 million and $320.4 million, respectively, and made investments in equity securities of approximately $2.1 and $2.3 million, respectively. In addition, during the year ended December 31, 2011, the Company converted approximately $4.4 million of debt to equity in two portfolio companies. No single portfolio investment represents more than 10% of the fair value of the investments as of December 31, 2011 and 2010.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes and the SBIC

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debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. Based on market quotations on or around December 31, 2011 the Convertible Senior Notes were trading for $0.885 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of its SBIC debentures would be approximately $247.9 million, compared to the carrying amount of $225.0 million as of December 31, 2011.

See the accompanying Consolidated Schedule of Investments for the fair value of the Company s investments. The methodology for the determination of the fair value of the Company s investments is discussed in Note 1.

4. Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of December 31, 2011, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. The Company s net investment of $75.0 million in HT II as of December 31, 2011 fully funds the required regulatory capital for HT II. HT II has a total of $125.0 million of SBA guaranteed debentures outstanding as of December 31, 2011 and has paid the SBA commitment fees of approximately $1.5 million. As of December 31, 2011, the Company held investments in HT II in 57 companies with a fair value of approximately $198.7 million, accounting for approximately 30.4% of the Company s total portfolio.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $50.0 million in HT III as of December 31, 2011, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million were outstanding as of December 31, 2011. As of December 31, 2011, HT III has paid the SBA commitment fees of approximately $1.0 million. As of December 31, 2011, the Company held investments in HT III in 23 companies with a fair value of approximately $124.8 million, accounting for approximately 19.1% of the Company s total portfolio. See Note 16.

There is no assurance that HT II or HT III will be able to draw to the maximum limit available under the SBIC program.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA.

A smaller concern is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

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HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2011 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.88% to 5.73%. Interest payments on SBA debentures are payable semi-annually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fee related to HT III debentures that pooled on September 21, 2011 was 0.285%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2011 for HT II was approximately $125.5 million with an average interest rate of approximately 6.0%. The average amount of debentures outstanding for the quarter ended December 31, 2011 for HT III was approximately $60.0 million with an average interest rate of approximately 3.0%.

HT II and HT III hold approximately $217.2 million and $167.1 million in assets, respectively, and accounted for approximately 21.7% and 16.7% of our total assets prior to consolidation at December 31, 2011.

The Company reported the following SBA debentures outstanding on its Consolidated Balance Sheet as of December 31, 2011 and December 31, 2010:

			December 31,	
(in thousands) Issuance/Pooling Date	**Maturity Date**	**Interest Rate(1)**	**2011**	**2010**
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	$ 12,000	$ 12,000
March 26, 2008	March 1, 2018	6.38%	58,050	58,050
September 24, 2008	September 1, 2018	6.63%	13,750	38,750
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	32,900
March 29, 2011	March 1, 2021	4.37%	28,750	
September 21, 2011	September 1, 2021	3.16%	25,000	
October 18, 2011	March 1, 2022	1.35%(2)	36,250	
Total SBA Debentures			$ 225,000	$ 170,000

(1) Interest rate includes annual charge
(2) Interim interest on the October 18, 2011 borrowing will pool on March 20, 2012 at which date the principal interest rate will be set.

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At December 31, 2011 and December 31, 2010, the Company had the following borrowing capacity and outstanding borrowings:

	December 31, 2011		December 31, 2010	
	Total Available	Carrying Value(1)	Total Available	Carrying Value(1)
Union Bank Facility	$ 55,000	$	$ 20,000	$
Wells Facility	75,000	10,187	50,000	
Convertible Senior Notes(2)	75,000	70,353		
SBA Debenture(3)	225,000	225,000	225,000	170,000
Total	$ 430,000	$ 305,540	$ 295,000	$ 170,000

(1) Except for the Convertible Senior Notes (as defined below), all carrying values are the same as the principal amount outstanding.

(2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,647 at December 31, 2011.

(3) In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment and in April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.
In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or the pricing to be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016.

The Convertible Senior Notes mature on April 15, 2016 (the Maturity Date), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are the Company s senior unsecured obligations and rank senior in right of payment to the Company s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to the Company s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company s secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company s subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders may convert their Convertible Senior Notes only under certain circumstances set forth in the Indenture. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their Convertible Senior Notes at any time. Upon conversion, the Company will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate will initially be 84.0972 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately $11.89 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders.

