Horizon Technology Finance Corp
Form 497
March 14, 2012
Table of Contents

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement is not an offer to sell securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 14, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated February 6, 2012)

$25,000,000

Horizon Technology Finance Corporation

% Senior Notes due 2019

We are a non-diversified closed-end management investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940 (the 1940 Act). We are externally managed by Horizon Technology Finance Management LLC, a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act). Our investment objective is to maximize our investment portfolio s return by generating current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries.

We are offering $25,000,000 in aggregate principal amount of % senior notes due 2019, (the Notes). The Notes will mature on March 15, 2019. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning on June 15, 2012. We may redeem the Notes in whole or in part at any time or from time to time on or after March 15, 2015 at the redemption prices set forth under Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Notes will be our direct senior unsecured obligations and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness.

We intend to list the Notes on The New York Stock Exchange (NYSE) and we expect trading in the Notes on the NYSE to begin within 30 days of the original issue date. The Notes are expected to trade flat, which means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price. Currently, there is no public market for the Notes.

Investing in our securities is highly speculative and involves a high degree of risk, and you could lose your entire investment if any of the risks occur. For more information regarding these risks, please see Risk Factors beginning on page S-8 of this prospectus supplement and page 16 of the accompanying prospectus. The individual securities in which we invest will not be rated by any rating agency. If they were, they would be rated as below investment grade or junk. Indebtedness of below investment grade quality has predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

This prospectus supplement and the accompanying prospectus contains important information you should know before investing in the Notes. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission (the SEC). This information is available free of charge by contacting us at 312 Farmington Avenue, Farmington, Connecticut 06032, Attention: Investor Relations, or by calling us collect at (860) 676-8654. The SEC also maintains a website at *http://www.sec.gov* that contains such information.

	Per Note	Total
Public offering price	%	$
Sales load (underwriting discounts and commissions)	%	$
Proceeds to us (before expenses)	%	$

In addition, the underwriters may purchase up to an additional $3,750,000 total aggregate principal amount of the Notes at the public offering price, less the sales load payable by us to cover overallotments, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total sales load paid by us will be $ and total net proceeds, before expenses, will be $.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters are offering the Notes as set forth in Underwriting. Delivery of the Notes in book-entry form through The Depository Trust Company (DTC) will be made on or about , 2012.

Sole Book-running Manager

Stifel Nicolaus Weisel

Co-Lead Managers

BB&T Capital Markets **Sterne Agee**

Co-Manager

Wunderlich Securities

The date of this prospectus supplement is March , 2012

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. We are not, and the underwriters are not, making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front cover of this prospectus supplement or the accompanying prospectus. Our business, financial condition, results of operations, cash flows and prospects may have changed since that date. We will update these documents to reflect material changes only as required by law. We are offering to sell and seeking offers to buy the Notes only in jurisdictions where offers are permitted.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, Available Information before investing in the Notes.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	Page
Prospectus Supplement Summary	S-1
The Offering	S-6
Risk Factors	S-8
Cautionary Note Regarding Forward-Looking Statements	S-11
Selected Condensed Consolidated Financial and Other Data	S-13
Use of Proceeds	S-14
Ratio of Earnings to Fixed Charges	S-15
Capitalization	S-16
Management s Discussion and Analysis of Financial Condition and Results of Operations	S-17
Description of the Notes	S-28
United States Federal Income Tax Consequences	S-37
Underwriting	S-40
Legal Matters	S-43
Independent Registered Public Accounting Firm	S-43
Available Information	S-43
Consolidated Financial Statements	S-44

Prospectus

	Page
About this Prospectus	1
Prospectus Summary	2
Offerings	8
Fees and Expenses	13
Selected Consolidated Financial and Other Data	16
Risk Factors	18
Cautionary Note Regarding Forward-Looking Statements	40
Use of Proceeds	41
Price Range of Common Stock and Distributions	41
Management s Discussion and Analysis of Financial Condition and Results of Operations	44
Senior Securities	58
Business	59
Portfolio Companies	69
Management	75
Certain Relationships and Related Transactions	82
Our Advisor	83
Investment Management and Administration Agreements	83
Control Persons and Principal Stockholders	90
Determination of Net Asset Value	91
Dividend Reinvestment Plan	93
Description of Securities That We May Issue	94
Description of Common Stock That We May Issue	95
Description of Preferred Stock That We May Issue	100
Description of Subscription Rights That We May Issue	101
Description of Debt Securities That We May Issue	102
Description of Warrants That We May Issue	103
Shares Eligible for Future Sale	104
Selling Stockholders	105
Regulation	106

Brokerage Allocations and Other Practices 111

S-i

Table of Contents

	Page
Plan of Distribution	111
Material U.S. Federal Income Tax Considerations	114
Custodian, Transfer Agent, Dividend Paying Agent and Registrar	122
Legal Matters	122
Independent Registered Public Accounting Firm	122
Where You Can Find More Information	123
Index to Consolidated Financial Statements	F-1

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider before investing in the Notes. You should read the accompanying prospectus and this prospectus supplement carefully, including Risk Factors, Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements contained in this prospectus supplement and/or the accompanying prospectus.

Horizon Technology Finance Corporation, a Delaware corporation, was formed on March 16, 2010 for the purpose of acquiring, continuing and expanding the business of its wholly-owned subsidiary, Compass Horizon Funding Company LLC, a Delaware limited liability company, which we refer to as Compass Horizon, raising capital in its initial public offering, or IPO, and operating as an externally managed BDC under the 1940 Act. Except where the context suggests otherwise, the terms we, us, our and Company refer to Horizon Technology Finance Corporation and its consolidated subsidiaries. In addition, we refer to Horizon Technology Finance Management LLC, a Delaware limited liability company, as HTFM, our Advisor or our Administrator.

Our Company

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries (collectively, our Target Industries). Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans (Venture Loans) to companies backed by established venture capital and private equity firms in our Target Industries whereby the equity capital investment supports the loan by initially providing a source of cash to fund the portfolio company s debt service obligations (Venture Lending). We also selectively lend to publicly traded companies in our Target Industries. Venture Lending is typically characterized by, among other things, (i) the making of a secured loan after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company s debt service obligations under the Venture Loan, (ii) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (iii) the relatively rapid amortization of the Venture Loan, and (iv) the lender s receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing.

We have elected to be treated for federal income tax purposes as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code (the Code). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution, asset diversification and other requirements.

We are externally managed and advised by our Advisor. Our Advisor manages our day-to-day operations and also provides all administrative services necessary for us to operate.

Our Advisor

Our investment activities are managed by our Advisor and we expect to continue to benefit from our Advisor s ability to identify attractive investment opportunities, conduct diligence on and value prospective investments,

Table of Contents

negotiate investments and manage our diversified portfolio of investments. In addition to the experience gained from the years that they have worked together both at our Advisor and prior to the formation by our Advisor of the Company, the members of our investment team have broad lending backgrounds, with substantial experience at a variety of commercial finance companies, technology banks and private debt funds, and have developed a broad network of contacts within the venture capital and private equity community. This network of contacts provides a principal source of investment opportunities.

Our Advisor is led by five senior managers, including its two co-founders, Robert D. Pomeroy, Jr., our Chief Executive Officer, and Gerald A. Michaud, our President. The other senior managers include Christopher M. Mathieu, our Senior Vice President and Chief Financial Officer, John C. Bombara, our Senior Vice President, General Counsel and Chief Compliance Officer, and Daniel S. Devorsetz, our Senior Vice President and Chief Credit Officer.

