

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 10-Q

November 07, 2013

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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 September 30, 2013

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.)

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 November 4, 2013, there were 61,736,693 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)**

	September 30, 2013	December 31, 2012
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$965,490 and \$896,031, respectively)	\$ 970,530	\$ 894,428
Affiliate investments (cost of \$17,546 and \$18,307, respectively)	12,897	11,872
Total investments, at value (cost of \$983,036 and \$914,338, respectively)	983,427	906,300
Cash and cash equivalents	204,993	182,994
Restricted Cash	3,632	
Interest receivable	10,275	9,635
Other assets	25,186	24,714
Total assets	\$ 1,227,513	\$ 1,123,643
Liabilities		
Accounts payable and accrued liabilities	\$ 14,051	\$ 11,575
Long-term Liabilities (Convertible Senior Notes)	72,248	71,436
Asset-Backed Notes	102,474	129,300
2019 Notes	170,364	170,364
Long-term SBA Debentures	225,000	225,000
Total liabilities	\$ 584,137	\$ 607,675
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	\$ 62	\$ 53
Capital in excess of par value	664,650	564,508
Unrealized appreciation/(depreciation) on investments	1,091	(7,947)
Accumulated realized losses on investments	(25,607)	(36,916)
Undistributed net investment income/(Distributions in excess of net investment income)	3,180	(3,730)
Total net assets	\$ 643,376	\$ 515,968
Total liabilities and net assets	\$ 1,227,513	\$ 1,123,643
Shares of common stock outstanding (\$0.001 par value, 100,000,000 authorized)	61,756	52,925

Net asset value per share

See notes to consolidated financial statements.

\$ 10.42

\$ 9.75

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The following table presents the assets and liabilities of our consolidated securitization trust for an 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)	September 30, 2013	December 31, 2012
ASSETS		
Restricted Cash	\$ 3,632	\$
Total investments, at value (cost of \$189,917 and \$226,844, respectively)	185,244	226,997
Total assets	\$ 188,876	\$ 226,997
LIABILITIES		
Asset-Backed Notes	\$ 102,474	\$ 129,300
Total liabilities	\$ 102,474	\$ 129,300

See notes to consolidated financial statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(in thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Investment income:				
Interest Income				
Non-Control/Non-Affiliate investments	\$ 35,623	\$ 21,512	\$ 93,722	\$ 62,502
Affiliate investments	561	238	1,684	686
Total interest income	36,184	21,750	95,406	63,188
Fees				
Non-Control/Non-Affiliate investments	4,832	2,150	11,088	6,936
Affiliate investments	5	1	9	1
Total fees	4,837	2,151	11,097	6,937
Total investment income	41,021	23,901	106,503	70,125
Operating expenses:				
Interest	7,587	4,908	22,788	13,309
Loan fees	1,072	1,169	3,341	2,977
General and administrative	2,176	2,445	6,831	6,126
Employee Compensation:				
Compensation and benefits	7,030	2,919	14,992	9,566
Stock-based compensation	1,596	1,109	4,349	3,111
Total employee compensation	8,626	4,028	19,341	12,677
Total operating expenses	19,461	12,550	52,301	35,089
Net investment income	21,560	11,351	54,202	35,036
Net realized gain/(loss) on investments				
Non-Control/Non-Affiliate investments	7,125	(9,091)	11,309	2,049
Total net realized gain/(loss) on investments	7,125	(9,091)	11,309	2,049
Net unrealized appreciation (depreciation) on investments				
Non-Control/Non-Affiliate investments	9,288	2,372	10,506	(12,922)
Affiliate investments	(992)	113	(1,468)	(2,265)
Total net unrealized appreciation (depreciation) on investments	8,296	2,485	9,038	(15,187)
Total net realized (unrealized) gain (loss)	15,421	(6,606)	20,347	(13,138)
Net increase in net assets resulting from operations	\$ 36,981	\$ 4,745	\$ 74,549	21,898