The Company may not redeem the Convertible Senior Notes prior to maturity. No sinking fund is provided for the Convertible Senior Notes. In addition, if certain corporate events occur, holders of the Convertible Senior

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Notes may require the Company to repurchase for cash all or part of their Convertible Senior Notes at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14- 1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). In accounting for the Convertible Senior Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the accompanying consolidated balance sheet. As a result, the Company records interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Senior Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were approximately $2.9 million and $224,000, respectively. At the time of issuance and as of December 31, 2011, the equity component, net of issuance costs, as recorded in the capital in excess of par value in the balance sheet was approximately $5.2 million.

As of December 31, 2011, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)		**As of December 31, 2011**
Principal amount of debt	$	75,000
Original issue discount, net of accretion		(4,647)
Carrying value of debt	$	70,353

For the three and twelve months ended December 31, 2011, the components of interest expense and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)		**Three Months Ended December 31, 2011**		**Twelve Months Ended December 31, 2011**
Stated interest expense	$	1,125	$	3,187
Accretion of original issue discount		271		767
Amortization of debt issuance cost		144		409
Total interest expense	$	1,540	$	4,363
Cash paid for interest expense	$	2,250	$	2,250

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.2% for the year ended December 31, 2011. As of December 31, 2011, we are in compliance with the terms of the indentures governing the Convertible Senior Notes.

Wells Facility

In August 2008, we entered into a $50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility). On June 20, 2011, we renewed the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of $75.0 million. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other

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customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was approximately $10.2 of outstanding debt under the Wells Facility at December 31, 2011.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

Union Bank Facility

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At December 31, 2011, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. During the first quarter of

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2009, the Company paid off all remaining principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility was terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $715,000 as of December 31, 2011 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants. Since inception of the agreement, the Company has paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

5. Income Taxes

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. During the year ended December 31, 2011 and 2010, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to accelerated revenue recognition for income tax purposes, respectively, as follows:

	December 31,	
(in thousands)	**2011**	**2010**
Distributions in excess of investment income	$ (1,882)	$ (2,149)
Accumulated realized gains (losses)	5,250	3,478
Additional paid-in capital	(3,368)	(1,329)

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The tax character of distributions paid for the years ended December 31, 2011 and 2010 was ordinary income in the amounts of $38.5 million and $28.8 million, respectively.

The aggregate gross unrealized appreciation of our investments over cost for federal income tax purposes was $34.5 million and $22.4 million as of December 31, 2011 and 2010, respectively. The aggregate gross unrealized depreciation of our investments under cost for federal income tax purposes was $39.4 million and $32.2 million as of December 31, 2011 and 2010, respectively. The net unrealized depreciation over cost for federal income tax purposes was $4.9 million as of December 31, 2011 and net unrealized depreciation over cost for federal income tax purposes was $9.8 million as of December 31, 2010. The aggregate cost of securities for federal income tax purposes was $658.0 million and $481.4 million as of December 31, 2011 and 2010, respectively.

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At December 31, 2011 and 2010, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company s Statement of Net Assets and Liabilities by temporary book/ tax differences primarily arising from the treatment of loan related yield enhancements.

	December 31,	
(in thousands)	**2011**	**2010**
Accumulated Capital Gains (Losses)	$ (48,567)	$ (50,057)
Other Temporary Differences	(16)	(6,260)
Undistributed Ordinary Income	236	220
Unrealized Appreciation (Depreciation)	(4,901)	(8,963)
Components of Distributable Earnings	$ (53,248)	$ (65,060)

The Company will classify interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes.

Based on an analysis of our tax position, there are no uncertain tax positions that met the recognition or measurement criteria. The Company is currently not undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2008, 2009 and 2010 federal tax years for the Company remain subject to examination by the IRS. The 2007, 2008, 2009 and 2010 state tax years for the Company remain subject to examination by the California Franchise Tax Board.

