

Hercules Capital, Inc.
Form 10-Q
August 04, 2016

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, 2016

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

Palo Alto, California

743113410
(IRS Employer

Identification No.)
94301

(Zip Code)

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(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 August 1, 2016, there were 74,844,969 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, 2016	December 31, 2015
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,334,302 and \$1,238,539, respectively)	\$ 1,292,934	\$ 1,192,652
Control investments (cost of \$21,294 and \$0, respectively)	4,000	—
Affiliate investments (cost of \$13,799 and \$13,742, respectively)	5,844	7,986
Total investments, at value (cost of \$1,369,395 and \$1,252,281, respectively)	1,302,778	1,200,638
Cash and cash equivalents	59,715	95,196
Restricted cash	3,605	9,191
Interest receivable	9,453	9,239
Other assets	19,620	9,720
Total assets	\$ 1,395,171	\$ 1,323,984
Liabilities		
Accounts payable and accrued liabilities	\$ 16,681	\$ 17,241
Long-Term Liabilities (Convertible Senior Notes), net (principal of \$0 and \$17,604) ⁽¹⁾	—	17,478
Wells Facility	—	50,000
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) ⁽¹⁾	127,461	126,995
2019 Notes, net (principal of \$110,364 and \$110,364, respectively) ⁽¹⁾	108,499	108,179
2024 Notes, net (principal of \$244,945 and \$103,000, respectively) ⁽¹⁾	237,570	100,128
Long-Term SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) ⁽¹⁾	187,165	186,829
Total liabilities	\$ 677,376	\$ 606,850
Net assets consist of:		
Common stock, par value	75	73
Capital in excess of par value	774,339	752,244
Unrealized depreciation on investments ⁽²⁾	(68,046)	(52,808)
Accumulated realized gains on investments	23,550	27,993

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Distributions in excess of net investment income	(12,123)	(10,368)
Total net assets	\$717,795	\$717,134
Total liabilities and net assets	\$1,395,171	\$1,323,984
Shares of common stock outstanding (\$0.001 par value, 200,000,000 and 100,000,000 authorized, respectively)	74,320	72,118
Net asset value per share	\$9.66	\$9.94

- (1) The Company's SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See "Note 2 – Summary of Significant Accounting Policies" and "Note 4 – Borrowings".
- (2) Amounts include \$1.4 million and \$1.2 million, respectively, in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, estimated taxes payable and Citigroup warrant participation agreement liabilities.

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, 2016	December 31, 2015
Assets		
Restricted Cash	\$3,605	\$9,191
Total investments, at value (cost of \$271,886 and \$258,748, respectively)	269,452	257,657
Total assets	\$273,057	\$266,848
Liabilities		
2021 Asset-Backed Notes, net (principal of \$129,300 and \$129,300, respectively) ⁽¹⁾	\$127,461	\$126,995
Total liabilities	\$127,461	\$126,995

(1) The Company’s 2021 Asset-Backed Notes are presented net of the associated debt issuance costs for each instrument. See “Note 2 – Summary of Significant Accounting Policies” and “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,	
	2016	2015	2016	2015
Investment income:				
Interest income				
Non-control/Non-affiliate investments	\$39,571	\$35,144	\$75,980	\$65,605
Affiliate investments	50	96	115	195
Total interest income	39,621	35,240	76,095	65,800
Fees				
Non-control/Non-affiliate investments	3,917	2,886	6,382	4,819
Affiliate investments	—	—	—	1
Total fees	3,917	2,886	6,382	4,820
Total investment income	43,538	38,126	82,477	70,620
Operating expenses:				
Interest	7,572	7,571	14,589	15,425
Loan fees	1,278	1,580	2,267	3,093
General and administrative	4,401	4,069	7,980	7,687
Employee compensation:				
Compensation and benefits	5,331	5,857	10,016	9,653
Stock-based compensation	1,602	2,267	4,174	4,987
Total employee compensation	6,933	8,124	14,190	14,640
Total operating expenses	20,184	21,344	39,026	40,845
Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes)	—	(1)	—	(1)
Net investment income	23,354	16,781	43,451	29,774
Net realized gain (loss) on investments				
Non-control/Non-affiliate investments	25	(1,254)	(4,443)	2,058
Total net realized gain (loss) on investments	25	(1,254)	(4,443)	2,058
Net change in unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	(8,159)	(12,854)	(9,618)	(9,554)
Control investments	(3,421)	—	(3,421)	—
Affiliate investments	(2,324)	79	(2,199)	2,392
Total net unrealized depreciation on investments	(13,904)	(12,775)	(15,238)	(7,162)
Total net realized and unrealized loss	(13,879)	(14,029)	(19,681)	(5,104)
Net increase in net assets resulting from operations	\$9,475	\$2,752	\$23,770	\$24,670
Net investment income before investment gains and losses per common share:				
Basic	\$0.32	\$0.23	\$0.59	\$0.43