Our Strategy

Our investment objective is to maximize our investment portfolio s total return by generating current income from the loans we make and capital appreciation from the warrants we receive when making such loans. To further implement our business strategy, our Advisor will continue to employ the following core strategies:

Structured Investments in the Venture Capital and Private Equity Markets. We make loans to development-stage companies within our Target Industries typically in the form of secured amortizing loans. The secured amortizing debt structure provides a lower risk strategy, as compared to equity investments, to participate in the emerging technology markets because the debt structures we typically utilize provide collateral against the downside risk of loss, provide return of capital in a much shorter timeframe through current pay interest and amortization of loan principal and have a senior position in the capital structure to equity in the case of insolvency, wind down or bankruptcy. Unlike venture capital and private equity investments, our investment returns and return of our capital do not require equity investment exits such as mergers and acquisitions or initial public offerings. Instead, we receive returns on our loans primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the loan. Only the potential gains from warrants are dependent upon exits.

Enterprise Value Lending. We and our Advisor take an enterprise value approach to the loan structuring and underwriting process. We secure a senior or subordinated lien position against the enterprise value of a portfolio company.

Creative Products with Attractive Risk-Adjusted Pricing. Each of our existing and prospective portfolio companies has its own unique funding needs for the capital provided from the proceeds of our Venture Loans. These funding needs include, but are not limited to, funds for additional development runways, funds to hire or retain sales staff or funds to invest in research and development in order to reach important technical milestones in advance of raising additional equity. Our loans include current pay interest, commitment fees, final payments, pre-payment fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies requirements while mitigating risk and maximizing returns on our investments.

Opportunity for Enhanced Returns. To enhance our loan portfolio returns, in addition to interest and fees, we obtain warrants to purchase the equity of our portfolio companies as additional consideration for making loans. The warrants we obtain generally include a cashless exercise provision to allow us to exercise these rights without requiring us to make any additional cash investment. Obtaining warrants in our portfolio companies has allowed us to participate in the equity appreciation of our portfolio companies, which we expect will enable us to generate higher returns for our investors.

Direct Origination. We originate transactions directly with technology, life science, healthcare information and services and cleantech companies. These transactions are referred to our Advisor from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity

Table of Contents

firms, portfolio company management teams, legal firms, accounting firms, investment banks and other lenders that represent companies within our Target Industries. Our Advisor has been the sole or lead originator in substantially all transactions in which the funds it manages have invested.

Disciplined and Balanced Underwriting and Portfolio Management. We use a disciplined underwriting process that includes obtaining information validation from multiple sources, extensive knowledge of our Target Industries, comparable industry valuation metrics and sophisticated financial analysis related to development-stage companies. Our Advisor s due diligence on investment prospects includes obtaining and evaluating information on the prospective portfolio company s technology, market opportunity, management team, fund raising history, investor support, valuation considerations, financial condition and projections. We seek to balance our investment portfolio to reduce the risk of down market cycles associated with any particular industry or sector, development-stage or geographic area. Our Advisor employs a hands on approach to portfolio management requiring private portfolio companies to provide monthly financial information and to participate in regular updates on performance and future plans.

Use of Leverage. We currently use leverage to increase returns on equity through revolving credit facilities provided by WestLB AG (the WestLB Facility) and Wells Fargo Capital Finance, LLC (the Wells Facility and collectively with the WestLB Facility, the Credit Facilities). See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this prospectus supplement and in the prospectus for additional information about the Credit Facilities. In addition, we may issue additional debt securities and preferred stock in one or more series in the future, the specific terms of which will be described in the particular prospectus supplement relating to that series.

Market Opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include communications, networking, wireless communications, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include alternative energy, water purification, energy efficiency, green building materials and waste recycling.

We believe that Venture Lending has the potential to achieve enhanced returns that are attractive notwithstanding the high degree of risk associated with lending to development-stage companies. Potential benefits include:

- interest rates that typically exceed rates that would be available to portfolio companies if they could borrow in traditional commercial financing transactions;
- the loan support provided by cash proceeds from equity capital invested by venture capital and private equity firms;
- relatively rapid amortization of loans;
- senior ranking to equity and collateralization of loans to minimize potential loss of capital; and
- potential equity appreciation through warrants.

We believe that Venture Lending also provides an attractive financing source for portfolio companies, their management teams and their equity capital investors, as it:

is typically less dilutive to the equity holders than additional equity financing;

Table of Contents

extends the time period during which a portfolio company can operate before seeking additional equity capital or pursuing a sale transaction or other liquidity event; and

allows portfolio companies to better match cash sources with uses.

Competitive Strengths

We believe that we, together with our Advisor, possess significant competitive strengths, which include the following:

Consistently Execute Commitments and Close Transactions. Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and closing Venture Loans. Our Advisor has directly originated, underwritten and managed more than 130 Venture Loans with an aggregate original principal amount over $840 million since it commenced operations in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.

Robust Direct Origination Capabilities. Our Advisor s managing directors each have significant experience originating Venture Loans in our Target Industries. This experience has given each managing director a deep knowledge of our Target Industries and an extensive base of transaction sources and references. Our Advisor s brand name recognition in our market has resulted in a steady flow of high quality investment opportunities that are consistent with the strategic vision and expectations of our Advisor s senior management.

Highly Experienced and Cohesive Management Team. Our Advisor has had the same senior management team of experienced professionals since its inception. This consistency allows companies, their management teams and their investors to rely on consistent and predictable service, loan products and terms and underwriting standards.

Relationships with Venture Capital and Private Equity Investors. Our Advisor has developed strong relationships with venture capital and private equity firms and their partners. The strength and breadth of our Advisor s venture capital and private equity relationships would take considerable time and expense to develop.

Well-Known Brand Name. Our Advisor has originated Venture Loans to more than 130 companies in our Target Industries under the Horizon Technology Finance brand. Each of these companies is backed by one or more venture capital or private equity firms. We believe that the Horizon Technology Finance brand, as a competent, knowledgeable and active participant in the Venture Lending marketplace, will continue to result in a significant number of referrals and prospective investment opportunities in our Target Industries.

Our Portfolio

Since our inception and through December 31, 2011, we have funded 66 portfolio companies and have invested $357.4 million in loans (including 28 loans that have been repaid). As of December 31, 2011, our total investment portfolio consisted of 38 loans which totaled $173.3 million and our net assets were $129.9 million. All of our existing loans are secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The loans in our loan portfolio will generally not be rated by any rating agency. If the individual loans in our portfolio companies were rated, they would be rated below investment grade because they are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns.

For the year ended December 31, 2011, our loan portfolio had a dollar-weighted average annualized yield of approximately 14.6% (excluding any yield from warrants). As of December 31, 2011, our loan portfolio had a dollar-weighted average term of approximately 41 months from inception and a dollar-weighted average remaining term of approximately 30 months. In addition, we held warrants to purchase either common stock or

preferred stock in 47 portfolio companies. As of December 31, 2011, substantially all of our loans had an original committed principal amount of between $1 million and $12 million, repayment terms of between 30 and 48 months and bore current pay interest at annual interest rates of between 9% and 14%.

Company Information

Our administrative and executive offices and those of our Advisor are located at 312 Farmington Avenue, Farmington, Connecticut 06032, and our telephone number is (860) 676-8654. Our corporate website is located at *www.horizontechnologyfinancecorp.com*. Information contained on our website is not incorporated by reference into this prospectus supplement, and you should not consider information contained on our website to be part of this prospectus supplement.

Table of Contents

THE OFFERING

This section summarizes the principal legal and financial terms of the Notes. You should read this section together with the more detailed description of the Notes in this prospectus supplement under the heading Description of Notes and the more general description found in the prospectus under the heading Description of Debt Securities That We May Issue before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or the indenture governing the Notes.

Issuer	Horizon Technology Finance Corporation, a Delaware Corporation
Title of the securities	% Senior Notes due 2019
Initial aggregate principal amount being offered	$25,000,000
Overallotment option	The underwriters may also purchase from us up to an additional $ aggregate principal amount of Notes to cover overallotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100% of the aggregate principal amount.
Listing	We intend to list the Notes on The New York Stock Exchange within 30 days of the original issue date.
Interest rate	% per year
Stated maturity date	March 15, 2019, unless redeemed prior to maturity.
Interest payment dates	Each March 15, June 15, September 15, and December 15, commencing June 15, 2012. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Ranking of Notes	The Notes will be our direct unsecured obligations and will rank:
	pari passu with our future senior unsecured indebtedness;

senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; and

structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, financing vehicles or similar facilities, including senior debt outstanding under our Credit Facilities.