6.Shareholders Equity

The Company is authorized to issue 100,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

In conjunction with a June 2004 private placement, the Company issued warrants to purchase one share of common stock within five years (the Five Year Warrants). Warrants for 88,323 shares were exercised in 2008 for net proceeds of approximately $934,000 and 283,614 warrants expired in June of 2009.

On August 2, 2011, the Company approved the extension of the stock repurchase plan as previously approved on February 8, 2010 under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock for an additional six month period with a new expiration date of February 26, 2012. During the year ended December 31, 2011, the Company did not repurchase any common stock.

During 2011, 2010 and 2009 the Board of Directors elected to receive approximately $105,000, $105,000, and $22,000 respectively, of their compensation in the form of common stock and the Company issued 9,942, 10,479, and 3,334 respectively, to the directors based on the closing prices of the common stock on the specified election dates.

The Company has issued stock options for common stock subject to future issuance, of which 4,231,444 and 4,729,849 were outstanding at December 31, 2011 and 2010, respectively.

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 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 8,000,000 shares of common stock under the 2004 Plan. 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.

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The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan and, together with the 2004 Plan, the Plans) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company s Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

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

In conjunction with the amendment and in accordance with the exemptive order, on June 21, 2007 the Company made an automatic grant of shares of restricted common stock to Messrs. Badavas, Chow and Woodward, the independent members of its Board of Directors, in the amounts of 1,667, 1,667 and 3,334 shares, respectively. In May 2008, the Company issued restricted shares to Messrs. Badavas and Chow in the amount of 5,000 shares each. In June 2009, the Company issued 5,000 restricted stock shares to Mr. Woodward. The shares were issued pursuant to the 2006 Plan and vest 33% on an annual basis from the date of grant and deferred compensation cost will be recognized ratably over the three year vesting period.

A summary of restricted stock activity under the Company s 2006 and 2004 Plans for each of the three periods ended December 31, 2011 is as follows:

	2006 Plan	2004 Plan
Outstanding at January 1, 2009	16,668	228,150
Granted	5,000	306,500
Cancelled		(4,175)
Outstanding at December 31, 2009	21,668	530,475
Granted		491,500
Cancelled		(3,872)
Outstanding at December 31, 2010	21,668	1,018,103
Granted	10,000	296,600
Cancelled		(123,502)
Outstanding at December 31, 2011	31,668	1,191,201

In conjunction with stock options issued in 2004, the Company issued warrants to purchase one share of common stock within five years. The warrants expired in June 2009.

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A summary of common stock options and warrant activity under the Company s 2006 and 2004 Plans for each of the three periods ended December 31, 2011 is as follows:

	Common Stock Options	Five-Year Warrants
Outstanding at January 1, 2009	3,931,528	10,692
Granted	1,357,000	
Exercised		
Cancelled	(364,123)	(10,692)
Outstanding at December 31, 2009	4,924,405	
Granted	575,250	
Exercised	(520,666)	
Cancelled	(249,140)	
Outstanding at December 31, 2010	4,729,849	
Granted	617,700	
Exercised	(178,101)	
Cancelled	(938,004)	
Outstanding at December 31, 2011	4,231,444	
Weighted-average exercise price at December 31, 2011	$ 11.40	$

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At December 31, 2011, options for approximately 3.6 million shares were exercisable at a weighted average exercise price of approximately $11.40 per share with weighted average of remaining contractual term of 2.16 years. The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the years ended December 31, 2011, 2010 and 2009 was approximately $1.3 million, $1.0 million and $746,000, respectively. During the years ended December 31, 2011, 2010 and 2009, approximately $557,000, $719,000 and $977,000, of share-based cost due to stock option grants was expensed, respectively. As of December 31, 2011, there was $833,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.1 years. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the three periods ended December 31, 2011:

	2011	2010	2009
Expected Volatility	46.39%	46.39%	31.52%-45.88%
Expected Dividends	10%	10%	10%
Expected term (in years)	4.5	4.5	4.5
Risk-free rate	0.68%-2.15%	0.89%-2.51%	1.77%-2.22%

The following table summarizes stock options outstanding and exercisable at December 31, 2011:

(Dollars in thousands, except exercise price)	Options outstanding				Options Exercisable			
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price

