

Hercules Capital, Inc.  
Form 10-Q  
August 04, 2016

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, 2016

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

On August 1, 2016, there were 74,844,969 shares outstanding of the Registrant's common stock, \$0.001 par value.

HERCULES CAPITAL, INC.

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## 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, 2016	December 31, 2015
<b>Assets</b>		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,334,302 and \$1,238,539, respectively)	\$ 1,292,934	\$ 1,192,652
Control investments (cost of \$21,294 and \$0, respectively)	4,000	—
Affiliate investments (cost of \$13,799 and \$13,742, respectively)	5,844	7,986
Total investments, at value (cost of \$1,369,395 and \$1,252,281, respectively)	1,302,778	1,200,638
Cash and cash equivalents	59,715	95,196
Restricted cash	3,605	9,191
Interest receivable	9,453	9,239
Other assets	19,620	9,720
<b>Total assets</b>	<b>\$ 1,395,171</b>	<b>\$ 1,323,984</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 16,681	\$ 17,241
Long-Term Liabilities (Convertible Senior Notes), net (principal of \$0 and \$17,604) <sup>(1)</sup>	—	17,478
Wells Facility	—	50,000
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) <sup>(1)</sup>	127,461	126,995
2019 Notes, net (principal of \$110,364 and \$110,364, respectively) <sup>(1)</sup>	108,499	108,179
2024 Notes, net (principal of \$244,945 and \$103,000, respectively) <sup>(1)</sup>	237,570	100,128
Long-Term SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) <sup>(1)</sup>	187,165	186,829
<b>Total liabilities</b>	<b>\$ 677,376</b>	<b>\$ 606,850</b>
<b>Net assets consist of:</b>		
Common stock, par value	75	73
Capital in excess of par value	774,339	752,244
Unrealized depreciation on investments <sup>(2)</sup>	(68,046 )	(52,808 )
Accumulated realized gains on investments	23,550	27,993

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Distributions in excess of net investment income	(12,123 )	(10,368 )
Total net assets	\$717,795	\$717,134
Total liabilities and net assets	\$1,395,171	\$1,323,984
Shares of common stock outstanding (\$0.001 par value, 200,000,000 and 100,000,000 authorized, respectively)	74,320	72,118
Net asset value per share	\$9.66	\$9.94

- (1) The Company's SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See "Note 2 – Summary of Significant Accounting Policies" and "Note 4 – Borrowings".
- (2) Amounts include \$1.4 million and \$1.2 million, respectively, in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, estimated taxes payable and Citigroup warrant participation agreement liabilities.

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, 2016	December 31, 2015
<b>Assets</b>		
Restricted Cash	\$3,605	\$9,191
Total investments, at value (cost of \$271,886 and \$258,748, respectively)	269,452	257,657
Total assets	\$273,057	\$266,848
<b>Liabilities</b>		
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) <sup>(1)</sup>	\$127,461	\$126,995
Total liabilities	\$127,461	\$126,995

(1) The Company’s 2021 Asset-Backed Notes are presented net of the associated debt issuance costs for each instrument. See “Note 2 – Summary of Significant Accounting Policies” and “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,	
	2016	2015	2016	2015
Investment income:				
Interest income				
Non-control/Non-affiliate investments	\$39,571	\$35,144	\$75,980	\$65,605
Affiliate investments	50	96	115	195
Total interest income	39,621	35,240	76,095	65,800
Fees				
Non-control/Non-affiliate investments	3,917	2,886	6,382	4,819
Affiliate investments	—	—	—	1
Total fees	3,917	2,886	6,382	4,820
Total investment income	43,538	38,126	82,477	70,620
Operating expenses:				
Interest	7,572	7,571	14,589	15,425
Loan fees	1,278	1,580	2,267	3,093
General and administrative	4,401	4,069	7,980	7,687
Employee compensation:				
Compensation and benefits	5,331	5,857	10,016	9,653
Stock-based compensation	1,602	2,267	4,174	4,987
Total employee compensation	6,933	8,124	14,190	14,640
Total operating expenses	20,184	21,344	39,026	40,845
Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes)	—	(1 )	—	(1 )
Net investment income	23,354	16,781	43,451	29,774
Net realized gain (loss) on investments				
Non-control/Non-affiliate investments	25	(1,254 )	(4,443 )	2,058
Total net realized gain (loss) on investments	25	(1,254 )	(4,443 )	2,058
Net change in unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	(8,159 )	(12,854)	(9,618 )	(9,554 )
Control investments	(3,421 )	—	(3,421 )	—
Affiliate investments	(2,324 )	79	(2,199 )	2,392
Total net unrealized depreciation on investments	(13,904)	(12,775)	(15,238)	(7,162 )
Total net realized and unrealized loss	(13,879)	(14,029)	(19,681)	(5,104 )
Net increase in net assets resulting from operations	\$9,475	\$2,752	\$23,770	\$24,670
Net investment income before investment gains and losses per common share:				
Basic	\$0.32	\$0.23	\$0.59	\$0.43

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Change in net assets resulting from operations per common share:				
Basic	\$0.13	\$0.03	\$0.32	\$0.35
Diluted	\$0.13	\$0.03	\$0.32	\$0.35
Weighted average shares outstanding				
Basic	72,746	71,368	71,959	67,596
Diluted	72,762	71,593	71,965	67,901
Dividend 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 Investment)	Accumulated Realized Gains (Losses) on Investment	Undistributed Net Investment Income/ (Distributions in Excess of Investment Income)	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2014	64,715	\$ 65	\$ 657,233	\$ (17,076 )	\$ 14,079	\$ 4,905	\$ (342 )	\$ 658,864
Net increase (decrease) in net assets resulting from operations	—	—	—	(7,162 )	2,058	29,774	—	24,670
Public offering, net of offering expenses	7,591	8	100,084	—	—	—	—	100,092
Issuance of common stock due to stock option exercises	36	—	428	—	—	—	—	428
Retired shares from net issuance	(28 )	—	(423 )	—	—	—	—	(423 )
Issuance of common stock under restricted stock plan	603	1	(1 )	—	—	—	—	—
Retired shares for restricted stock vesting	(514 )	(1 )	(3,399 )	—	—	—	—	(3,400 )
Issuance of common stock as stock dividend	90	—	1,199	—	—	—	—	—