

Hercules Capital, Inc.  
Form 10-Q  
May 05, 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 March 31, 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 May 2, 2016, there were 73,664,846 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)

	March 31, 2016	December 31, 2015
<b>Assets</b>		
Investments:		
Non-control/Non-affiliate investments:		
Debt investments (cost of \$1,239,601 and \$1,150,103, respectively)	\$1,204,136	\$1,109,196
Equity investments (cost of \$51,208 and \$50,305, respectively)	55,837	60,781
Warrant investments (cost of \$39,789 and \$38,131, respectively)	23,240	22,675
Total Non-control/Non-affiliate investments (cost of \$1,330,598 and \$1,238,539, respectively)	1,283,213	1,192,652
Affiliate investments:		
Debt investments (cost of \$2,185 and \$2,200, respectively)	1,537	1,013
Equity investments (cost of \$8,912 and \$8,912, respectively)	6,304	6,661
Warrant investments (cost of \$2,630 and \$2,630, respectively)	256	312
Total Affiliate investments (cost of \$13,727 and \$13,742, respectively)	8,097	7,986
Total investments, at value (cost of \$1,344,325 and \$1,252,281, respectively)	1,291,310	1,200,638
Cash and cash equivalents	13,478	95,196
Restricted cash	3,646	9,191
Interest receivable	10,993	9,239
Other assets	12,388	9,720
Total assets	\$1,331,815	\$1,323,984
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$12,086	\$17,241
Long-Term Liabilities (Convertible Senior Notes), net (principal of \$17,604 and \$17,604, respectively) <sup>(1)</sup>	17,572	17,478
Wells Facility	61,003	50,000
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) <sup>(1)</sup>	127,227	126,995
2019 Notes, net (principal of \$110,364 and \$110,364, respectively) <sup>(1)</sup>	108,339	108,179

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2024 Notes, net (principal of \$103,000 and \$103,000, respectively) <sup>(1)</sup>	100,211	100,128
Long-Term SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) <sup>(1)</sup>	186,997	186,829
Total liabilities	\$613,435	\$606,850
Net assets consist of:		
Common stock, par value	74	73
Capital in excess of par value	761,565	752,244
Unrealized depreciation on investments <sup>(2)</sup>	(54,142 )	(52,808 )
Accumulated realized gains on investments	23,525	27,993
Undistributed net investment income (Distributions in excess of net investment income)	(12,642 )	(10,368 )
Total net assets	\$718,380	\$717,134
Total liabilities and net assets	\$1,331,815	\$1,323,984
Shares of common stock outstanding (\$0.001 par value, 200,000,000 and 100,000,000 authorized, respectively)		
	73,230	72,118
Net asset value per share	\$9.81	\$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 \$1.1 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)	March 31, 2016	December 31, 2015
<b>Assets</b>		
Restricted Cash	\$3,646	\$9,191
Total investments, at value (cost of \$265,038 and \$258,748, respectively)	264,469	257,657
Total assets	\$268,115	\$266,848
<b>Liabilities</b>		
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) <sup>(1)</sup>	\$127,227	\$126,995
Total liabilities	\$127,227	\$126,995

(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”. See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Investment income:		
Interest income		
Non-control/Non-affiliate investments	\$36,409	\$30,459
Affiliate investments	65	100
Total interest income	36,474	30,559
Fees		
Non-control/Non-affiliate investments	2,465	1,934
Affiliate investments	—	1
Total fees	2,465	1,935
Total investment income	38,939	32,494
Operating expenses:		
Interest	7,018	7,854
Loan fees	988	1,513
General and administrative	3,580	3,618
Employee compensation:		
Compensation and benefits	4,685	3,796
Stock-based compensation	2,571	2,719
Total employee compensation	7,256	6,515
Total operating expenses	18,842	19,500
Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes)	—	(1 )
Net investment income	20,097	12,993
Net realized gain (loss) on investments		
Non-control/Non-affiliate investments	(4,468 )	3,312
Total net realized gain (loss) on investments	(4,468 )	3,312
Net change in unrealized appreciation (depreciation) on investments		
Non-control/Non-affiliate investments	(1,460 )	3,301
Affiliate investments	126	2,313
Total net unrealized appreciation (depreciation) on investments	(1,334 )	5,614
Total net realized and unrealized gain (loss)	(5,802 )	8,926
Net increase in net assets resulting from operations	\$14,295	\$21,919
Net investment income before investment gains and losses per common share:		
Basic	\$0.28	\$0.20
Change in net assets resulting from operations per common share:		
Basic	\$0.20	\$0.33
Diluted	\$0.20	\$0.33



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Weighted average shares outstanding		
Basic	71,172	63,783
Diluted	71,199	64,163
Dividends declared per common share:		
Basic	\$0.31	\$0.31

See notes to consolidated financial statements.

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HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

Undistributed