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Hercules Capital, Inc.
Form 10-Q
May 02, 2019

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, 2019

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)

74-3113410
(IRS Employer
Identification Number)

400 Hamilton Ave., Suite 310

Palo Alto, California

94301

(Address of Principal Executive Offices) (Zip Code)

(650) 289-3060

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(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 every Interactive Data File required to be submitted 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 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, par value \$0.001 per share	HTGC	New York Stock Exchange
5.25% Notes due 2025	HCXZ	New York Stock Exchange
6.25% Notes due 2033	HCXY	New York Stock Exchange

On April 29, 2019, there were 97,208,899 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)

(in thousands, except per share data)

	March 31, 2019	December 31, 2018
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$2,000,508 and \$1,830,725, respectively)	\$2,003,062	\$1,801,258
Control investments (cost of \$64,968 and \$64,799, respectively)	54,913	57,619
Affiliate investments (cost of \$87,787 and \$85,000, respectively)	23,067	21,496
Total investments in securities, at value (cost of \$2,153,263 and \$1,980,524, respectively)	2,081,042	1,880,373
Cash and cash equivalents	16,465	34,212
Restricted cash	10,149	11,645
Interest receivable	18,366	16,959
Right of use asset ⁽¹⁾	8,856	—
Other assets	3,753	2,002
Total assets	\$2,138,631	\$1,945,191
Liabilities		
Accounts payable and accrued liabilities	\$18,256	\$25,961
Operating lease liability ⁽¹⁾	8,856	—
SBA Debentures, net (principal of \$149,000 and \$149,000, respectively)	147,783	147,655
2022 Notes, net (principal of \$150,000 and \$150,000, respectively) ⁽²⁾	148,121	147,990
2024 Notes, net (principal of \$0 and \$83,510, respectively) ⁽²⁾	—	81,852
2025 Notes, net (principal of \$75,000 and \$75,000, respectively) ⁽²⁾	72,685	72,590
2033 Notes, net (principal of \$40,000 and \$40,000, respectively) ⁽²⁾	38,420	38,427
2027 Asset-Backed Notes, net (principal of \$200,000 and \$200,000, respectively) ⁽²⁾	197,102	197,265
2028 Asset-Backed Notes, net (principal of \$250,000 and \$0, respectively) ⁽²⁾	247,352	—
2022 Convertible Notes, net (principal of \$230,000 and \$230,000, respectively) ⁽²⁾	225,441	225,051
Credit Facilities	44,266	52,956
Total liabilities	\$1,148,282	\$989,747

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Net assets consist of:

Common stock, par value	96	96
Capital in excess of par value	1,051,427	1,052,269
Total distributable earnings (loss) ⁽³⁾	(61,174)	(92,859)
Treasury Stock, at cost, no shares as of March 31, 2019 and 376,466 shares as of December 31, 2018	—	(4,062)
Total net assets	\$990,349	\$955,444
Total liabilities and net assets	\$2,138,631	\$1,945,191
Shares of common stock outstanding (\$0.001 par value and 200,000,000 authorized)	96,543	96,501
Net asset value per share	\$10.26	\$9.90

- (1) See “Note 2 – Summary of Significant Accounting Policies” for a description of Right of use asset and Operating lease liability.
- (2) The Company’s SBA debentures, 2022 Notes, 2024 Notes, 2025 Notes, 2033 Notes, 2027 Asset-Backed Notes, 2028 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”.
- (3) Certain prior year numbers have been adjusted to conform with the SEC final rules on disclosure updates and simplification effective November 5, 2018. See Note 2.

See notes to consolidated financial statements.

The following table presents the assets and liabilities of our consolidated securitization trusts for the 2027 Asset-Backed Notes and the 2028 Asset-Backed Notes (see Note 4), which are variable interest entities, or VIEs. The assets of our securitization VIEs can only be used to settle obligations of our consolidated securitization VIEs, these liabilities are only the obligations of our consolidated securitization VIEs, 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, 2019	December 31, 2018
Assets		
Restricted Cash	\$ 10,149	\$ 11,645
2027 Asset-Backed Notes, investments in securities, at value (cost of \$290,242 and \$279,373, respectively)	289,556	277,781
2028 Asset-Backed Notes, investments in securities, at value (cost of \$356,677 and \$0, respectively)	357,416	—
Total assets	\$ 657,121	\$ 289,426
Liabilities		
2027 Asset-Backed Notes, net (principal of \$200,000 and \$200,000, respectively) ⁽¹⁾	\$ 197,102	\$ 197,265
2028 Asset-Backed Notes, net (principal of \$250,000 and \$0, respectively) ⁽¹⁾	247,352	—
Total liabilities	\$ 444,454	\$ 197,265

(1)The Company's 2027 Asset-Backed Notes and the 2028 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 March 31,	
	2019	2018
Investment income:		
Interest income		
Non-control/Non-affiliate investments	\$53,941	\$41,834
Control investments	1,024	586
Affiliate investments	508	561
Total interest income	55,473	42,981
Fee income		
Commitment, facility and loan fee income:		
Non-control/Non-affiliate investments	2,450	2,440
Control investments	4	—
Affiliate investments	88	108
Total commitment, facility and loan fee income	2,542	2,548
One-time fee income:		
Non-control/Non-affiliate investments	780	3,171
Total one-time fee income	780	3,171
Total fee income	3,322	5,719
Total investment income	58,795	48,700
Operating expenses:		
Interest	12,555	9,386
Loan fees	3,009	1,175
General and administrative	4,153	4,009
Employee compensation:		
Compensation and benefits	6,623	5,758
Stock-based compensation	3,422	2,309
Total employee compensation	10,045	8,067
Total operating expenses	29,762	22,637
Net investment income	29,033	26,063
Net realized gain (loss) on investments		
Non-control/Non-affiliate investments	4,555	(3,512)
Control investments	—	(1,408)
Total net realized gain (loss) on investments	4,555	(4,920)
Net change in unrealized appreciation (depreciation) on investments		
Non-control/Non-affiliate investments	32,091	(14,340)
Control investments	(2,875)	(620)
Affiliate investments	(1,219)	(237)
Total net unrealized appreciation (depreciation) on investments	27,997	(15,197)

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Total net realized and unrealized gain (loss)	32,552	(20,117)
Net increase (decrease) in net assets resulting from operations	\$61,585	\$5,946
Net investment income before investment gains and losses per common share:		
Basic	\$0.30	\$0.31
Change in net assets resulting from operations per common share:		
Basic	\$0.64	\$0.07
Diluted	\$0.64	\$0.07
Weighted average shares outstanding		
Basic	96,218	84,596
Diluted	96,508	