

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

May 01, 2014

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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 March 31, 2014

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.**

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(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Jurisdiction of Incorporation or Organization)	743113410 (IRS Employer Identification No.)
400 Hamilton Ave., Suite 310 Palo Alto, California (Address of Principal Executive Offices)	94301 (Zip Code)
(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 April 28, 2014, there were 62,610,806 shares outstanding of the Registrant's common stock, \$0.001 par value.

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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, 2014	December 31, 2013
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$872,226 and \$891,059, respectively)	\$ 879,469	\$ 899,314
Affiliate investments (cost of \$15,402 and \$15,238, respectively)	11,193	10,981
Total investments, at value (cost of \$887,628 and \$906,297, respectively)	890,662	910,295
Cash and cash equivalents	224,538	268,368
Restricted cash	4,784	6,271
Interest receivable	8,176	8,962
Other assets	31,239	27,819
Total assets	\$ 1,159,399	\$ 1,221,715
Liabilities		
Accounts payable and accrued liabilities	\$ 8,962	\$ 14,268
Long-term Liabilities (Convertible Senior Notes)	72,789	72,519
Asset-Backed Notes	63,782	89,557
2019 Notes	170,364	170,364
Long-term SBA Debentures	190,200	225,000
Total liabilities	\$ 506,097	\$ 571,708
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	62	62
Capital in excess of par value	656,869	656,594
Unrealized appreciation on investments	2,607	3,598
Accumulated realized losses on investments	(10,368)	(15,240)
Undistributed net investment income	4,132	4,993
Total net assets	\$ 653,302	\$ 650,007
Total liabilities and net assets	\$ 1,159,399	\$ 1,221,715
Shares of common stock outstanding (\$0.001 par value, 100,000,000 authorized)	61,760	61,837

Net asset value per share

See notes to consolidated financial statements.

\$ 10.58 \$ 10.51

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The following table presents the assets and liabilities of our consolidated securitization trust for 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 Statements of Assets and Liabilities above.

(Dollars in thousands)	March 31, 2014	December 31, 2013
ASSETS		
Restricted Cash	\$ 4,784	\$ 6,271
Total investments, at value (cost of \$137,301 and \$166,513, respectively)	135,138	165,445
Total assets	\$ 139,922	\$ 171,716
LIABILITIES		
Asset-Backed Notes	\$ 63,782	\$ 89,557
Total liabilities	\$ 63,782	\$ 89,557

See notes to consolidated financial statements.

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	Three Months Ended March 31,	
	2014	2013
Investment income:		
Interest Income		
Non-Control/Non-Affiliate investments	\$ 29,382	\$ 28,319
Affiliate investments	1,464	610
Total interest income	30,846	28,929
Fees		
Non-Control/Non-Affiliate investments	4,913	2,028
Affiliate investments	11	
Total fees	4,924	2,028
Total investment income	35,770	30,957
Operating expenses:		
Interest	7,148	7,631
Loan fees	2,076	1,079
General and administrative	2,461	2,252
Employee Compensation:		
Compensation and benefits	4,221	3,798
Stock-based compensation	1,560	1,165
Total employee compensation	5,781	4,963
Total operating expenses	17,466	15,925
Net investment income	18,304	15,032
Net realized gain on investments		
Non-Control/Non-Affiliate investments	4,872	1,991
Total net realized gain on investments	4,872	1,991
Net change in unrealized appreciation (depreciation) on investments		
Non-Control/Non-Affiliate investments	(1,038)	(768)
Affiliate investments	47	434
Total net change in unrealized appreciation (depreciation) on investments	(991)	(334)
Total net realized and unrealized gain	3,881	1,657
Net increase in net assets resulting from operations	\$ 22,185	\$ 16,689

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Net investment income before investment gains and losses per common share:

Basic	\$ 0.30	\$ 0.27
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Change in net assets per common share:

Basic	\$ 0.36	\$ 0.30
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Diluted	\$ 0.35	\$ 0.30
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Weighted average shares outstanding

Basic	60,870	53,682
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Diluted	62,695	53,823
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Dividends declared per common share:

Basic	\$ 0.31	\$ 0.27
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See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