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

Basic	\$ 0.35	\$ 0.23	\$ 0.91	\$ 0.71
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Change in net assets per common share:

Basic	\$ 0.61	\$ 0.09	\$ 1.26	\$ 0.44
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Diluted	\$ 0.59	\$ 0.09	\$ 1.23	\$ 0.44
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Weighted average shares outstanding

Basic	60,522	48,750	58,206	48,130
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Diluted	60,750	48,808	58,396	48,237
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See notes to consolidated financial statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS****(unaudited)****(dollars and shares in thousands)**

	Common Stock			Unrealized Appreciation on Investments	Accumulated Realized Gains(Losses) on Investments	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, 2011	43,853	\$ 44	\$ 484,244	\$ (3,431)	\$ (43,042)	\$ (6,432)	\$ (342)	\$ 431,041
Net increase in net assets resulting from operations				(15,187)	2,049	35,036		21,898
Issuance of common stock	574	1	3,252					3,253
Issuance of common stock under restricted stock plan	530	1	(1)					
Issuance of common stock as stock dividend	155		1,649					1,649
Retired shares from net issuance	(327)		(4,254)					(4,254)
Public Offering	5,000	5	47,649					47,654
Dividends declared						(35,292)		(35,292)
Stock-based compensation			3,168					3,168
Balance at September 30, 2012	49,785	\$ 51	\$ 535,707	\$ (18,618)	\$ (40,993)	\$ (6,688)	\$ (342)	\$ 469,117
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				9,038	11,309	54,202		74,549
Issuance of common stock	1,337	1	16,542					16,543
Issuance of common stock under restricted stock plan	472	1	(1)					
Issuance of common stock as stock dividend	142		1,923					1,923
Retired shares from net issuance	(1,170)	(1)	(18,259)					(18,260)
Public Offering	8,050	8	95,529					95,537
Dividends declared						(47,292)		(47,292)
Stock-based compensation			4,408					4,408
Balance at September 30, 2013	61,756	\$ 62	\$ 664,650	\$ 1,091	\$ (25,607)	\$ 3,522	\$ (342)	\$ 643,376

See notes to consolidated financial statements.

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	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net increase in net assets resulting from operations.	\$ 74,549	\$ 21,898
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in / provided by operating activities:		
Purchase of investments	(411,515)	(302,662)
Principal payments received on investments	336,438	165,157
Proceeds from sale of investments	29,459	21,265
Net unrealized (appreciation) / depreciation on investments	(9,038)	15,187
Net realized gain on investments	(11,309)	(2,049)
Net unrealized appreciation due to lender		
Accretion of paid-in-kind principal	(2,269)	(834)
Accretion of loan discounts	(4,556)	(4,221)
Accretion of loan discount on Convertible Senior Notes	812	812
Accretion of loan exit fees	(10,031)	(2,998)
Change in deferred loan origination revenue	2,540	1,026
Unearned fees related to unfunded commitments	(364)	(1,865)
Amortization of debt fees and issuance costs	2,918	1,391
Depreciation	162	212
Stock-based compensation and amortization of restricted stock grants	4,408	3,168
Common stock issued in lieu of Director compensation		
Change in operating assets and liabilities:		
Interest and fees receivable	(641)	(1,955)
Prepaid expenses and other assets	570	(938)
Accounts payable	(63)	99
Income tax receivable (payable)		
Accrued liabilities	2,588	(1,289)
Net cash provided by (used in) operating activities	4,658	(88,596)
Cash flows from investing activities:		
Purchases of capital equipment	(240)	(85)
Investment in restricted cash	(3,632)	
Other long-term assets	(30)	
Net cash used in investing activities	(3,902)	(85)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	93,443	46,594
Stock repurchase program		
Dividends paid	(45,368)	(33,643)
Issuance of Notes Payable		159,490
Borrowings of credit facilities		39,250
Repayments of credit facilities	(26,832)	(74,303)
Issuance of Class A2 Notes		
Cash paid for debt issuance costs		(6,088)

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Fees paid for credit facilities and debentures

Net cash provided by financing activities	21,243	131,300
Net increase in cash and cash equivalents	21,999	42,619
Cash and cash equivalents at beginning of period	182,994	64,474
Cash and cash equivalents at end of period	\$ 204,993	\$ 107,093

See notes to consolidated financial statements.