$4.21-$8.49	478,623	4.14	$ 2,409,038	$ 4.38	395,297	4.09	$ 1,999,634	$ 4.38
$8.67-$13.40	3,044,571	2.71	58,354	$ 12.28	2,486,475	1.89	17,066	$ 12.28
$13.87-$14.02	708,250	2.04		$ 14.02	708,250	2.04		$ 14.02
$4.21-$14.02	4,231,444	2.76	$ 2,467,392	$ 11.40	3,590,022	2.16	$ 2,016,700	$ 11.75

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In 2011, 2010 and 2009, the Company granted approximately 306,600 and 491,500 and 306,500 shares, respectively, of restricted stock pursuant to the Plans. Each restricted stock award granted in 2011, 2010 and 2009 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. Share based compensation cost will be recognized ratably over the four year vesting period. No restricted stock was granted pursuant to the 2004 Plan prior to 2009. The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the years ended December 31, 2011,2010 and 2009 was approximately $3.4 million, $5.1 million and $1.3 million, respectively. During the years ended December 31, 2011, 2010 and 2009, the Company expensed approximately $2.6 million, $2.0 million and $1.0 million of compensation expense related to restricted stock, respectively. As of December 31, 2011, there was approximately $5.2 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.57 years.

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company s common stock to pay for the exercise price and applicable taxes with respect to an option exercise (net issuance exercise). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of Hercules stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make, and does not preclude the participant from electing to make, a cash payment at the time of option exercise or to pay taxes on restricted stock.

8. Earnings per Share

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

	Year Ended December 31,		
(in thousands, except per share data)	**2011**	**2010**	**2009**
Numerator			
Net increase in net assets resulting from operations	$ 46,936	$ 4,982	$ 13,572
Less: Dividends declared-common and restricted shares	(38,492)	(28,816)	(43,914)
Undistributed earnings	8,444	(23,834)	(30,342)
Undistributed earnings-common shares	8,444	(23,834)	(30,342)
Add: Dividend declared-common shares	37,826	28,228	43,377
Numerator for basic and diluted change in net assets per common share	$ 46,270	$ 4,394	$ 13,035
Denominator			
Basic weighted average common shares outstanding	42,988	36,156	34,486
Common shares issuable	311	714	405
Weighted average common shares outstanding assuming dilution	43,299	36,870	34,891
Change in net assets per common share			
Basic	$ 1.08	$ 0.12	$ 0.38
Diluted	$ 1.07	$ 0.12	$ 0.37

The calculation of change in net assets resulting from operations per common share assuming dilution, excludes all anti-dilutive shares. For the years ended December 31, 2011, 2010 and 2009, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 2,583,707, 5,168,022 and 4,124,000; shares, respectively.

9. Commitments and Contingencies

The Company s commitments and contingencies consist primarily of unused commitments to extend credit, in the form of loans to the Company s portfolio companies. The balance of unfunded commitments to extend

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credit at December 31, 2011 totaled approximately $168.2 million. Since a portion of these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, the Company had approximately $82.5 million of non-binding term sheets outstanding at December 31, 2011. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately $1.1 million, $1.0 million and $966,000 during the years ended December 31, 2011, 2010 and 2009, respectively.

Future commitments under the credit facility and operating leases were as follows at December 31, 2011:

		Payments due by period (in thousands)			
Contractual Obligations[1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3][4]	$ 305,540	$	$ 10,187	$ 70,353	$ 225,000
Operating Lease Obligations[5]	8,497	1,244	2,294	2,520	2,439
Total	$ 314,037	$ 1,244	$ 12,481	$ 72,873	$ 227,439

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.
(3) Includes borrowings under the SBA debentures and Wells Facility. There were no outstanding borrowings under the Union Bank facility at December 31, 2011.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $4,647 at December 31, 2011.
(5) Long-term facility leases.

As of December 31, 2011, the Company was not a party to any material legal proceedings. However, from time to time, we may be party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies.

10. Indemnification

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.

