

HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 10-Q
May 07, 2015

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, 2015

OR

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

Commission File Number: 814-00702

HERCULES TECHNOLOGY GROWTH

CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Jurisdiction of

Incorporation or Organization)

743113410
(IRS Employer

Identification No.)
94301

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400 Hamilton Ave., Suite 310 (Zip Code)

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, 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 4, 2015, there were 72,584,695 shares outstanding of the Registrant's common stock, \$0.001 par value.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

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PART I: FINANCIAL INFORMATION

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

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	March 31, 2015	December 31, 2014
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,154,801 and \$1,019,799, respectively)	\$ 1,150,639	\$ 1,012,738
Affiliate investments (cost of \$16,007 and \$15,538, respectively)	10,782	7,999
Total investments, at value (cost of \$1,170,808 and \$1,035,337, respectively)	1,161,421	1,020,737
Cash and cash equivalents	171,756	227,116
Restricted cash	21,949	12,660
Interest receivable	9,102	9,453
Other assets	22,860	29,257
Total assets	\$ 1,387,088	\$ 1,299,223
Liabilities		
Accounts payable and accrued liabilities	\$ 9,320	\$ 14,101
Long-term Liabilities (Convertible Senior Notes)	17,375	17,345
2017 Asset-Backed Notes	4,203	16,049
2021 Asset-Backed Notes	129,300	129,300
2019 Notes	170,364	170,364
2024 Notes	103,000	103,000
Long-term SBA Debentures	190,200	190,200
Total liabilities	\$ 623,762	\$ 640,359
Net assets consist of:		
Common stock, par value	73	65
Capital in excess of par value	760,034	657,233
Unrealized depreciation on investments	(11,462)	(17,076)
Accumulated realized gains on investments	17,391	14,079
Undistributed net investment income (Distributions in excess of net investment income)	(2,710)	4,563
Total net assets	\$ 763,326	\$ 658,864
Total liabilities and net assets	\$ 1,387,088	\$ 1,299,223

Shares of common stock outstanding (\$0.001 par value, 100,000,000 authorized)	72,891	64,715
Net asset value per share	\$10.47	\$10.18

See notes to consolidated financial statements.

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The following table presents the assets and liabilities of our consolidated securitization trusts for the asset-backed notes (see Note 4), which are variable interest entities (“VIE”). 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, 2015	December 31, 2014
Assets		
Restricted Cash	\$21,949	\$12,660
Total investments, at value (cost of \$261,304 and \$296,314, respectively)	262,394	291,464
Total assets	\$284,343	\$304,124
Liabilities		
Asset-Backed Notes	\$133,503	\$145,349
Total liabilities	\$133,503	\$145,349

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2015	2014
Investment income:		
Interest income		
Non-Control/Non-Affiliate investments	\$ 30,459	\$ 29,382
Affiliate investments	100	1,464
Total interest income	30,559	30,846
Fees		
Non-Control/Non-Affiliate investments	1,934	4,913
Affiliate investments	1	11
Total fees	1,935	4,924
Total investment income	32,494	35,770
Operating expenses:		
Interest	7,854	7,148
Loan fees	1,513	2,076
General and administrative	3,618	2,461
Employee Compensation:		
Compensation and benefits	3,796	4,221
Stock-based compensation	2,719	1,560
Total employee compensation	6,515	5,781
Total operating expenses	19,500	17,466
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)	(1)	—
Net investment income	12,993	18,304
Net realized gain on investments		
Non-Control/Non-Affiliate investments	3,312	4,872
Total net realized gain on investments	3,312	4,872
Net increase in unrealized appreciation (depreciation) on investments		
Non-Control/Non-Affiliate investments	3,301	(1,038)
Affiliate investments	2,313	47
Total net unrealized appreciation (depreciation) on investments	5,614	(991)
Total net realized and unrealized gain (loss)	8,926	3,881
Net increase in net assets resulting from operations	\$ 21,919	\$ 22,185
Net investment income before investment gains and losses per common share:		
Basic	\$ 0.20	\$ 0.30
Change in net assets per common share:		