Table of Contents**HERCULES TECHNOLOGY GROWTH CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2013

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment	Maturity Date	Interest Rate and Floor	Principal Amount	Cost	Value
Loan							
Biotechnology Tools							
1-5 Years Maturity							
Cleveland BioLabs, Inc. ⁽³⁾	Biotechnology Tools	Senior Secured	January 2017	Interest rate PRIME + 6.20% or Floor rate of 10.45%	\$ 6,000	\$ 5,865	\$ 5,865
Labcyte, Inc. ⁽¹¹⁾	Biotechnology Tools	Senior Secured	June 2016	Interest rate PRIME + 6.70% or Floor rate of 9.95%	\$ 4,640	4,655	4,628
Subtotal: 1-5 Years Maturity						10,520	10,493
Subtotal: Biotechnology Tools (1.63%)*						10,520	10,493
Clean Tech							
Under 1 Year Maturity							
Brightsource Energy, Inc.	Clean Tech	Senior Secured	January 2014	Interest rate PRIME + 8.25% or Floor rate of 11.50%	\$ 35,000	35,398	35,398
Enphase Energy, Inc. ⁽¹¹⁾	Clean Tech	Senior Secured	June 2014	Interest rate PRIME + 5.75% or Floor rate of 9.00%	\$ 1,947	1,981	1,963
Subtotal: Under 1 Year Maturity						37,379	37,361
1-5 Years Maturity							
Agrivida, Inc.	Clean Tech	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 6,000	5,835	5,835
Alphabet Energy, Inc.	Clean Tech	Senior Secured	February 2015	Interest rate PRIME + 5.75% or Floor rate of 9.00%	\$ 1,340	1,296	1,296
American Superconductor Corporation ⁽³⁾⁽¹¹⁾	Clean Tech	Senior Secured	December 2014	Interest rate PRIME + 7.25% or Floor rate of 11.00%	\$ 5,769	6,073	6,073
APTwater, Inc	Clean Tech	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 18,000	17,756	17,756
BioAmber, Inc. ⁽⁵⁾⁽¹⁰⁾	Clean Tech	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 25,000	24,835	24,835
Enphase Energy, Inc.	Clean Tech	Senior Secured	August 2016	Interest rate PRIME + 8.25% or Floor rate of 11.50%	\$ 7,400	7,396	7,281
Fluidic, Inc.	Clean Tech	Senior Secured	March 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	\$ 5,000	4,884	4,884

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Fulcrum Bioenergy, Inc. ⁽¹¹⁾	Clean Tech	Senior Secured	November 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	\$ 10,000	9,907	9,907
Glori Energy, Inc. ⁽¹¹⁾	Clean Tech	Senior Secured	June 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 6,222	6,289	6,305
Polyera Corporation	Clean Tech	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 3,000	3,008	2,925
SCIEnergy, Inc. ⁽⁴⁾	Clean Tech	Senior Secured	September 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$ 4,805	4,863	4,928
Scifiniti (pka Integrated Photovoltaics, Inc.)	Clean Tech	Senior Secured	February 2015	Interest rate PRIME + 7.38% or Floor rate of 10.63%	\$ 1,751	1,723	1,702
Stion Corporation ⁽⁴⁾	Clean Tech	Senior Secured	February 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 5,102	5,274	5,168

See notes to consolidated financial statements.

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September 30, 2013

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment	Maturity Date	Interest Rate and Floor	Principal Amount	Cost	Value
TAS Energy, Inc.	Clean Tech	Senior Secured	February 2015	Interest rate PRIME + 6.25% or Floor rate of 9.50%	\$ 4,503	\$ 4,344	\$ 4,306
TAS Energy, Inc.	Clean Tech	Senior Secured	February 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	\$ 15,000	15,028	15,261
Total TAS Energy, Inc.						19,372	19,567
TPI Composites, Inc.	Clean Tech	Senior Secured	June 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	\$ 15,000	14,771	14,770
Subtotal: 1-5 Years Maturity						133,282	133,232
Subtotal: Clean Tech (26.52%)*						170,661	170,593
Communications & Networking							
1-5 Years Maturity							
Bridgewave Communications ⁽⁸⁾	Communications & Networking	Senior Secured	March 2016	Interest rate FIXED + 8.00%, PIK Interest 8.00%	\$ 7,753	7,433	2,007
OpenPeak, Inc. ⁽¹¹⁾	Communications & Networking	Senior Secured	July 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$ 11,440	11,984	11,984
PointOne ⁽⁸⁾	Communications & Networking	Senior Secured	January 2017	Interest rate LIBOR + 11.00% or Floor rate of 13.50%	\$ 2,128	2,128	
PointOne ⁽⁸⁾	Communications & Networking	Senior Secured	April 2015	Interest rate LIBOR + 11.00% or Floor rate of 13.50%	\$	(100)	100
PointOne ⁽⁸⁾	Communications & Networking	Senior Secured	September 2015	Interest rate LIBOR + 11.00% or Floor rate of 13.50%	\$	(4)	
Total PointOne						2,024	100
Spring Mobile Solutions	Communications & Networking	Senior Secured	November 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	\$ 20,000	19,553	19,835
Subtotal: 1-5 Years Maturity						40,994	33,926
Subtotal: Communications & Networking (5.27%)						40,994	33,926
Diagnostic							
1-5 Years Maturity							
Tethys Bioscience, Inc. ⁽⁸⁾⁽¹¹⁾	Diagnostic	Senior Secured	December 2015		\$ 4,032	4,242	1,033

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Interest rate PRIME +
8.40% or Floor rate of
11.65%

Subtotal: 1-5 Years Maturity					4,242	1,033	
Subtotal: Diagnostic (0.16%)*					4,242	1,033	
Drug Delivery							
Under 1 Year Maturity							
Alexza Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Senior Secured	October 2013	Interest rate PRIME + 6.50% or Floor rate of 10.75%	\$ 561	1,003	1,003
Subtotal: Under 1 Year Maturity					1,003	1,003	
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹¹⁾	Drug Delivery	Senior Secured	December 2014	Interest rate PRIME + 3.25% or Floor rate of 8.50%	\$ 5,278	5,327	5,240
AcelRx Pharmaceuticals, Inc. ⁽³⁾	Drug Delivery	Senior Secured	December 2014	Interest rate PRIME + 3.25% or Floor rate of 8.50%	\$ 5,278	5,317	5,228
Total AcelRx Pharmaceuticals, Inc.						10,644	10,468

See notes to consolidated financial statements.

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Portfolio Company	Sub-Industry	Type of Investment	Maturity Date	Interest Rate and Floor	Principal Amount	Cost	Value
BIND Therapeutics, Inc. ⁽³⁾	Drug Delivery	Senior Secured	September 2016	Interest rate PRIME + 7.00% or Floor rate of 10.25%	\$ 4,500	\$ 4,391	\$ 4,391
Intelliject, Inc. ⁽¹¹⁾	Drug Delivery	Senior Secured	June 2016	Interest rate PRIME + 5.75% or Floor rate of 11.00%	\$ 15,000	15,013	15,269
NuPathe, Inc. ⁽³⁾	Drug Delivery	Senior Secured	May 2016	Interest rate PRIME +3.25% or Floor rate of 9.85%	\$ 8,500	8,326	8,293
Revanche Therapeutics, Inc.	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	\$ 1,161	1,189	1,160
Revanche Therapeutics, Inc.	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	\$ 11,607	11,785	11,600
Total Revanche Therapeutics, Inc.						12,974	12,760
Subtotal: 1-5 Years Maturity							