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Change in net assets resulting from operations per common share:				
Basic	\$0.13	\$0.03	\$0.32	\$0.35
Diluted	\$0.13	\$0.03	\$0.32	\$0.35
Weighted average shares outstanding				
Basic	72,746	71,368	71,959	67,596
Diluted	72,762	71,593	71,965	67,901
Dividend distributions declared per common share:				
Basic	\$0.31	\$0.31	\$0.62	\$0.62

See notes to consolidated financial statements.

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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 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, 2014	64,715	\$ 65	\$ 657,233	\$ (17,076)	\$ 14,079	\$ 4,905	\$ (342)	\$ 658,864
Net increase (decrease) in net assets resulting from operations	—	—	—	(7,162)	2,058	29,774	—	24,670
Public offering, net of offering expenses	7,591	8	100,084	—	—	—	—	100,092
Issuance of common stock due to stock option exercises	36	—	428	—	—	—	—	428
Retired shares from net issuance	(28)	—	(423)	—	—	—	—	(423)
Issuance of common stock under restricted stock plan	603	1	(1)	—	—	—	—	—
Retired shares for restricted stock vesting	(514)	(1)	(3,399)	—	—	—	—	(3,400)
Issuance of common stock as stock dividend	90	—	1,199	—	—	—	—	1,199
Dividend distributions	—	—	—	—	—	(42,766)	—	(42,766)
Stock-based compensation ⁽¹⁾	—	—	5,027	—	—	—	—	5,027
Balance at June 30, 2015	72,493	\$ 73	\$ 760,148	\$ (24,238)	\$ 16,137	\$ (8,087)	\$ (342)	\$ 743,691
Balance at December 31, 2015	72,118	\$ 73	\$ 752,244	\$ (52,808)	\$ 27,993	\$ (10,026)	\$ (342)	\$ 717,134
Net increase (decrease) in net assets resulting from operations	—	—	—	(15,238)	(4,443)	43,451	—	23,770
	2,201	2	23,668	—	—	—	—	23,670

Public offering, net of offering expenses									
Acquisition of common stock under repurchase plan	(450)	(1)	(4,789)	—	—	—	—	—	(4,790)
Issuance of common stock due to stock option exercises	11	—	118	—	—	—	—	—	118
Retired shares from net issuance	—	—	—	—	—	—	—	—	—
Issuance of common stock under restricted stock plan	547	1	(1)	—	—	—	—	—	—
Retired shares for restricted stock vesting	(192)	—	(2,122)	—	—	—	—	—	(2,122)
Issuance of common stock as stock dividend	85	—	997	—	—	—	—	—	997
Dividend distributions	—	—	—	—	—	—	(45,206)	—	(45,206)
Stock-based compensation ⁽¹⁾	—	—	4,224	—	—	—	—	—	4,224
Balance at June 30, 2016	74,320	\$ 75	\$ 774,339	\$ (68,046)	\$ 23,550	\$ (11,781)	\$ (342)	\$ 717,795	

(1) Stock-based compensation includes \$50,000 of restricted stock and option expense related to director compensation.