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Basic	\$0.33	\$0.36
Diluted	\$0.33	\$0.35
Weighted average shares outstanding		
Basic	63,783	60,870
Diluted	64,163	62,695
Dividends declared per common share:		
Basic	\$0.31	\$0.31

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH 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 Realized Gains (Losses) on Investments	Undistributed net investment income/ (Distributions in excess of Investment income)	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2013	61,837	\$62	\$ 656,594	\$ 3,598	\$ (15,240)	\$ 5,335	\$ (342)	\$ 650,007
Net increase (decrease) in net assets								
resulting from operations	—	—	—	(991)	4,872	18,304	—	22,185
Issuance of common stock due to								
stock option exercises	62	—	727	—	—	—	—	727
Retired shares from net issuance	(48)	—	(748)	—	—	—	—	(748)
Retired shares for restricted stock								
vesting	(120)	—	(1,724)	—	—	—	—	(1,724)
Issuance of common stock as								
stock dividend	29	—	440	—	—	—	—	440
Dividends distributed	—	—	—	—	—	(19,165)	—	(19,165)
Stock-based compensation	—	—	1,580	—	—	—	—	1,580
Balance at March 31, 2014	61,760	\$62	\$ 656,869	\$ 2,607	\$ (10,368)	\$ 4,474	\$ (342)	\$ 653,302
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	—	—	—	5,614	3,312	12,993	—	21,919

resulting from operations								
Public offering, net of offering expenses	7,591	8	100,084	—	—	—	—	100,092
Issuance of common stock due to								
stock option exercises	34	—	406	—	—	—	—	406
Retired shares from net issuance	(27)	—	(401)	—	—	—	—	(401)
Issuance of common stock under								
restricted stock plan	580	—	—	—	—	—	—	—
Retired shares for restricted stock								
vesting	(42)	—	(591)	—	—	—	—	(591)
Issuance of common stock as								
stock dividend	40	—	562	—	—	—	—	562
Dividends distributed	—	—	—	—	—	(20,266)	—	(20,266)
Stock-based compensation	—	—	2,741	—	—	—	—	2,741
Balance at March 31, 2015	72,891	\$73	\$760,034	\$ (11,462)	\$ 17,391	\$ (2,368)	\$ (342)	\$763,326

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	For the Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$21,919	\$22,185
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(209,387)	(113,887)
Principal and fee payments received on investments	75,368	135,008
Proceeds from the sale of investments	7,001	7,598
Net unrealized depreciation (appreciation) on investments	(5,614)	991
Net realized gain on investments	(3,312)	(4,872)
Accretion of paid-in-kind principal	(665)	(659)
Accretion of loan discounts	(1,356)	(3,378)
Accretion of loan discount on Convertible Senior Notes	62	271
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)	1	—
Payment of loan discount on Convertible Senior Notes	(2)	—
Accretion of loan exit fees	(2,767)	(2,411)
Change in deferred loan origination revenue	1,540	(457)
Unearned fees related to unfunded commitments	527	(125)
Amortization of debt fees and issuance costs	1,288	1,913
Depreciation	58	54
Stock-based compensation and amortization of restricted stock grants	2,741	1,579
Change in operating assets and liabilities:		
Interest and fees receivable	351	786
Prepaid expenses and other assets	2,674	(3,401)
Accounts payable	(504)	(41)
Accrued liabilities	(3,978)	(5,307)
Net cash provided by (used in) operating activities	(114,055)	35,847
Cash flows from investing activities:		
Purchases of capital equipment	(42)	(4)
Reduction of (investment in) restricted cash	(9,289)	1,487
Net cash provided by (used in) investing activities	(9,331)	1,483
Cash flows from financing activities:		
Issuance of common stock, net	100,092	(135)
Issuance (retirement) of employee shares	(586)	(1,738)

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Dividends paid	(19,704)	(18,725)
Repayments of 2017 Asset-Backed Notes	(11,846)	(25,775)
Repayments of Long-Term SBA Debentures	—	(34,800)
Cash Paid for redemption of Convertible Senior Notes	(30)	—
Fees paid for credit facilities and debentures	100	13
Net cash provided by (used in) financing activities	68,026	(81,160)
Net decrease in cash and cash equivalents	(55,360)	(43,830)
Cash and cash equivalents at beginning of period	227,116	268,368
Cash and cash equivalents at end of period	\$171,756	\$224,538
Supplemental non-cash investing and financing activities:		
Dividends Reinvested	\$562	\$440
Paid-in-kind Principal	\$1,356	\$1,207