11. Concentrations of Credit Risk

The Company s customers are primarily small and medium sized companies in the biotechnology, drug discovery, drug delivery, specialty pharmaceuticals, therapeutics, clean technology, communications and networking, consumer and business products, electronics and computers, information services, internet consumer and business services and products, medical devices, semiconductor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

The largest portfolio companies vary from year to year as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

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For years ended December 31, 2011 and 2010, our ten largest portfolio companies represented approximately 37.9% and 57.5% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2011 and 2010, we had seven and six investments, respectively, that represented 5% or more of our net assets. At December 31, 2011, we had seven equity investments representing approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2010, we had three equity investments which represented approximately 48.0% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

12. Financial Highlights

Following is a schedule of financial highlights for five years ended December 31, 2011.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
Per share data:					
Net asset value at beginning of period	$ 9.50	$ 10.29	11.56	12.31	11.65
Net investment income[1]	0.92	0.81	1.25	1.23	1.15
Net realized gain (loss) on investments	0.06	(0.73)	0.03	0.07	0.09
Net unrealized appreciation (depreciation) on investments	0.11	0.06	(0.90)	(0.66)	0.26
Total from investment operations	1.09	0.14	0.38	0.64	1.5
Net increase/(decrease) in net assets from capital share transactions	0.07	(0.21)	(0.44)	(0.12)	0.32
Distributions	(0.90)	(0.80)	(1.26)	(1.32)	(1.20)
Stock-based compensation expense included in investment income[2]	0.07	0.08	0.05	0.05	0.04
Net asset value at end of period	$ 9.83	$ 9.50	$ 10.29	$ 11.56	$ 12.31
Ratios and supplemental data:					
Per share market value at end of period	$ 9.44	$ 10.36	$ 10.39	$ 7.92	$ 12.42
Total return[3]	(0.83)%	7.70%	45.63%	(25.60)%	(4.42)%
Shares outstanding at end of period	43,853	43,444	35,634	33,096	32,541
Weighted average number of common shares outstanding	42,988	36,156	34,486	32,619	28,295
Net assets at end of period	$ 431,041	$ 412,531	$ 366,515	$ 382,458	$ 400,737
Ratio of operating expense to average net assets	9.61%	8.25%	8.23%	8.85%	6.46%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	9.45%	8.05%	11.38%	9.86%	9.81%
Average debt outstanding	$ 238,873	$ 142,410	$ 147,446	$ 196,928	$ 66,334
Weighted average debt per common share	$ 5.56	$ 3.94	$ 4.28	$ 6.04	$ 2.34

(1) For 2011, 2010, 2009 and 2008, net investment income per share is calculated as net investment income divided by the weighted average shares outstanding.
(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.
(3)

The total return for the period ended December 31, 2011, 2010, 2009, 2008 and 2007 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.

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13. Senior Securities

Information about our senior securities is shown in the following table for the periods as of December 31, 2011, 2010, 2009, 2008, 2007, 2006, 2005 and 2004.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit(3)
Bridge Loan Credit Facility with Alcmene Funding L.L.C.			
December 31, 2004			N/A
December 31, 2005	$ 25,000,000	$ 2,505	N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010			N/A
December 31, 2011			N/A
Securitized Credit Facility with Wells Fargo Capital Finance			
December 31, 2004			N/A
December 31, 2005	$ 51,000,000	$ 2,505	N/A
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 79,200,000	$ 6,755	N/A
December 31, 2008	$ 89,582,000	$ 6,689	N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011	$ 10,186,830	73,369	N/A
Securitized Credit Facility with Union Bank, NA			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011(6)			N/A
Small Business Administration Debentures (HT II)(4)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007	$ 55,050,000	$ 9,718	N/A
December 31, 2008	$ 127,200,000	$ 4,711	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 150,000,000	$ 3,942	N/A
December 31, 2011	$ 125,000,000	$ 5,979	N/A
Small Business Administration Debentures (HT III)(5)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010	$ 20,000,000	$ 29,564	N/A
December 31, 2011	$ 100,000,000	$ 7,474	N/A

Senior Convertible Notes			
December 31, 2011	$ 70,352,983	10,623	885

(1) Total amount of each class of senior securities outstanding at the end of the period presented, rounded to nearest thousand.
(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.
(3) Not applicable because senior securities are not registered for public trading.

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(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(6) The Company s Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

14. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2011. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any further quarter.