Table of Contents

Denominations	We will issue the Notes in denominations of $25 and integral multiples of $25 in excess thereof.
Use of Proceeds	We estimate that the net proceeds from the sale of the Notes in this offering will be approximately $ (or approximately $ if the underwriters fully exercise their overallotment option). We intend to use the net proceeds from the sale of the Notes for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. See the Use of Proceeds section of this prospectus supplement.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after March 15, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption.
Repayment at option of Holders	Holders will not have the option to have the Notes repaid prior to the stated maturity date.
Governing Law	New York
Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
Investment Company Act covenant	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:
	We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act or any successor provisions.
	See the Description of the Notes section of this prospectus supplement for certain other covenants applicable to the Notes.

Table of Contents

RISK FACTORS

Investing in the Notes involves a number of significant risks. Before you invest in the Notes, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in the Notes. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in the Notes as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred, including senior debt outstanding under our Credit Facilities, or may incur in the future.

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement including senior debt outstanding under our Credit Facilities, or that they may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of December 31, 2011, we had $64.6 million in outstanding indebtedness. Most of this indebtedness is secured by certain of our assets and such indebtedness is therefore effectively senior to the Notes to the extent of the value of such assets.

The Notes will be subordinated structurally to the indebtedness and other liabilities of our subsidiaries including liens on the assets of our subsidiaries securing our Credit Facilities.

The Notes are obligations exclusively of Horizon Technology Finance Corporation and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Our Credit Facilities are obligations of our subsidiaries and are secured by a lien on the assets of our wholly-owned subsidiaries, Horizon Credit I LLC and Horizon Credit II LLC, which hold substantially all of our assets. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors, including trade creditors, and holders of preferred stock, if any, of our subsidiaries will have priority over our claims (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be subordinated structurally to all indebtedness and other liabilities, including trade payables, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. All of the existing indebtedness of our subsidiaries would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture governing the Notes will contain limited protection for holders of the Notes.

The indenture governing the Notes offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment

Table of Contents

in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18 (a)(1)(A) of the 1940 Act or any successor provisions;
- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to purchase the Notes in connection with a change of control or any other event. Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity except as required by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. See Risk Factors If we are unable to comply with covenants or restrictions in our Credit Facilities or make payments when due there under our business could be materially adversely affected in the accompanying prospectus. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them. Moreover, the Notes are not expected to be rated which may subject them to greater price volatility than rated notes and particularly similar securities with an investment grade rating.

The Notes are a new issue of debt securities for which there currently is no trading market. We intend to list the Notes on the NYSE within 30 days of the original issue date. Although we expect the Notes to be listed on the NYSE, we cannot provide any assurances that we will successfully list the Notes, that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, the time remaining to the maturity of the Notes, the outstanding principal amount of debt securities with terms identical to the Notes, the supply of debt securities

trading in the secondary market, if any, the redemption or repayment features, if any, of the Notes, general economic conditions, our financial condition, performance and prospects and other factors. The Notes are not currently expected to be rated which would impact their trading and subject them to greater price volatility. To the extent they are rated and received a non-investment grade rating, their price and trading activity could be negatively impacted. Moreover, if a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

Our shares of common stock have traded at a discount from net asset value and may continue to do so, which could limit our ability to raise additional equity capital.

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether shares of our common stock will trade at, above or below net asset value. In addition, in recent periods, the stocks of BDCs as an industry traded below net asset value. When our common stock is trading below its net asset value per share, as is currently the case, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. We do not have stockholder approval to sell shares of our common stock at a price below our net asset value per share.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to factors previously identified elsewhere in this prospectus supplement and the accompanying prospectus, including the Risk Factors section of the accompanying prospectus, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- our future operating results, including the performance of our existing loans and warrants;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our Advisor;
- the impact of increased competition;
- the impact of investments we intend to make and future acquisitions and divestitures;
- the unfavorable resolution of legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the projected performance of other funds managed by our Advisor;
- the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- our regulatory structure and tax status;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly if we use leverage as part of our investment strategy;

- the ability of our portfolio companies to achieve their objectives;
- our ability to cause a subsidiary to become a licensed Small Business Investment Company (SBIC);
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our Advisor;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals; and
- the impact of changes to tax legislation and, generally, our tax position.

This prospectus supplement, the accompanying prospectus and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position potential, project, outlook, continue, remain, maintain, sustain, seek, achieve and similar expressions, or future or conditional ve would, should, could, may or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended (the Securities Act) or Section 21E of the Exchange Act. Actual results could differ materially from those

Table of Contents

anticipated in forward-looking statements and future results could differ materially from historical performance. You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement, the accompanying prospectus or in periodic reports we file under the Exchange Act.

SELECTED CONDENSED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data of Horizon Technology Finance Corporation as of December 31, 2011, 2010, 2009 and 2008, and for the year ended December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010, the year ended December 31, 2009, and the period from March 4, 2008 (Inception) to December 31, 2008 is derived from the consolidated financial statements that have been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm. For the periods prior to October 29, 2010, the financial data refers to Compass Horizon Funding Company LLC. This selected financial data should be read in conjunction with our financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Post-IPO as a Business Development Company		Pre-IPO Prior to becoming a Business Development Company		
(In thousands, except per share data)	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010	January 1, 2010 to October 28, 2010	Year Ended December 31, 2009	March 4, 2008 (Inception) Through December 31, 2008
Statement of Operations Data:					
Total investment income	$ 24,054	$ 3,251	$ 14,956	$ 15,326	$ 7,021
Base management fee	4,192	668	2,019	2,202	1,073
Performance based incentive fee	3,013	414			
All other expenses	6,127	810	3,912	4,567	2,958
Net investment income before excise tax	10,722	1,359	9,025	8,557	2,990
Provision for excise tax	(211)				
Net investment income	10,511	1,359	9,025	8,557	2,990
Net realized gain on investments	6,316	611	69	138	22
Provision for excise tax	(129)				
Net unrealized (depreciation) appreciation on investments	(5,702)	1,449	1,481	892	(73)
Credit (provision) for loan losses			739	(274)	(1,650)
Net increase in net assets resulting from operations	$ 10,996	$ 3,419	$ 11,314	$ 9,313	$ 1,289
Per Share Data:					
Net asset value	$ 17.01	$ 16.75	N/A	N/A	N/A
Net investment income	1.38	0.18	N/A	N/A	N/A
Net realized gain on investments	0.81	0.08	N/A	N/A	N/A
Net change in unrealized (depreciation) appreciation on investments	(0.75)	0.19	N/A	N/A	N/A
Net increase in net assets resulting from operations	1.44	0.45	N/A	N/A	N/A
Per share dividends declared	1.18	0.22	N/A	N/A	N/A
Dollar amount of dividends declared	$ 8,983	$ 1,662	N/A	N/A	N/A
Statement of Assets and Liabilities Data at Period End:					
Investments, at fair value/book value	$ 178,013	$ 136,810	N/A	$ 111,954	$ 92,174
Other assets	19,798	79,395	N/A	12,914	23,041
Total assets	197,811	216,205	N/A	124,868	115,215
Total liabilities	67,927	89,010	N/A	65,375	65,430
Total net assets/members capital	$ 129,884	$ 127,195	N/A	$ 59,493	$ 49,785
Other data:					
Weighted average annualized yield on income producing investments at fair value	14.6%	14.6%	N/A	13.9%	12.7%
Number of portfolio companies at period end	38	32	32	32	26

Table of Contents

USE OF PROCEEDS

We estimate that net proceeds we will receive from the sale of the Notes in this offering will be approximately $24,000,000 (or net proceeds of approximately $27,637,500 if the underwriters fully exercise their overallotment option), after deducting the underwriting discounts and commissions of $750,000 (or approximately $862,500 if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately $250,000 (including certain expenses of the underwriters that we will reimburse the underwriters for) payable by us.