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	For the Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$23,770	\$24,670
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(330,750)	(373,422)
Principal and fee payments received on investments	221,331	154,208
Proceeds from the sale of investments	6,041	7,494
Net unrealized depreciation on investments	15,238	7,162
Net realized loss (gain) on investments	4,443	(2,058)
Accretion of paid-in-kind principal	(3,243)	(1,584)
Accretion of loan discounts	(3,776)	(3,412)
Accretion of loan discount on Convertible Senior Notes	82	123
Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes)	—	1
Payment of loan discount on Convertible Senior Notes	—	(5)
Accretion of loan exit fees	(10,968)	(6,624)
Change in deferred loan origination revenue	(44)	1,758
Unearned fees related to unfunded commitments	(113)	1,074
Amortization of debt fees and issuance costs	1,839	2,669
Depreciation	104	111
Stock-based compensation and amortization of restricted stock grants	4,224	5,027
Change in operating assets and liabilities:		
Interest and fees receivable	(214)	227
Prepaid expenses and other assets	(9,041)	2,744
Accounts payable	56	(732)
Accrued liabilities	(879)	200
Net cash used in operating activities	(81,900)	(180,369)
Cash flows from investing activities:		
Purchases of capital equipment	(146)	(80)
Reduction of restricted cash	5,586	850
Net cash provided by investing activities	5,440	770
Cash flows from financing activities:		
Issuance of common stock, net	23,670	100,092
Repurchase of common stock, net	(4,790)	—

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Retirement of employee shares	(2,004)	(3,395)
Dividend distributions paid	(44,209)	(41,567)
Issuance of 2024 Notes Payable	141,945	—
Repayments of 2019 Notes Payable	—	(20,000)
Repayments of 2017 Asset-Backed Notes	—	(16,049)
Borrowings of credit facilities	170,985	50,000
Repayments of credit facilities	(220,985)	(378)
Cash paid for debt issuance costs	(4,722)	—
Cash paid for redemption of Convertible Senior Notes	(17,604)	(65)
Fees paid for credit facilities and debentures	(1,307)	(168)
Net cash provided by financing activities	40,979	68,470
Net decrease in cash and cash equivalents	(35,481)	(111,129)
Cash and cash equivalents at beginning of period	95,196	227,116
Cash and cash equivalents at end of period	\$59,715	\$115,987
Supplemental non-cash investing and financing activities:		
Dividend distributions reinvested	\$997	\$1,199

(1) Stock-based compensation includes \$50,000 of restricted stock and option expense related to director compensation.

See notes to consolidated financial statements.

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HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value
Technology Tools							
Under 1 Year Maturity							
Core, Inc. ⁽¹¹⁾	Biotechnology Tools	Senior Secured	September 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%	\$6,000	\$5,898	\$5,898
Total: 1-5 Years Maturity						5,898	5,898
Total: Biotechnology Tools (0.82%)*						5,898	5,898
Communications & Networking							
Under 1 Year Maturity							
Peak, Inc. ⁽⁷⁾	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$12,370	9,134	—
Total: Under 1 Year Maturity						9,134	—
1-5 Years Maturity							
Anti Communications Corp. ⁽⁴⁾⁽⁹⁾	Communications & Networking	Senior Secured	October 2019	Interest rate FIXED 10.00%	\$7,500	6,740	5,625
Cross, Inc. ^{(13)(14B)(15)}	Communications & Networking	Senior Secured	January 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%, PIK Interest 5.00%	\$16,758	16,900	—
ing Mobile Solutions, ^(14B)	Communications & Networking	Senior Secured	January 2019	Interest rate PRIME + 6.70% or Floor rate of 9.95%	\$3,000	2,984	2,984
Total: 1-5 Years Maturity						26,624	8,609
Total: Communications & Networking (0.9%)*						35,758	8,609
Consumer & Business Products							
Under 1 Year Maturity							