	Quarter Ended			
(in thousands, except per share data)	**3/31/2011**	**6/30/2011**	**9/30/2011**	**12/31/2011**
Total investment income	$ 19,152	$ 20,820	$ 18,684	$ 21,200
Net investment income before provision for income taxes and investment gains and losses	9,804	10,360	8,593	10,831
Net increase (decrease) in net assets resulting from operations	(1,177)	24,317	6,223	17,574
Change in net assets per common share (basic)	0.23	0.24	0.14	0.25

	Quarter Ended			
	3/31/2010	**6/30/2010**	**9/30/2010**	**12/31/2010**
Total investment income	$ 12,520	$ 14,501	$ 15,646	$ 16,807
Net investment income before provision for income taxes and investment gains and losses	5,612	6,863	8,148	8,751
Net increase (decrease) in net assets resulting from operations	5,714	(4,630)	(7,823)	11,721
Change in net assets per common share (basic)	0.16	(0.14)	(0.23)	0.30

15. Subsequent Events

Dividend Declaration

On February 27, 2012 the Board of Directors increased the quarterly dividend by 5.0% and declared a cash dividend of $0.23 per share to be paid on March 15, 2012 to shareholders of record as of March 12, 2012. This dividend will represent the Company s twenty-sixth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $6.92 per share.

Liquidity and Capital Resources

In January 2012, the Company closed a public offering of 5,000,000 shares of common stock at $9.61 per share, resulting in net proceeds of $48,050,000 before deducting offering expenses payable by the Company.

In January 2012, the Company repaid the entire principal balance outstanding (approximately $10.2 million as of December 31, 2011) under the Wells Fargo facility.

In February 2012, the Company repaid six SBA debentures with principal totaling $24.25 million. The weighted average interest rate on repaid debentures (including the 0.906% SBA annual charge levied on each debenture) was 6.521%. The total amount paid, including unpaid interest and annual charges through March 1, 2012, was approximately $25.0 million.

Portfolio Company Developments

On February 3, 2012, Cempra, Inc. completed its initial public offering of 8,400,000 shares of common stock at a price to the public of $6.00 per share. At December 31, 2011 Hercules held approximately 371,000 warrants in Cempra, Inc.

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In January 2012, BÂRRX Medical, Inc. completed the sale of all of its outstanding shares to Coviden plc in a transaction for an aggregate consideration of approximately $325.0 million, net of cash and short-term investments. In connection with the sale, the Company expects to realize a net gain of approximately $2.2-$2.3 million in the first quarter of 2012 and a full repayment of the Company s loan to BÂRRX Medical.

In January 2012, Hercules received full payment of its $5.0 million term loan with Merrion Pharmaceuticals, Inc.

In December 2011, Hercules entered into an agreement to acquire approximately $9.6 million through a secondary marketplace in Facebook, Inc., the social networking company for an aggregate of 307,500 shares at an average price of $31.08 per share. The investments were subject to certain closing conditions and a right of first refusal by Facebook, Inc. which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES As of and for the year ended December 31, 2011 (in thousands)

Portfolio Company	Investment(1)	Amount of Interest Credited to Income(2)	As of December 31, 2010 Fair Value	Gross Additions(3)	Gross Reductions(4)	As of December 31, 2011 Fair Value
Control Innvestments						
MaxVision	Senior Debt	$	$ 3,759	$	$ (3,759)	$
	Revolving Line of Credit	889	3,163		(2,136)	1,027
	Common Stock			3,500	(3,500)	
		889	6,922	3,500	(9,395)	1,027
Affiliate Investments						
E-band Communications, Inc.	Senior Debt	14		356	(356)	
	Preferred Stock		3,069		(3,069)	
		14	3,069	356	(3,425)	
Total Control and Affliate Investments		$ 903	$ 9,991	$ 3,856	$ (12,820)	$ 1,027

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of December 31, 2011.

(2) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was an affiliate or control investment.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increase in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increase in unrealized depreciation or net decreases in unrealized appreciation.

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3,100,000 Shares

Common Stock

Price $ Share

Credit Suisse

PRELIMINARY PROSPECTUS SUPPLEMENT

The date of this prospectus supplement is September , 2012