We intend to use the net proceeds from the sale of the Notes for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. We estimate that it will take up to 6 months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus supplement, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal. Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and accordingly, may result in lower distributions, if any, during such period. See Regulation Temporary Investments in the accompanying prospectus for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

The amount of net proceeds may be more or less than the amount described in the preliminary prospectus supplement depending on the amount of Notes we sell in the offering, which will be determined at pricing. To the extent that we receive more than the amount described in this preliminary prospectus supplement, we intend to use the net proceeds for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. To the extent we receive less, the amount we have available for such purposes will be reduced.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

For the years ended December 31, 2011, 2010 and 2009, and the period from March 4, 2008 through December 31, 2008, our ratios of earnings to fixed charges, computed as set forth below, were as follows:

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	For the Period from March 4, 2008 through December 31, 2008
Earnings to Fixed Charges(1)	5.2	4.6	3.2	1.5

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest expense, which includes amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Excluding the net unrealized gains or losses, the earnings to fixed charges ratio would be 7.4 for the year ended December 31, 2011, 3.9 for the year ended December 31, 2010, 3.0 for the year ended December 31, 2009 and 1.5 for the period from March 4, 2008 through December 31, 2008.

Excluding the net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 5.0 for the year ended December 31, 2011, 3.7 for the year ended December 31, 2010, 3.0 for the year ended December 31, 2009 and 1.5 for the period from March 4, 2008 through December 31, 2008.

Table of Contents

CAPITALIZATION

The following table sets forth:

- our actual capitalization as of December 31, 2011; and

- our pro forma capitalization to give effect to the sale of $25,000,000 aggregate principal amount of Notes in this offering based on the public offering price of $25 per Note, after deducting the underwriting discounts and commissions of $750,000 payable by us and estimated offering expenses of approximately $250,000 payable by us.

	As of December 31, 2011	
	Actual	Pro Forma
	(dollars in thousands)	
Cash and Investment in money market funds	$ 14,816	$ 38,816
Borrowings	64,571	64,571
Senior Notes due 2019		25,000
Total Borrowings	$ 64,571	$ 89,571
Net assets:		
Preferred stock, par value $0.001 per share; 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value $0.001 per share; 100,000,000 shares authorized, 7,636,532 shares issued and outstanding	8	8
Paid-in capital in excess of par	124,512	124,512
Distributions in excess of net investment income	4,965	4,965
Net unrealized depreciation on investments	(2,659)	(2,659)
Net realized gains on investments	3,058	3,058
Total net assets	$ 129,884	$ 129,884

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this section, except where the context suggests otherwise, the terms we, us, our and Horizon Technology Finance refer to Horizon Technology Finance Corporation and its consolidated subsidiaries. The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this prospectus supplement. For periods prior to October 28, 2010, the consolidated financial statements and related footnotes reflect the performance of our predecessor, Compass Horizon, and its wholly owned subsidiary, Horizon Credit I LLC, both of which were formed in January 2008 and commenced operations in March 2008. Amounts are stated in thousands, except shares and per share data and where otherwise noted.

Overview

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries, which we refer to as our Target Industries. Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans, which we refer to as Venture Loans, to companies backed by established venture capital and private equity firms in our Target Industries, which we refer to as Venture Lending. We also selectively lend to publicly traded companies in our Target Industries.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

Compass Horizon, our predecessor company, commenced operations in March 2008. We were formed in March 2010 for the purpose of acquiring Compass Horizon and continuing its business as a public entity.

Portfolio Composition and Investment Activity

The following table shows our portfolio by asset class as of December 31, 2011 and 2010:

	December 31, 2011			December 31, 2010		
	# of Investments	Fair Value	% of Total Portfolio	# of Investments	Fair Value	% of Total Portfolio
Term loans	37	$ 172,363	96.8%	31	$ 127,949	93.5%
Equipment loans	1	923	0.5%	1	2,285	1.6%
Total loans	38	173,286	97.3%	32	130,234	95.1%
Warrants	47	4,098	2.3%	43	6,225	4.6%
Equity	3	629	0.4%	2	351	0.3%
Total		$ 178,013	100.0%		$ 136,810	100.0%

Table of Contents

Total portfolio investment activity as of and for the years ended December 31, 2011 and 2010 was as follows:

	December 31,	
	2011	2010
Beginning portfolio	$ 136,810	$ 113,878
New loan funding	106,350	98,267
Less refinanced balances	(8,677)	(13,593)
Net new loan funding	97,673	84,674
Principal and stock payments received on investments	(34,793)	(33,149)
Early pay-offs	(16,649)	(31,709)
Accretion of loan fees	1,895	1,399
New loan fees	(1,049)	(836)
New equity	579	350
Proceeds from sale of investments	(6,985)	(1,009)
Net realized gain on investments	6,599	680
Net (depreciation) appreciation on investments	(5,974)	2,814
Other	(93)	(282)
Ending portfolio	$ 178,013	$ 136,810

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period.

The following table shows our loan portfolio by industry sector as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
Life Science				
Biotechnology	$ 39,854	23.0%	$ 30,470	23.4%
Medical Device	19,281	11.1%	19,572	15.0%
Technology				
Consumer-related Technologies	1,762	1.0%	4,460	3.4%
Networking	923	0.5%	2,285	1.8%
Software	23,354	13.5%	8,745	6.7%
Data Storage	3,437	2.0%	7,912	6.1%
Communications	5,134	3.0%	7,591	5.9%
Semiconductors	11,765	6.8%		
Cleantech				
Energy Efficiency	23,790	13.7%	16,570	12.7%
Waste Recycling	4,455	2.6%	2,363	1.8%
Healthcare Information and Services				
Diagnostics	21,347	12.3%	20,472	15.7%
Other Healthcare Related Services and Technologies	18,184	10.5%	9,794	7.5%
Total	$ 173,286	100.0%	$ 130,234	100.0%

The largest loans may vary from year to year as new loans are recorded and repaid. Our five largest loans represented approximately 28% and 31% of total loans outstanding as of December 31, 2011 and 2010, respectively. No single loan represented more than 10% of our total loans as of December 31, 2011 or 2010.

Table of Contents

Loan Portfolio Asset Quality

We use a credit rating system which rates each loan on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 or 1 represents a deteriorating credit quality and increased risk. See Business for more detailed descriptions. The following table shows the classification of our loan portfolio by credit rating as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio
Credit Rating				
4	$ 30,108	17.4%	$ 29,054	22.3%
3	119,753	69.1%	94,200	72.3%
2	23,425	13.5%	6,980	5.4%
1				
Total	$ 173,286	100.0%	$ 130,234	100.0%

As of December 31, 2011 and 2010 our loan portfolio had a weighted average credit rating of 3.1 and 3.2, respectively.

Consolidated Results of Operations

The consolidated results of operations set forth below include historical financial information of our predecessor, Compass Horizon, prior to our election to become a BDC and our election to be treated as a RIC. As a BDC and a RIC for U.S. federal income tax purposes, we are also subject to certain constraints on our operations, including limitations imposed by the 1940 Act and the Code. Also, the management fee that we pay to our Advisor under the Investment Management Agreement is determined by reference to a formula that differs materially from the management fee paid by Compass Horizon in prior periods. For these and other reasons, the results of operations described below may not be indicative of the results we report in future periods.

Consolidated operating results for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Total investment income	$ 24,054	$ 18,207	$ 15,326
Total expenses	13,332	7,823	6,769
Net investment income before excise tax	10,722	10,384	8,557
Provision for excise tax	(211)		
Net investment income	10,511	10,384	8,557
Net realized gains	6,316	680	138
Provision for excise tax	(129)		
Net unrealized (depreciation) appreciation	(5,702)	2,930	892
Credit (provision) for loan losses		739	(274)
Net income	$ 10,996	$ 14,733	$ 9,313
Average investments, at fair value	$ 164,437	$ 124,027	$ 109,561
Average debt outstanding	$ 78,106	$ 77,174	$ 70,582

Net income can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, annual comparisons of net income may not be meaningful.