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Antenna79 (p.k.a. Pong Research Corporation) ^{(13)(14B)(14D)(15)}	Consumer & Business Products	Senior Secured	November 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.50%	\$4,274	4,373	3,600	
Antenna79 (p.k.a. Pong Research Corporation)	Consumer & Business Products	Senior Secured	November 2016	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$156	156	156	
Antenna79 (p.k.a. Pong Research Corporation)					\$4,430	4,529	3,800	
Fluc, Inc. (p.k.a. Fluc, Inc.) ⁽⁸⁾	Consumer & Business Products	Convertible Debt	March 2017	Interest rate FIXED 4.00%	\$100	100	—	
Total: Under 1 Year Maturity							4,629	3,800
Gal ^{(14B)(15)}	Consumer & Business Products	Senior Secured	May 2019	Interest rate PRIME + 5.45% or Floor rate of 8.95%	\$15,000	15,119	15,000	
Time Around Amplify Holdings, Inc.) ^{(14A)(15)}	Consumer & Business Products	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%	\$2,500	2,490	2,400	
Total: 1-5 Years Maturity							17,609	17,400
Total: Consumer & Business Products							22,238	21,400

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾	
Drug Delivery								
Under 1 Year Maturity								
Celsion Corporation ^{(10)(14A)}	Drug Delivery	Senior Secured	June 2017	Interest rate PRIME + 8.00%				
				or Floor rate of 11.25%	\$4,355	\$4,616	\$4,616	
Subtotal: Under 1 Year Maturity						4,616	4,616	
1-5 Years Maturity								
AccelRx Pharmaceuticals, Inc. ^{(9)(10)(14A)(15)}	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85%				
				or Floor rate of 9.10%	\$20,466	21,059	21,002	
Agile Therapeutics, Inc. ^{(10)(14A)}	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75%				
				or Floor rate of 9.00%	\$16,500	16,465	16,382	
Apprecia Pharmaceuticals Company ^(14A)	Drug Delivery	Senior Secured	January 2020	Interest rate PRIME + 5.75%				
				or Floor rate of 9.25%	\$20,000	19,415	19,415	
BLIND Therapeutics, Inc. ^{(14B)(15)}	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 5.10%				
				or Floor rate of 8.35%	\$8,345	8,820	8,820	
BioQ Pharma Incorporated ^{(10)(14A)(14B)}	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 8.00%				
				or Floor rate of 11.25%	\$10,000	10,296	10,166	
	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 7.00%				
				or Floor rate of 10.25%	\$3,000	3,006	2,990	
Total BioQ Pharma Incorporated						\$13,000	13,302	13,156
Celator Pharmaceuticals, Inc. ^{(10)(14A)}	Drug Delivery	Senior Secured	June 2018	Interest rate PRIME + 6.50%				
				or Floor rate of 9.75%	\$12,839	12,975	12,975	
Dance Biopharm, Inc. ^{(7)(14A)(15)}	Drug Delivery	Senior Secured	November 2017	Interest rate PRIME + 7.40%				
				or Floor rate of 10.65%	\$2,165	2,275	1,000	
Edge Therapeutics, Inc. ^{(10)(14A)}	Drug Delivery	Senior Secured	March 2018	Interest rate PRIME + 5.45%	\$4,359	4,376	4,389	

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Regalet Corporation ^{(11)(14A)}	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.15% or Floor rate of 9.95%			
Pulmatrix Inc. ^{(8)(10)(14A)}	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25% or Floor rate of 9.40%	\$ 15,000	15,155	15,206
EP Opco, Inc (p.k.a. Cosano Pharma) ^{(10)(14A)}	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70% or Floor rate of 9.50%	\$ 7,000	6,973	6,964
				or Floor rate of 7.95%	\$ 15,000	15,068	14,900
Subtotal: 1-5 Years Maturity						135,883	134,209
Subtotal: Drug Delivery (19.34%)*						140,499	138,825

