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Hercules Capital, Inc.  
Form 10-Q  
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 814-00702

HERCULES CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland  
(State or Jurisdiction of

Incorporation or Organization)

400 Hamilton Ave., Suite 310

Palo Alto, California

743113410  
(IRS Employer

Identification No.)  
94301

(Zip Code)

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(Address of Principal Executive Offices)

(650) 289-3060

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with a new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On July 31, 2017, there were 82,795,519 shares outstanding of the Registrant's common stock, \$0.001 par value.

HERCULES CAPITAL, INC.

FORM 10-Q TABLE OF CONTENTS

	<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1.	<u>Consolidated Financial Statements</u>	3
	<u>Consolidated Statement of Assets and Liabilities as of June 30, 2017 and December 31, 2016 (unaudited)</u>	3
	<u>Consolidated Statement of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)</u>	5
	<u>Consolidated Statement of Changes in Net Assets for the six months ended June 30, 2017 and 2016 (unaudited)</u>	6 7

	<u>Consolidated Statement of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)</u>	
	<u>Consolidated Schedule of Investments as of June 30, 2017 (unaudited)</u>	8
	<u>Consolidated Schedule of Investments as of December 31, 2016 (unaudited)</u>	21
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	35
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	66
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	95
Item 4.		96

Controls and  
Procedures

	<u>PART II. OTHER INFORMATION</u>	97
Item 1.	<u>Legal Proceedings</u>	97
Item 1A.	<u>Risk Factors</u>	97
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	135
Item 3.	<u>Defaults Upon Senior Securities</u>	135
Item 4.	<u>Mine Safety Disclosures</u>	135
Item 5.	<u>Other Information</u>	135
Item 6.	<u>Exhibits and Financial Statement Schedules</u>	136
	<u>SIGNATURES</u>	138



## PART I: FINANCIAL INFORMATION

In this Quarterly Report, the “Company,” “Hercules,” “we,” “us” and “our” refer to Hercules Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts on or after February 25, 2016 and “Hercules Technology Growth Capital, Inc.” and its wholly owned subsidiaries and its affiliated securitization trusts prior to February 25, 2016, unless the context otherwise requires.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,385,401 and \$1,475,918 respectively)	\$ 1,357,914	\$ 1,414,210
Control investments (cost of \$102,888 and \$22,598, respectively)	31,564	4,700
Affiliate investments (cost of \$12,850 and \$13,010, respectively)	5,991	5,032
Total investments, at value (cost of \$1,501,139 and \$1,511,526 respectively)	1,395,469	1,423,942
Cash and cash equivalents	160,412	13,044
Restricted cash	17,226	8,322
Interest receivable	10,204	11,614
Other assets	5,398	7,282
<b>Total assets</b>	<b>\$ 1,588,709</b>	<b>\$ 1,464,204</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,193	\$ 21,463
Credit Facilities	—	5,016
2021 Asset-Backed Notes, net (principal of \$87,678 and \$109,205, respectively) <sup>(1)</sup>	86,865	107,972
Convertible Notes, net (principal of \$230,000 and \$0, respectively) <sup>(1)</sup>	222,898	—
2019 Notes, net (principal of \$0 and \$110,364, respectively) <sup>(1)</sup>	—	108,818
2024 Notes, net (principal of \$258,510 and \$252,873, respectively) <sup>(1)</sup>	251,478	245,490
SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) <sup>(1)</sup>	187,824	187,501
<b>Total liabilities</b>	<b>\$ 771,258</b>	<b>\$ 676,260</b>
Net assets consist of:		
Common stock, par value	83	80
Capital in excess of par value	892,930	839,657
Unrealized depreciation on investments <sup>(2)</sup>	(106,941 )	(89,025 )
Accumulated undistributed realized gains on investments	35,128	37,603

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Distributions in excess of net investment income	(3,749 )	(371 )
Total net assets	\$817,451	\$787,944
Total liabilities and net assets	\$1,588,709	\$1,464,204
Shares of common stock outstanding (\$0.001 par value, 200,000,000 authorized)	82,819	79,555
Net asset value per share	\$9.87	\$9.90

- (1) The Company's 2021 Asset-Backed Notes, Convertible Notes, 2019 Notes, 2024 Notes and SBA Debentures, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See "Note 4 – Borrowings".
- (2) Amounts include \$1.3 million and \$1.4 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, estimated taxes payable and warrant participation agreement liabilities as of June 30, 2017 and December 31, 2016, respectively.

See notes to consolidated financial statements.



The following table presents the assets and liabilities of our consolidated securitization trust for the 2021 Asset-Backed Notes (see Note 4), which is a variable interest entity (“VIE”). The assets of our securitization VIE can only be used to settle obligations of our consolidated securitization VIE, these liabilities are only the obligations of our consolidated securitization VIE, and the creditors (or beneficial interest holders) do not have recourse to our general credit. These assets and liabilities are included in the Consolidated Statement of Assets and Liabilities above.

(Dollars in thousands)	June 30, 2017	December 31, 2016
<b>Assets</b>		
Restricted Cash	\$17,226	\$8,322
Total investments, at value (cost of \$190,276 and \$244,695, respectively)	190,168	242,349
Total assets	\$207,394	\$250,671
<b>Liabilities</b>		
2021 Asset-Backed Notes, net (principal of \$87,678 and \$109,205, respectively) <sup>(1)</sup>	\$86,865	\$107,972
Total liabilities	\$86,865	\$107,972

(1) The Company’s 2021 Asset-Backed Notes are presented net of the associated debt issuance costs. See “Note 4 – Borrowings”.

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Investment income:				
Interest and PIK interest income				
Interest income:				
Non-control/Non-affiliate investments	\$37,715	\$37,736	\$78,027	\$72,436
Control investments	340	—	672	—
Affiliate investments	—	50	2	115
Total interest income	38,055	37,786	78,701	72,551
PIK interest income:				
Non-control/Non-affiliate investments	2,264	1,835	4,297	3,544
Control investments	187	—	369	—
Total PIK interest income	2,451	1,835	4,666	3,544
Total interest and PIK interest income	40,506	39,621	83,367	76,095
Fee income				
Commitment, facility and loan fee income:				
Non-control/Non-affiliate investments	2,440	3,126	5,374	5,426
Control investments	5	—	10	—
Total commitment, facility and loan fee income	2,445	3,126	5,384	5,426
One-time fee income:				
Non-control/Non-affiliate investments	5,501	791	6,066	956
Total one-time fee income	5,501	791	6,066	956
Total fee income	7,946	3,917	11,450	6,382
Total investment income	48,452	43,538	94,817	82,477
Operating expenses:				
Interest	9,254	7,572	18,861	14,589
Loan fees	1,348	1,278	4,186	2,267
General and administrative	4,750	4,401	8,814	7,980
Employee compensation:				
Compensation and benefits	5,916	5,331	11,262	10,016
Stock-based compensation	1,909	1,602	3,742	4,174
Total employee compensation	7,825	6,933	15,004	14,190
Total operating expenses	23,177	20,184	46,865	39,026
Net investment income	25,275	23,354	47,952	43,451
Net realized gain (loss) on investments				
Non-control/Non-affiliate investments	(5,319 )	25	(2,030 )	(4,443 )
Control investments	(394 )	—	(445 )	—
Total net realized gain (loss) on investments	(5,713 )	25	(2,475 )	(4,443 )

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Net change in unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	66,255	(8,159 )	34,100	(9,618 )
Control investments	(53,349)	(3,421 )	(53,135)	(3,421 )
Affiliate investments	681	(2,324 )	1,119	(2,199 )
Total net unrealized appreciation (depreciation) on investments	13,587	(13,904)	(17,916)	(15,238)
Total net realized and unrealized gain (loss)	7,874	(13,879)	(20,391)	(19,681)
Net increase in net assets resulting from operations	\$33,149	\$9,475	\$27,561	\$23,770

Net investment income before investment gains and losses per common share:

Basic	\$0.31	\$0.32	\$0.58	\$0.59
Change in net assets resulting from operations per common share:				
Basic	\$0.40	\$0.13	\$0.33	\$0.32
Diluted	\$0.40	\$0.13	\$0.33	\$0.32
Weighted average shares outstanding				
Basic	82,292	72,746	81,858	71,959
Diluted	82,395	72,762	81,953	71,965
Distributions declared per common share:				
Basic	\$0.31	\$0.31	\$0.62	\$0.62

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

	Common Shares	Stock Par Value	Capital in excess of par value	Unrealized Appreciation (Depreciation) on Investments	Accumulated Undistributed Realized Gains (Losses) on Investments	Undistributed Net Investment Income/ (Distributions in Excess of Investment Income)	Net Assets
Balance at December 31, 2015	72,118	\$ 73	\$ 751,902	\$ (52,808 )	\$ 27,993	\$ (10,026 )	\$ 717,134
Net increase (decrease) in net assets resulting from operations	—	—	—	(15,238 )	(4,443 )	43,451	23,770
Public offering, net of offering expenses	2,201	2	23,668	—	—	—	23,670
Acquisition of common stock under repurchase plan	(450 )	(1 )	(4,789 )	—	—	—	(4,790 )
Issuance of common stock due to stock option exercises	11	—	118	—	—	—	118
Issuance of common stock under restricted stock plan	547	1	(1 )	—	—	—	—
Retired shares for restricted stock vesting	(192 )	—	(2,122 )	—	—	—	(2,122 )
Distributions reinvested in common stock	85	—	997	—	—	—	997
Distributions	—	—	—	—	—	(45,206 )	(45,206 )
Stock-based compensation <sup>(1)</sup>	—	—	4,224	—	—	—	4,224
Balance at June 30, 2016	74,320	\$ 75	\$ 773,997	\$ (68,046 )	\$ 23,550	\$ (11,781 )	\$ 717,795
Balance at December 31, 2016	79,555	\$ 80	\$ 839,657	\$ (89,025 )	\$ 37,603	\$ (371 )	\$ 787,944
Net increase (decrease) in net assets resulting from operations	—	—	—	(17,916 )	(2,475 )	47,952	27,561
Public offering, net of offering expenses	3,309	3	46,908	—	—	—	46,911
Issuance of common stock due to stock option exercises	27	—	211	—	—	—	211
Retired shares from net issuance	(18 )	—	(170 )	—	—	—	(170 )
Issuance of common stock under restricted stock plan	10	—	—	—	—	—	—

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Retired shares for restricted stock vesting	(145 )	—	(1,988 )	—	—	—	(1,988 )
Distributions reinvested in common stock	81	—	1,122	—	—	—	1,122
Issuance of Convertible Notes	—	—	3,413	—	—	—	3,413
Distributions	—	—	—	—	—	(51,330 )	(51,330 )
Stock-based compensation <sup>(1)</sup>	—	—	3,777	—	—	—	3,777
Balance at June 30, 2017	82,819	\$ 83	\$ 892,930	\$ (106,941 )	\$ 35,128	\$ (3,749 )	\$ 817,451

(1) Stock-based compensation includes \$35 and \$50 of restricted stock and option expense related to director compensation for the six months ended June 30, 2017 and 2016, respectively.

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$27,561	\$23,770
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(340,632)	(330,750)
Principal and fee payments received on investments	349,519	221,331
Proceeds from the sale of investments	18,450	6,041