Investment Income

Investment income increased by $5.8 million, or 32.1%, for the year ended December 31, 2011 as compared to the year ended December 31, 2010. For the year ended December 31, 2011, total investment income consisted primarily of $22.9 million in interest income from investments, which included $1.8 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Fee income on investments was primarily comprised of a one-time success fee received upon the completion of an acquisition of one of our portfolio companies and from prepayment fees collected from our portfolio companies.

Investment income increased by $2.9 million, or 19.0%, for the year ended December 31, 2010 as compared to the year ended December 31, 2009. For the year ended December 31, 2010, total investment income consisted primarily of $17.4 million in interest income from investments, which included $1.4 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Fee income was primarily comprised of loan prepayment fees collected from our portfolio companies.

For the years ended December 31, 2011, 2010 and 2009, our dollar-weighted average annualized yield on average loans was approximately 14.6%, 14.6% and 13.9%, respectively.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 21%, 22% and 23% of investment income for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, interest receivable was $3.0 million and $1.9 million, respectively, which represents one month of accrued interest income on substantially all our loans. The increase in 2011 was due to a larger loan portfolio relative to 2010.

Expenses

Total expenses increased by $5.5 million, or 70.4%, to $13.3 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010. Total expenses increased by $1.1 million, or 15.6%, to $7.8 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Total operating expenses for each period consisted principally of management fees, incentive and administrative fees, interest expense and, to a lesser degree, professional fees and general and administrative expenses. Interest expense, which includes the amortization of debt issuance costs, decreased in 2011 from 2010 primarily due to a lower effective interest rate in 2011. Interest expense remained consistent in 2010 and 2009 primarily from a decreasing LIBOR rate offset by a higher average outstanding debt balances on the WestLB Facility.

Effective with the completion of our initial public offering in October 2010, we pay management and incentive fees under the Investment Management Agreement, which provides a higher management fee base as compared to amounts previously paid by Compass Horizon. Base management fee expense for the year ended December 31, 2011 increased by approximately $1.5 million compared to the year ended December 31, 2010 primarily due to the higher management fee base. Base management fee expense for the year ended December 31, 2010 increased by approximately $0.5 million compared to the year ended December 31, 2009 primarily due to an increase in the average loan portfolio in 2010 from 2009. Incentive fees for the year ended December 31, 2011 increased compared to the year ended December 31, 2010 due to a full twelve months of expense in 2011 compared to only two months in 2010. The incentive fees for the year ended December 31, 2011 consisted of approximately $2.7 million and $0.3 million for part one and part two of the incentive fee, respectively. There were no incentive fees prior to the IPO.

In connection with the Administration Agreement, which commenced upon our conversion to a BDC in 2010, we incurred $1.2 million of administrative fee for the year ended December 31, 2011. The administrative fee increased compared to 2010 due to a full twelve months of expense in 2011 compared to only 2 months in 2010.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses for the year ended December 31, 2011 increased by approximately $1.7 million compared to the year ended December 31, 2010 primarily due to the increased cost of being a public company. These expenses for the year ended December 31, 2010 increased by approximately $0.2 million compared to the year ended December 31, 2009 primarily due to the increased cost of being a public company.

Excise tax was incurred in 2012 as we elected to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income. At December 31, 2011, we accrued an excise tax of approximately $0.3 million on approximately $8.5 million of undistributed earnings from operations and capital gains that we intend to distribute in 2012.

Net Realized Gains and Net Unrealized Appreciation and Depreciation

Realized gains or losses on investments are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized, and includes investments charged off during the period, net of recoveries. The net change in unrealized appreciation or depreciation on investments primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the year ended December 31, 2011, we recognized realized gains totaling approximately $6.3 million primarily due to the sale of warrants of three portfolio companies. We recognized realized gains of approximately $0.7 million during the year ended December 31, 2010 primarily due to the sale of warrants of two portfolio companies. We recognized realized gains of approximately $0.1 million during the year ended December 31, 2009 primarily due to the sale of warrants of one portfolio company.

For the year ended December 31, 2011, net unrealized depreciation on investments totaled approximately $5.7 million which was primarily due to $4.0 million in reversal of unrealized appreciation on the sale of warrants and $2.7 million of unrealized depreciation on six debt investments partially offset by unrealized appreciation on investments. For the years ended December 31, 2010 and 2009, the year to year increase is primarily due to the fair value appreciation on warrants.

Credit or Provision for Loan Losses

For the period from January 1, 2010 through October 28, 2010 the credit for loan losses was $0.7 million and for the year ended December 31, 2009 the provision for loan losses was $0.3 million. The credit arose from December 31, 2009 through October 28, 2010 primarily due to improved portfolio asset quality during 2010 across all credit ratings within the loan portfolio. The loan portfolio had a weighted average credit rating of 3.1 and 2.9 as of October 28, 2010 and December 31, 2009, respectively. See Loan Portfolio Asset Quality. As of October 28, 2010, the date of our election to be treated as a BDC, we no longer record a credit or provision for loan losses. We record each individual loan and investment on a quarterly basis at fair value. Changes in fair value are recorded through our statement of operations.

Liquidity and Capital Resources

As of December 31, 2011 and 2010, we had cash and investments in money market funds of $14.8 million and $76.8 million, respectively. These amounts are available to fund new investments, reduce borrowings under the Credit Facilities, pay operating expenses and pay dividends. Our primary sources of capital have been from our IPO in October 2010, use of our Credit Facilities and from a private placement of $50 million of equity capital in March 2008.

The WestLB Facility had a three year initial revolving term and on March 3, 2011 the revolving term ended. The outstanding principal balance under the WestLB Facility of $46.7 million as of December 31, 2011 is amortizing based on loan investment payments received through March 3, 2015.

As of December 31, 2011, we had available borrowing capacity of approximately $57.2 million under our Wells Facility, subject to existing terms and advance rates. As of December 31, 2011, the outstanding principal balance under the Wells Facility was $17.8 million.

Our operating activities used cash of $4.0 million for the year ended December 31, 2011 and our financing activities used cash of $32.4 million for the same period. Our operating activities used cash primarily for investing in portfolio companies. Such cash was provided primarily from proceeds from our IPO and draws under the Credit Facilities.

Our operating activities used cash of $38.1 million for the year ended December 31, 2010 and our financing activities provided net cash proceeds of $75.0 million for the same period. Our operating activities used cash primarily for investing in portfolio companies. Such cash was provided primarily from proceeds from our IPO and draws under the WestLB Facility.

Our operating activities used cash of $0.1 million for the year ended December 31, 2009 and our financing activities provided net cash proceeds of $0.5 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from our availability on our WestLB Facility.

Our primary use of available funds is making investments in portfolio companies and cash distributions to holders of our common stock. We expect to opportunistically raise additional equity and debt capital as needed, and subject to market conditions, to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act.

In order to satisfy the Code requirements applicable to a RIC, we intend to distribute to our stockholders all or substantially all of our income except for certain net capital gains. In addition, as a BDC, we generally will be required to meet a coverage ratio of 200%. This requirement will limit the amount that we may borrow.

Current Borrowings

We, through our wholly owned subsidiary, Credit I, entered into the WestLB Facility. The base rate borrowings under the WestLB Facility bear interest at one-month LIBOR (0.30% as of December 31, 2011 and 0.26% as of December 31, 2010) plus 2.50%. The rates were 2.80% and 2.76% as of December 31, 2011 and 2010, respectively. We were able to request advances under the WestLB Facility through March 4, 2011. We may not request new advances and we must repay the outstanding advances under the WestLB Facility as of such date and at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the WestLB Facility, particularly the condition that the principal balance of the WestLB Facility does not exceed seventy-five percent (75%) of the aggregate principal balance of our eligible loans to our portfolio companies. All outstanding advances under the WestLB Facility are due and payable on March 4, 2015.