	Common Stock			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
	Shares	Par Value	Capital in excess of par value					
Balance at December 31, 2012	52,925	\$ 53	\$ 564,508	\$ (7,947)	\$ (36,916)	\$ (3,388)	\$ (342)	\$ 515,968
Net increase in net assets resulting from operations				(334)	1,991	15,032		16,689
Issuance of common stock	80		910					910
Issuance of common stock under restricted stock plan	531	1	(1)					
Issuance of common stock as stock dividend	40		488					488
Retired shares from net issuance	(72)		(1,808)					(1,808)
Public Offering	8,050	8	95,550					95,558
Dividends declared						(13,382)		(13,382)
Stock-based compensation			1,185					1,185
Balance at March 31, 2013	61,554	\$ 62	\$ 660,833	\$ (8,281)	\$ (34,925)	\$ (1,739)	\$ (342)	\$ 615,608
Balance at December 31, 2013	61,837	\$ 62	\$ 656,594	\$ 3,598	\$ (15,240)	\$ 5,335	\$ (342)	\$ 650,007
Net increase in net assets resulting from operations				(991)	4,872	18,304		22,185
Issuance of common stock	62		727					727
Retired shares from restricted stock vesting	(120)							
Issuance of common stock as stock dividend	29		440					440
Retired shares from net issuance	(48)		(2,472)					(2,472)
Dividends declared						(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

See notes to consolidated financial statements.

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	For the Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 22,185	\$ 16,689
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(113,887)	(139,095)
Principal payments received on investments	132,646	75,987
Proceeds from sale of investments	7,598	5,212
Net unrealized depreciation on investments	991	334
Net realized gain on investments	(4,872)	(1,991)
Accretion of paid-in-kind principal	(659)	(555)
Accretion of loan discounts	(3,378)	(1,455)
Accretion of loan discount on Convertible Senior Notes	271	271
Accretion of loan exit fees	1,705	(1,819)
Change in deferred loan origination revenue	(457)	313
Unearned fees related to unfunded commitments	(2,723)	(856)
Amortization of debt fees and issuance costs	1,913	938
Depreciation	54	68
Stock-based compensation and amortization of restricted stock grants	1,579	1,185
Change in operating assets and liabilities:		
Interest and fees receivable (payable)	786	(41)
Prepaid expenses and other assets	(2,557)	33
Accounts payable	(41)	(250)
Accrued liabilities	(5,307)	(2,682)
Net cash provided by (used in) operating activities	35,847	(47,714)
Cash flows from investing activities:		
Purchases of capital equipment	(4)	(24)
Reduction of (investment in) restricted cash	1,487	(810)
Other long-term assets		(30)
Net cash provided by (used in) investing activities	1,483	(864)
Cash flows from financing activities:		
Proceeds from issuance (repurchase of employee shares due to restricted stock vesting) of common stock, net	(1,873)	94,660
Dividends paid	(18,725)	(12,894)
Repayments of Asset-Backed Notes	(25,775)	
Repayments of credit facilities	(34,800)	(9,254)
Fees paid for credit facilities and debentures	13	
Net cash provided by (used in) financing activities	(81,160)	72,512
Net increase (decrease) in cash and cash equivalents	(43,830)	23,934

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Cash and cash equivalents at beginning of period	268,368	182,994
Cash and cash equivalents at end of period	\$ 224,538	\$ 206,928
Supplemental non-cash investing and financing activities:		
Dividends Reinvested	\$ 440	\$ 488
Paid-in-Kind Principal	\$ 659	\$ 555

See notes to consolidated financial statements.

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Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾	
Debt								
Biotechnology Tools								
1-5 Years Maturity								
Labcyte, Inc. ⁽¹¹⁾⁽¹⁴⁾⁽¹⁵⁾	Biotechnology Tools	Senior Secured	June 2016	Interest rate PRIME + 6.70% or Floor rate of 9.95%	\$ 3,890	\$ 3,976	\$ 3,936	
Subtotal: 1-5 Years Maturity						3,976	3,936	
Subtotal: Biotechnology Tools (0.60%)*						3,976	3,936	
Energy Technology								
Under 1 Year Maturity								
American Superconductor Corporation ⁽³⁾⁽¹¹⁾⁽¹⁴⁾	Energy Technology	Senior Secured	December 2014	Interest rate PRIME + 7.25% or Floor rate of 11.00%	\$ 3,462	3,892	3,892	
Enphase Energy, Inc. ⁽¹¹⁾⁽¹⁴⁾	Energy Technology	Senior Secured	June 2014	Interest rate PRIME + 5.75% or Floor rate of 9.00%	\$ 669	717	717	
Scifiniti (pka Integrated Photovoltaics, Inc.) ⁽¹⁵⁾	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.38% or Floor rate of 10.63%	\$ 1,166	1,154	1,154	
Stion Corporation ⁽⁴⁾⁽⁶⁾⁽¹⁴⁾	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$ 4,182	4,169	4,169	
TAS Energy, Inc. ⁽¹⁴⁾	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	\$ 12,803	12,811	12,811	
	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 6.25% or Floor rate of 9.50%	\$ 3,000	2,900	2,900	
Total TAS Energy, Inc.						\$ 15,803	15,711	15,711
Subtotal: Under 1 Year Maturity						25,644	25,644	