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Debt Investment							
Communications & Networking							
1-5 Years Maturity							
OpenPeak, Inc. ⁽¹⁰⁾⁽¹²⁾	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75%			
				or Floor rate of 12.00%	\$11,680	\$11,864	\$11,981
SkyCross, Inc. ⁽¹²⁾⁽¹³⁾	Communications & Networking	Senior Secured	January 2018	Interest rate PRIME + 9.70%			
				or Floor rate of 12.95%	\$22,000	21,551	17,775
Subtotal: 1-5 Years Maturity						33,415	29,756
Subtotal: Communications & Networking (3.90%)*						33,415	29,756
Consumer & Business Products							
1-5 Years Maturity							
Antenna79 (p.k.a. Pong Research Corporation) ⁽¹¹⁾⁽¹²⁾⁽¹³⁾	Consumer & Business Products	Senior Secured	December 2017	Interest rate PRIME + 6.75%			
				or Floor rate of 10.00%,			
				PIK Interest 2.50%	\$4,869	4,798	4,944
	Consumer & Business Products	Senior Secured	June 2016	Interest rate PRIME + 7.75%			
				or Floor rate of 11.00%	\$183	183	182
Total Antenna79 (p.k.a. Pong Research Corporation)					\$5,052	4,981	5,126
Fluc, Inc. ⁽⁸⁾	Consumer & Business Products	Convertible Senior Note	March 2017	Interest rate FIXED 4.00%			
					\$100	100	100
IronPlanet, Inc. ⁽¹²⁾	Consumer & Business Products	Senior Secured	November 2017	Interest rate PRIME + 6.20%			
				or Floor rate of 9.45%	\$37,500	36,911	36,911
The Neat Company ⁽¹¹⁾⁽¹²⁾⁽¹³⁾	Consumer & Business	Senior Secured	September 2017	Interest rate PRIME + 7.75%	\$20,111	19,624	19,536

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Products			or Floor rate of 11.00%, PIK Interest 1.00%				
Subtotal: 1-5 Years Maturity					61,616		61,673
Subtotal: Consumer & Business Products (8.08%)*					61,616		61,673
Drug Delivery 1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc. ⁽⁹⁾⁽¹⁰⁾⁽¹²⁾⁽¹³⁾	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85%			
				or Floor rate of 9.10%	\$25,000	25,020	25,261
Agile Therapeutics, Inc. ⁽¹²⁾	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 5.75%			
				or Floor rate of 9.00%	\$16,500	15,904	15,904
BIND Therapeutics, Inc. ⁽¹²⁾⁽¹³⁾	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 5.10%			
				or Floor rate of 8.35%	\$15,000	14,787	14,051
BioQuiddity Incorporated ⁽¹²⁾	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 8.00%			
				or Floor rate of 11.25%	\$7,500	7,490	7,490
Celator Pharmaceuticals, Inc. ⁽¹⁰⁾⁽¹²⁾	Drug Delivery	Senior Secured	June 2018	Interest rate PRIME + 6.50%			
				or Floor rate of 9.75%	\$15,000	14,846	14,886
Celsion Corporation ⁽¹⁰⁾⁽¹²⁾	Drug Delivery	Senior Secured	June 2017	Interest rate PRIME + 8.00%			
				or Floor rate of 11.25%	\$9,122	9,071	9,243
Dance Biopharm, Inc. ⁽¹²⁾⁽¹³⁾	Drug Delivery	Senior Secured	November 2017	Interest rate PRIME + 7.40%			
				or Floor rate of 10.65%	\$3,616	3,610	3,614
Edge Therapeutics, Inc. ⁽¹²⁾	Drug Delivery	Senior Secured	March 2018	Interest rate PRIME + 5.95%			
				or Floor rate of 10.45%	\$6,000	5,894	5,820
Egalet Corporation ⁽¹²⁾	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.15%			
				or Floor rate of 9.40%	\$15,000		