The WestLB Facility is collateralized by all loans and warrants held by Credit I and permits an advance rate of up to 75% of eligible loans held by Credit I. The WestLB Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the WestLB Facility to certain criteria for qualified loans, and includes portfolio company concentration limits as defined in the related loan agreement.

We, through our wholly owned subsidiary, Credit II entered into the Wells Facility on July 14, 2011. The interest rate is based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. The interest rate was 5.00% as of December 31, 2011.

We may request advances under the Wells Facility through July 14, 2014 (the Revolving Period). After the Revolving Period, we may not request new advances and we must repay the outstanding advances under the Wells Facility as of such date, at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Wells Facility. All outstanding advances under the Wells Facility are due and payable on July 14, 2017.

The Wells Facility is collateralized by loans held by Credit II and permits an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contains covenants that, among other things, require the

Company to maintain a minimum net worth, to restrict the loans securing the Wells Facility to certain criteria for qualified loans and to comply with portfolio company concentration limits as defined in the related loan agreement.

As of December 31, 2011 and 2010, other assets were $2.0 million and $0.7 million, respectively, which is primarily made up of debt issuance cost and prepaid expenses. The increase in 2011 was due to the debt issuance cost incurred related to the Wells Facility of approximately $1.2 million.

Contractual Obligations and Off-Balance Sheet Arrangements

A summary of our significant contractual payment obligations and off-balance sheet arrangements as of December 31, 2011 are as follows:

	Payments due by period				
	Total	**Less than 1 year**	**1 3 years**	**3 5 years**	**After 5 years**
Borrowings	$ 64,571	$ 34,019	$ 30,552	$	$
Unfunded commitments	22,500	20,500	2,000		
Total	$ 87,071	$ 54,519	$ 32,552	$	$

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of December 31, 2011, we had unfunded commitments of approximately $22.5 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

In addition to the Wells Facility and WestLB Facility, we have certain commitments pursuant to our Investment Management Agreement entered into with our Advisor. We have agreed to pay a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. Payments under the Investment Management Agreement are equal to (1) a base management fee equal to a percentage of the value of our average gross assets and (2) a two-part incentive fee. We have also entered into a contract with our Advisor to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our Advisor s overhead in performing its obligation under the agreement, including rent, fees and other expenses inclusive of our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. See Note 3 to our Consolidated Financial Statements included in this prospectus supplement for additional information regarding our Investment Management Agreement and our Administration Agreement.

Distributions

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute at least 98% of our ordinary income and 98.2% of our capital gain net income on an annual basis and any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax to avoid a U.S. federal excise tax. We intend to distribute quarterly dividends to our stockholders as determined by our Board.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a business development company under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our qualification as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our dividend reinvestment plan. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes.

Critical Accounting Policies

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our significant accounting policies in the notes to our consolidated financial statements.

We have identified the following items as critical accounting policies.

Valuation of Investments

Investments are recorded at fair value. Our Board determines the fair value of its portfolio investments. Prior to our election to become a BDC, loan investments were stated at current unpaid principal balances adjusted for the allowance for loan losses, unearned income and any unamortized deferred fees or costs.

We apply fair value to substantially all of our investments in accordance with relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three categories within the hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Table of Contents

Income Recognition

Interest on loan investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. When a loan becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid.

We receive a variety of fees from borrowers in the ordinary course of conducting our business, including advisory fees, commitment fees, amendment fees, non-utilization fees and prepayment fees (collectively, the Fees). In a limited number of cases, we may also receive a non-refundable deposit earned upon the termination of a transaction. Loan origination fees, net of certain direct origination costs, are deferred, and along with unearned income, are amortized as a level yield adjustment over the respective term of the loan. Fees for counterparty loan commitments with multiple loans are allocated to each loan based upon each loan s relative fair value. When a loan is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the loan is returned to accrual status.

Certain loan agreements also require the borrower to make an end-of-term payment that is accrued into income over the life of the loan to the extent such amounts are expected to be collected. We will generally cease accruing the income if there is insufficient value to support the accrual or if we do not expect the borrower to be able to pay all principal and interest due.

In connection with substantially all lending arrangements, we receive warrants to purchase shares of stock from the borrower. The warrants are recorded as assets at estimated fair value on the grant date using the Black-Scholes valuation model. The warrants are considered loan fees and are also recorded as unearned loan income on the grant date. The unearned income is recognized as interest income over the contractual life of the related loan in accordance with our income recognition policy. Subsequent to loan origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on warrants. Gains from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains on warrants.

Allowance for Loan Losses

Prior to our election to become a BDC, the allowance for loan losses represented management s estimate of probable loan losses inherent in the loan portfolio as of the balance sheet date. The estimation of the allowance was based on a variety of factors, including past loan loss experience, the current credit profile of our borrowers, adverse situations that had occurred that may affect individual borrowers ability to repay, the estimated value of underlying collateral and general economic conditions. The loan portfolio is comprised of large balance loans that are evaluated individually for impairment and are risk-rated based upon a borrower s individual situation, current economic conditions, collateral and industry-specific information that management believes is relevant in determining the potential occurrence of a loss event and in measuring impairment. The allowance for loan losses was sensitive to the risk rating assigned to each of the loans and to corresponding qualitative loss factors that we used to estimate the allowance. Those factors were applied to the outstanding loan balances in estimating the allowance for loan losses. If necessary, based on performance factors related to specific loans, specific allowances for loan losses were established for individual impaired loans. Increases or decreases to the allowance for loan losses were charged or credited to current period earnings through the provision (credit) for loan losses. Amounts determined to be uncollectible were charged against the allowance for loan losses, while amounts recovered on previously charged-off loans increased the allowance for loan losses.

A loan was considered impaired when, based on current information and events, it was probable that we were unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis,

taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of the collateral, if the loan was collateral dependent.

Impaired loans also included loans modified in troubled debt restructurings where concessions had been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Income taxes

We have elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, we are required to meet certain source of income and asset diversification requirements and we must timely distribute to our stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions, we will accrue excise tax, if any, on estimated excess taxable income as taxable income is earned.

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at December 31, 2011 and 2010.

Prior to our election to become a BDC, we were a limited liability company treated as a partnership for U.S. federal income tax purposes and, as a result, all items of income and expense were passed through to, and are generally reportable on, the tax returns of the respective members of the limited liability company. Therefore, no federal or state income tax provision has been recorded for the period from January 1, 2010 to October 28, 2010 and the years ended December 31, 2009 and 2008.

Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRs, (ASU 2011-04). ASU 2011-04 converges the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Company s financial statements.

Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the loans within our portfolio were mostly at fixed rates and we expect that our loans in the future will also have primarily fixed interest rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index and typically have interest rates that are fixed at the time of the loan funding and remain fixed for the term of the loan.

Table of Contents

Assuming that the statement of assets and liabilities as of December 31, 2011 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Statement of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

Our Credit Facilities have a floating interest rate provision based on a LIBOR index which resets daily, and we expect that any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations and we may use them in the future. Such instruments may include swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

Because we currently fund, and will continue to fund, our investments with borrowings, our net income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income.

Table of Contents

DESCRIPTION OF THE NOTES

This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement. This description supplements, and to the extent inconsistent therewith, replaces the descriptions of the general terms and provisions contained in Description of Debt Securities That We May Issue in the accompanying prospectus.

The Notes will be issued under an indenture to be dated as of the closing date, entered into between us and U.S. Bank National Association, as trustee, as supplemented by the first supplemental indenture to be dated as of the closing date, entered into between us and U.S. Bank National Association, as trustee. The terms of the Notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. As used in this section, all references to Indenture mean the indenture as supplemented by the first supplemental indenture, and all references to we, our and us mean Horizon Technology Finance Corporation, a Delaware corporation, exclusive of our subsidiaries, unless we specify otherwise.

Because this section is a summary, it does not describe every aspect of the Notes and the Indenture. We urge you to read the Indenture because it, and not this description, defines your rights as a holder of Notes. For example, in this section, we use capitalized words to signify terms that are specifically defined in the Indenture. Some of the definitions are repeated in this prospectus supplement, but for the rest you will need to read the Indenture. You may obtain a copy of the Indenture from us without charge. See Where You Can Find More Information in the accompanying prospectus.

General

The Notes:

- will be issued in an initial principal amount of $25,000,000 ($28,750,000 if the underwriters option to purchase Notes to cover overallotments, if any, is exercised in full);
- will mature on March 15, 2019, unless redeemed prior to maturity;
- will be issued in denominations of $25 and integral multiples of $25 in excess thereof;
- will be redeemable in whole or in part at any time or from time to time on and after March 15, 2015, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption as described under Redemption and Repayment below;
- are expected to be listed on The New York Stock Exchange within 30 days of the original issue date.

The Notes will be our direct unsecured obligations and will rank:

- *pari passu* with future senior unsecured indebtedness;
- senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; and
- structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, financing vehicles or similar facilities, including without limitation amounts outstanding under our Credit Facilities.

Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the Notes or to make any funds available for payment on the Notes, whether by dividends, loans or other payments. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory, contractual or other restrictions, may depend on the earnings or financial condition of all of the foregoing and are subject to various business considerations. As a result, we may be unable to gain significant, if any, access to the cash flow or assets of our subsidiaries.

The Indenture does not limit the amount of debt (secured and unsecured) that we and our subsidiaries may incur or our ability to pay dividends, sell assets, enter into transactions with affiliates or make investments. In

addition, the Indenture does not contain any provisions that would necessarily protect holders of Notes if we become involved in a highly leveraged transaction, reorganization, merger or other similar transaction that adversely affects us or them.

The Notes will be issued in fully registered form only, without coupons, in minimum denominations of $25 and integral multiples thereof. The Notes will be represented by one or more global notes deposited with or on behalf of The Depository Trust Company (DTC), or a nominee thereof. Except as otherwise provided in the Indenture, the Notes will be registered in the name of that depositary or its nominee, and you will not receive certificates for the Notes. We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder s right to those payments will be governed by the rules and practices of the depositary and its participants.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit the distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. Specifically, we may be precluded from declaring dividends or repurchasing shares of our common stock unless our asset coverage is at least 200%. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our Business and Structure Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital, which may expose us to additional risks in the prospectus.

Interest Provisions Related to the Notes

Interest on the Notes will accrue at the rate of % per annum and will be payable quarterly on each March 15, June 15, September 15, and December 15 commencing on June 15, 2012. The initial interest period will be the period from and including the original issue date to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be. We will pay interest to those persons who were holders of record of such Notes on the first day of the month during which each interest payment date occurs: each March 1, June 1, September 1 and December 1, commencing June 1, 2012.

Interest on the Notes will accrue from the date of original issuance and will be computed on the basis of a 360-day year comprised of twelve 30-day months. We will not provide a sinking fund for the Notes

Interest payments will be made only on a business day, defined in the Indenture as each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close. If any interest payment is due on a non-business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the Indenture as if they were made on the original due date. Such payment will not result in a default under the Notes or the Indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their Notes.

Redemption and Repayment

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after March 15, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

Table of Contents

You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with the Investment Company Act of 1940, as amended, and the rules, regulations and interpretations promulgated thereunder (collectively, the Investment Company Act), to the extent applicable.

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the Investment Company Act to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Holders will not have the option to have the Notes repaid prior to the stated maturity date.

Listing

We intend to list the Notes on the New York Stock Exchange under the symbol HTF . We expect trading in the Notes to begin within 30 days of the original issue date.

Trading Characteristics

We expect the Notes to trade at a price that takes into account the value, if any, of accrued and unpaid interest. This means that purchasers will not pay, and sellers will not receive, accrued and unpaid interest on the Notes that is not included in their trading price. Any portion of the trading price of a note that is attributable to accrued and unpaid interest will be treated as a payment of interest for U.S. federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Notes. See United States Federal Income Tax Consequences.

Certain Covenants

Reporting

We have agreed to provide to holders of the Notes and the trustee (if at any time when Notes are outstanding we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 to file any periodic reports with the SEC), our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

Investment Company Act Compliance

We have also agreed that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act or any successor provisions.

Events of Default

You will have rights if an Event of Default occurs in respect of the Notes and is not cured, as described later in this subsection.

The term Event of Default in respect of the Notes means any of the following:

- We do not pay the principal of, or any premium on, the Notes when due, whether at maturity, upon redemption or otherwise.

- We do not pay interest on the Notes when due, and such default is not cured within 30 days.

We remain in breach of a covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of the Notes.

Table of Contents

We or any of our subsidiaries do not pay, after the expiration of any applicable grace period, the principal of, or premium, or interest on, when due, indebtedness for money borrowed in the aggregate principal amount then outstanding of $10 million or more, or acceleration of our or our subsidiaries indebtedness for money borrowed in such aggregate principal amount or more so that it becomes due and payable before the date on which it would otherwise have become due and payable, if such default is not cured or waived, or such acceleration is not rescinded, within 30 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of the Notes.

We or any of our subsidiaries fail, within 30 days, to pay, bond or otherwise discharge any final, non-appealable judgments or orders for the payment of money the total uninsured amount of which for us or any of our subsidiaries exceeds $10 million, which are not stayed on appeal.

We or any of our subsidiaries that is a significant subsidiary (as defined in Regulation S-X under the Exchange Act) or any group of our subsidiaries that in the aggregate would constitute a significant subsidiary file for bankruptcy, or certain other events of bankruptcy, insolvency or reorganization occur.

On the last business day of each of twenty-four consecutive calendar months, we have an asset coverage of less than 100%.
The trustee may withhold notice to the holders of the Notes any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default, other than an Event of Default referred to in the second to last bullet point above with respect to us (but including an Event of Default referred to in that bullet point solely with respect to a significant subsidiary, or group of subsidiaries that in the aggregate would constitute a significant subsidiary of ours), has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of Notes may declare the entire principal amount of all the Notes to be due and immediately payable. If an Event of Default referred to in the second to last bullet point above with respect to us (and not solely with respect to a significant subsidiary, or group of subsidiaries that in the aggregate would constitute a significant subsidiary of ours) has occurred, the entire principal amount of all the Notes will automatically become due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the Notes.

The trustee is not required to take any action under the Indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an indemnity) (Section 315 of the Trust Indenture Act of 1939). If reasonable indemnity is provided, the holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Notes, the following must occur:

You must give your trustee written notice that an Event of Default has occurred and remains uncured.

The holders of at least 25% in principal amount of all outstanding Notes must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

The trustee must not have taken action for 60 calendar days after receipt of the above notice and offer of indemnity.

The holders of a majority in principal amount of the Notes must not have given the trustee a direction inconsistent with the above notice during that 60 calendar day period.

Table of Contents

However, you are entitled at any time to bring a lawsuit for the payment of money due on your Notes on or after the due date.

Holders of a majority in principal amount of the Notes may waive any past defaults other than:

- the payment of principal, any premium or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to the trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the Indenture, or else specifying any default.

Merger or Consolidation

Under the terms of the Indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not consolidate with or into any other corporation or convey or transfer all or substantially all of our property or assets to any person unless all the following conditions are met:

- Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for all of our obligations under the Notes and the Indenture.
- Immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing.
- We must deliver certain certificates and documents to the trustee.

Modification or Waiver

There are three types of changes we can make to the Indenture and the Notes.

Changes Requiring Your Approval

First, there are changes that we cannot make to your Notes without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on the Notes;
- reduce any amounts due on the Notes;
- reduce the amount of principal payable upon acceleration of the maturity of the Notes following a default;
- adversely affect any right of repayment at the holder s option;

change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on the Notes;

impair your right to sue for payment;

reduce the percentage of holders of Notes whose consent is needed to modify or amend the Indenture;

reduce the percentage of holders of Notes whose consent is needed to waive compliance with certain provisions of the Indenture or to waive certain defaults;

modify any other aspect of the provisions of the Indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and

change any obligation we have to pay additional amounts.