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Drug Discovery & Development							
Under 1 Year Maturity							
Neuralstem, Inc. ^{(14A)(15)}	Drug Discovery & Development	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$6,109	\$6,278	\$6,278
Subtotal: Under 1 Year Maturity						6,278	6,278
1-5 Years Maturity							
Aveo Pharmaceuticals, Inc. ^{(9)(14A)(14B)}	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.65% or Floor rate of 11.90%	\$10,000	10,202	10,101
	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.90% or Floor rate of 11.90%	\$5,000	4,871	4,871
Total Aveo Pharmaceuticals, Inc.						\$15,000	15,073
Bellicum Pharmaceuticals, Inc. ^{(14B)(15)(17)}	Drug Discovery & Development	Senior Secured	March 2020	Interest rate PRIME + 5.85% or Floor rate of 9.35%	\$15,000	14,995	14,995
Brickell Biotech, Inc. ^{(11)(14A)}	Drug Discovery & Development	Senior Secured	September 2019	Interest rate PRIME + 5.70% or Floor rate of 9.20%	\$7,500	7,385	7,347
Cerecor, Inc. ^{(11)(14A)}	Drug Discovery & Development	Senior Secured	August 2017	Interest rate PRIME + 4.70% or Floor rate of 7.95%	\$4,065	4,134	4,182
Cerulean Pharma, Inc. ^{(12)(14B)}	Drug Discovery & Development	Senior Secured	July 2018	Interest rate PRIME + 1.55% or Floor rate of 7.30%	\$17,112	17,660	17,558
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) ^{(10)(14A)}	Drug Discovery & Development	Senior Secured	December 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%	\$23,236	23,940	24,063
CytRx Corporation ^{(10)(14B)(15)}	Drug Discovery & Development	Senior Secured	February 2020	Interest rate PRIME + 6.00% or Floor rate of 9.50%	\$25,000	24,643	24,643
			April 2018	Interest rate PRIME + 4.70%	\$5,296	5,579	1,750

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Epirus Biopharmaceuticals, Inc. ^{(7)(12)(14A)}	Drug Discovery & Development	Senior Secured		or Floor rate of 7.95%				
Genocea Biosciences, Inc. ^{(10)(14A)(17)}	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 2.25%				
				or Floor rate of 7.25%	\$17,000	17,156	17,152	
Immune Pharmaceuticals ^{(10)(14B)}	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 4.75%				
				or Floor rate of 10.00%	\$4,101	4,084	2,584	
Insmed, Incorporated ^{(10)(14A)}	Drug Discovery & Development	Senior Secured	January 2018	Interest rate PRIME + 4.75%				
				or Floor rate of 9.25%	\$25,000	24,815	24,758	
Mast Therapeutics, Inc. ^{(14A)(15)}	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 5.70%				
				or Floor rate of 8.95%	\$15,000	15,013	14,992	
Melinta Therapeutics ^{(12)(14A)}	Drug Discovery & Development	Senior Secured	June 2018	Interest rate PRIME + 3.75%				
				or Floor rate of 8.25%	\$30,000	30,181	30,110	
Merrimack Pharmaceuticals, Inc. ⁽⁹⁾	Drug Discovery & Development	Senior Secured	December 2022	Interest rate FIXED 11.50%				
					\$25,000	25,000	25,149	
Neothetics, Inc. (p.k.a. Lithera, Inc) ^{(14A)(15)}	Drug Discovery & Development	Senior Secured	January 2018	Interest rate PRIME + 5.75%				
				or Floor rate of 9.00%	\$4,000	4,160	4,153	
Paratek Pharmaceuticals, Inc. ^{(14A)(15)(17)}	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75%				
				or Floor rate of 8.50%	\$20,000	19,959	19,975	
PhaseRx, Inc. ^{(14B)(15)}	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 5.75%				
				or Floor rate of 9.25%	\$6,000	5,814	5,814	
uniQure B.V. ^{(4)(9)(10)(14B)}	Drug Discovery & Development	Senior Secured	May 2020	Interest rate PRIME + 3.00%				
				or Floor rate of 8.25%	\$20,000	19,918	19,736	
XOMA Corporation ^{(9)(14B)(15)}	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 2.15%				
				or Floor rate of 9.40%	\$20,000	20,290	20,175	
Subtotal: 1-5 Years Maturity						299,799	294,108	
Subtotal: Drug Discovery & Development (41.85%)*						306,077	300,386	
Electronics & Computer Hardware								
1-5 Years Maturity								
Persimmon Technologies ^{(11)(14B)}	Electronics & Computer Hardware	Senior Secured	June 2019	Interest rate PRIME + 7.50%				
				or Floor rate of 11.00%	\$7,000	6,986	6,925	
Subtotal: 1-5 Years Maturity						6,986	6,925	
Subtotal: Electronics & Computer Hardware (0.96%)*						6,986	6,925	

Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC ^{(14B)(15)}	Healthcare Services, Other	Senior Secured	February 2019	Interest rate PRIME + 6.75% or Floor rate of 10.00%	\$ 10,000	10,210	10,208
Subtotal: 1-5 Years Maturity						10,210	10,208
Subtotal: Healthcare Services, Other (1.42%)*						10,210	10,208

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor	Principal Amount	Cost ⁽²⁾	Value ⁽³⁾
Internet Consumer & Business Services							
Under 1 Year Maturity							
NetPlenish ⁽⁷⁾⁽⁸⁾⁽¹⁵⁾⁽¹⁸⁾	Internet Consumer & Business Services	Convertible Debt	September 2016	Interest rate FIXED 10.00%	\$381	\$373	\$—
	Internet Consumer & Business Services	Senior Secured	April 2016	Interest rate FIXED 10.00%	\$44	44	—
Total NetPlenish					\$425	417	—
Subtotal: Under 1 Year Maturity						417	—
5 Years Maturity							
Aria Systems, Inc. ⁽¹⁰⁾⁽¹³⁾	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%	\$2,041	2,020	1,977
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%	\$18,282	18,076	17,719
Total Aria Systems, Inc.					\$20,323	20,096	19,696
CloudOne, Inc. ^{(10)(14B)}	Internet Consumer & Business Services	Senior Secured	April 2019	Interest rate PRIME + 6.35% or Floor rate of 9.85%	\$5,000	4,979	4,979
LogicSource ^{(14B)(15)}	Internet Consumer & Business Services	Senior Secured	October 2019	Interest rate PRIME + 6.25% or Floor rate of 9.75%	\$8,500	8,423	8,423
Planet Ops Inc. (k.a. Reply! Inc.)	Internet Consumer & Business Services	Senior Secured	March 2019	Interest rate PRIME + 4.25% or Floor rate of 7.50%	\$5,464	5,102	5,102
ReachLocal ^{(12)(14B)}	Internet Consumer & Business Services	Senior Secured	April 2018	Interest rate PRIME + 8.50%	\$25,000	25,407	25,407

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agajob.com, c.(13)(14A)	Services Internet Consumer & Business Services	Senior Secured	July 2020	or Floor rate of 11.75% Interest rate PRIME + 5.15%				
				or Floor rate of 9.15%, PIK Interest 1.95%	\$35,000	33,977	33,977	
ectura orporation(7)(8)(13)	Internet Consumer & Business Services	Senior Secured	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	\$19,401	19,401	19,401	
	Internet Consumer & Business Services	Senior Secured	June 2021	PIK Interest 8.00%	\$11,015	240	—	
otal Tectura orporation					\$30,416	19,641	19,401	
bttotal: 1-5 Years Maturity						117,625	116,98	
bttotal: Internet Consumer & Business ervices (16.30%)*						118,042	116,98	
edia/Content/Info 5 Years Maturity								
achine Zone, c.(13)(16)	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%, PIK Interest 3.00%	\$102,216	100,402	99,938	
P Technology, Inc. /attpad, c.)(4)(9)(11)(14B)	Media/Content/Info	Senior Secured	April 2020	Interest rate PRIME + 4.75% or Floor rate of 8.25%	\$5,000	4,971	4,971	
bttotal: 1-5 Years Maturity						105,373	104,90	
bttotal: Media/Content/Info (14.62%)*						105,373	104,90	

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS