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Hercules Capital, Inc.
Form 10-Q
August 02, 2018

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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, 2018

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

743113410
(IRS Employer

Identification No.)
94301

(Zip Code)

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Palo Alto, California

(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, a smaller reporting company, or an emerging growth 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 30, 2018, there were 95,831,773 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, 2018	December 31, 2017
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,614,160 and \$1,506,454, respectively)	\$1,616,515	\$1,491,458
Control investments (cost of \$59,337 and \$25,419, respectively)	56,716	19,461
Affiliate investments (cost of \$84,063 and \$87,956, respectively)	28,705	31,295
Total investments in securities, at value (cost of \$1,757,560 and \$1,619,829, respectively)	1,701,936	1,542,214
Cash and cash equivalents	59,461	91,309
Restricted cash	15,886	3,686
Interest receivable	14,408	12,262
Other assets	906	5,244
Total assets	\$1,792,597	\$1,654,715
Liabilities		
Accounts payable and accrued liabilities	\$25,115	\$26,896
SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) ⁽¹⁾	188,457	188,141
2022 Notes, net (principal of \$150,000 and \$150,000, respectively) ⁽¹⁾	147,728	147,572
2024 Notes, net (principal of \$83,510 and \$183,510, respectively) ⁽¹⁾	81,694	179,001
2025 Notes, net (principal of \$75,000 and \$0, respectively) ⁽¹⁾	72,616	—
2021 Asset-Backed Notes, net (principal of \$31,088 and \$49,153, respectively) ⁽¹⁾	30,698	48,650
2022 Convertible Notes, net (principal of \$230,000 and \$230,000, respectively) ⁽¹⁾	224,269	223,488
Credit Facilities	58,323	—
Total liabilities	\$828,900	\$813,748
Net assets consist of:		
Common stock, par value	94	85
Capital in excess of par value	1,026,313	908,501
Unrealized appreciation (depreciation) on investments ⁽²⁾	(56,760)	(79,760)

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Accumulated undistributed realized gains (losses) on investments	(34,205)	(20,374)
Undistributed net investment income	28,255	32,515
Total net assets	\$963,697	\$840,967
Total liabilities and net assets	\$1,792,597	\$1,654,715
Shares of common stock outstanding (\$0.001 par value, 200,000,000 authorized)	94,260	84,424
Net asset value per share	\$10.22	\$9.96

(1) The Company's SBA Debentures, 2022 Notes, 2024 Notes, 2025 Notes, 2021 Asset-Backed Notes and 2022 Convertible Notes, 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 \$1.1 million and \$2.1 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, and estimated taxes payable as of June 30, 2018 and December 31, 2017, 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, 2018	December 31, 2017
Assets		
Restricted Cash	\$ 15,886	\$ 3,686
Total investments in securities, at value (cost of \$98,105 and \$146,208, respectively)	97,924	144,513
Total assets	\$ 113,810	\$ 148,199
Liabilities		
2021 Asset-Backed Notes, net (principal of \$31,088 and \$49,153, respectively) ⁽¹⁾	\$ 30,698	\$ 48,650
Total liabilities	\$ 30,698	\$ 48,650

(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,	
	2018	2017	2018	2017
Investment income:				
Interest income				
Non-control/Non-affiliate investments	\$ 44,535	\$9,979	\$6,369	\$2,324
Control investments	841	527	1,427	1,041
Affiliate investments	500	—	1,061	2
Total interest income	45,876	40,506	88,857	83,367
Fee income				
Commitment, facility and loan fee income:				
Non-control/Non-affiliate investments	1,930	2,440	4,370	5,374
Control investments	—	5	—	10
Affiliate investments	84	—	192	—
Total commitment, facility and loan fee income	2,014	2,445	4,562	5,384
One-time fee income:				
Non-control/Non-affiliate investments	1,672	5,501	4,843	6,066
Total one-time fee income	1,672	5,501	4,843	6,066
Total fee income	3,686	7,946	9,405	11,450
Total investment income	49,562	48,452	98,262	94,817
Operating expenses:				
Interest	9,878	9,254	19,264	18,861
Loan fees	3,362	1,348	4,537	4,186
General and administrative				
Legal Expenses	637	2,141	1,212	2,867
Other Expenses	3,037	2,609	6,471	5,947
Total general and administrative	3,674	4,750	7,683	8,814
Employee compensation:				
Compensation and benefits	7,017	5,916	12,775	11,262
Stock-based compensation	2,857	1,909	5,166	3,742
Total employee compensation	9,874	7,825	17,941	15,004
Total operating expenses	26,788	23,177	49,425	46,865
Net investment income	22,774	25,275	48,837	47,952
Net realized gain (loss) on investments				
Non-control/Non-affiliate investments	(3,953)	(5,319)	(7,465)	(2,030)
Control investments	(2,900)	(394)	(4,308)	(445)
Affiliate investments	(2,058)	—	(2,058)	—
Total net realized gain (loss) on investments	(8,911)	(5,713)	(13,831)	(2,475)
Net change in unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	32,700	66,255	18,360	34,100
Control investments	3,957	(53,349)	3,337	(53,135)

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Affiliate investments	1,540	681	1,303	1,119
Total net unrealized appreciation (depreciation) on investments	38,197	13,587	23,000	(17,916)
Total net realized and unrealized gain (loss)	29,286	7,874	9,169	(20,391)
Net increase (decrease) in net assets resulting from operations	\$ 52,060	\$3,149	\$8,006	\$7,561
Net investment income before investment gains and losses per common share:				
Basic	\$ 0.26	\$0.31	\$0.57	\$0.58
Change in net assets resulting from operations per common share:				
Basic	\$ 0.59	\$0.40	\$0.67	\$0.33
Diluted	\$ 0.59	\$0.40	\$0.67	\$0.33
Weighted average shares outstanding				
Basic	87,125	82,292	85,868	81,858
Diluted	87,199	82,395	85,939	81,953
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	Net Assets
Balance at December 31, 2016	79,555	\$ 80	\$ 839,657	\$ (89,025)	\$ 14,314	\$ 22,918	\$ 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	—	—	—	—