Table of Contents

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the Notes. This type is limited to clarifications and certain other changes that would not adversely affect holders of the Notes in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the Indenture and the Notes would require the following approval:

- If the change affects only the Notes, it must be approved by the holders of a majority in principal amount of the Notes outstanding at such time.

- If the change affects more than one series of debt securities issued under the indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Your Approval.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or the Notes or request a waiver.

Defeasance

Covenant Defeasance

Under current United States federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the Indenture under which the Notes were issued. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your Notes. In order to achieve covenant defeasance, we must do the following:

- we must irrevocably deposit in trust for the benefit of all holders of such Notes a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates. No Default or Event of Default with respect to the Notes shall have occurred and be continuing on the date of such deposit, or in the case of a bankruptcy Event of Default, at any time during the period ending on the 91st day after the date of such deposit.

- We must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act and a legal opinion and officers certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the Notes if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the Notes became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Table of Contents

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the Notes (called full defeasance) if we put in place the following other arrangements for you to be repaid:

- we must deposit in trust for the benefit of all holders of such Notes a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes. No Default or Event of Default with respect to the Notes shall have occurred and be continuing on the date of such deposit, or in the case of a bankruptcy Event of Default, at any time during the period ending on the 91st day after the date of such deposit.

- We must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit and just repaid the Notes ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the Notes would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your Notes and you would recognize gain or loss on the Notes at the time of the deposit.

- We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act and a legal opinion and officers certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

No service charge will be made for any registration of transfer or any exchange of Notes, but we may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect with respect to the Notes when either:

- all the Notes that have been authenticated have been delivered to the trustee for cancellation; or

- all the Notes that have not been delivered to the trustee for cancellation:

  - have become due and payable,

  - will become due and payable at their stated maturity within one year, or

  - are to be called for redemption within one year,

and we, in the case of the first, second and third sub-bullets above, have irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders of the Notes, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness (including all principal, premium, if any, and interest) on such Notes delivered to the trustee for cancellation (in the case of notes that have become due and payable on or prior to the date of such deposit) or to the stated maturity or redemption date, as the case may be,

we have paid or caused to be paid all other sums payable by us under the Indenture with respect to the Notes; and

we have delivered to the trustee an officers certificate and legal opinion, each stating that all conditions precedent provided for in the Indenture relating to the satisfaction and discharge of the Indenture and the Notes have been complied with.

Table of Contents

Additional Notes and Additional Series of Notes

We may from time to time, without notice to or the consent of the registered holders of the Notes, create and issue further notes ranking equally and ratably with the Notes in all respects, including having the same CUSIP number, so that such further notes shall be consolidated and form a single series of notes and shall have the same terms as to status or otherwise as the Notes. No additional notes may be issued if an event of default has occurred and is continuing with respect to the Notes. The indenture also allows for the issuance of additional series of debt securities from time to time.

The Trustee Under the Indenture

U.S. Bank National Association will serve as the trustee under the Indenture.

Payment, Paying Agent, Registrar and Transfer Agent

The principal amount of each Note will be payable on the stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in New York City as we may designate. The trustee will initially act as Paying Agent, Registrar and Transfer Agent for the Notes.

Governing Law

The Indenture and the Notes will be governed by the laws of the State of New York.

Book-Entry Debt Securities

The Depository Trust Company (DTC) will act as securities depository for the Notes. The Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC s participants (Direct Participants) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). DTC has Standard & Poor s Ratings Services highest rating: AAA. The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can he found at *www.dtcc.com* and *www.dtc.org.*

Purchases of debt securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the debt securities on DTC s records. The ownership interest of each actual purchaser of each security (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the debt securities are to be accomplished by entries made on the

Table of Contents

books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by Direct Participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of debt securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the debt securities; DTC s records reflect only the identity of the Direct Participants to whose accounts such debt securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will he governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the debt securities within an issue are being redeemed, DTC s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC s practice is to credit Direct Participants accounts upon. DTC s receipt of funds and corresponding detail information from us or the trustee on the payment date in accordance with their respective holdings shown on DTC s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC nor its nominee, the trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or the trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to us or to the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Table of Contents

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a general summary of the material United States federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material United States federal estate tax consequences) applicable to an investment in the Notes. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. The discussion is based upon the Code, Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect. You should consult your own tax advisor with respect to tax considerations that pertain to your purchase of the Notes.

This discussion deals only with Notes held as capital assets within the meaning of Section 1221 of the Code and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a straddle, hedge, constructive sale transaction or conversion transaction for tax purposes, entities that are tax-exempt for United States federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for United States federal income tax purposes) and beneficial owners of pass-through entities, or persons whose functional currency is not the U.S. dollar. It also does not deal with beneficial owners of the Notes other than original purchasers of the Notes who acquire the Notes in this offering for a price equal to their original issue price (i.e., the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the United States federal tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

For purposes of this discussion, the term U.S. holder means a beneficial owner of a Note that is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) a trust (a) subject to the control of one or more United States persons and the primary supervision of a court in the United States, or (b) that has a valid election (under applicable Treasury Regulations) to be treated as a United States person, or (iv) an estate the income of which is subject to United States federal income taxation regardless of its source. The term non-U.S. holder means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by, among other ways, being present in the United States (i) on at least 31 days in the calendar year, and (ii) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Resident aliens are subject to United States federal income tax as if they were United States citizens.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the United States federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partners of partnerships holding Notes should consult their own tax advisors.

Taxation of Note Holders

Under present law, we are of the opinion that the Notes will constitute indebtedness of us for United States federal income tax purposes, which the below discussion assumes. We intend to treat all payments made with respect to the Notes consistent with this characterization.

Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder s regular method of tax accounting.

Upon the sale, exchange, redemption or retirement of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income) and the U.S. holder s adjusted tax basis in the Note. A U.S. holder s adjusted tax basis in a Note generally will equal the U.S. holder s initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The distinction between capital gain or loss and ordinary income or loss is also important in other contexts; for example, for purposes of the limitations on a U.S. holder s ability to offset capital losses against ordinary income.

Newly enacted legislation may require certain noncorporate U.S. holders to pay a 3.8% Medicare tax on, among other things, interest on and capital gains from the sale, exchange, redemption or retirement of the Notes. This legislation would apply for taxable years beginning after December 31, 2012. U.S. holders should consult their own tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Notes.

Taxation of Non-U.S. Holders. A non-U.S. holder generally will not be subject to United States federal income or withholding taxes on payments of principal or interest on a Note provided that (i) income on the Note is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through stock ownership, (iii) in the case of interest income, the recipient is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder provides a statement on an Internal Revenue Service (IRS) Form W-8BEN (or other applicable form) signed under penalties of perjury that includes its name and address and certifies that it is not a United States person in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to United States federal income tax withholding on payments of interest on the Notes at a rate of 30% unless (i) the income is effectively connected with the conduct of a United States trade or business, in which case the interest will be subject to United States federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty provides for a lower rate of, or exemption from, withholding tax.

In the case of a non-U.S. holder that is a corporation and that receives income that is effectively connected with the conduct of a United States trade or business, such income may also be subject to a branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a United States trade or business) at a 30% rate. The branch profits tax may not apply (or may apply at a reduced rate) if the non-U.S. holder is a qualified resident of a country with which the United States has an income tax treaty.

To claim the benefit of an income tax treaty or to claim exemption from withholding because income is effectively connected with a United States trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms. These forms may be required to be periodically updated. Also, a non-U.S. holder who is claiming the benefits of a treaty may be required to obtain a United States taxpayer identification number and to provide certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Generally, a non-U.S. holder will not be subject to United States federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption or retirement of a Note, provided the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S.

holder (and, if required by an applicable income tax treaty, is not attributable to a United States permanent establishment maintained by the non-U.S. holder). Certain other exceptions may be applicable, and a non-U.S. holder should consult its tax advisor in this regard.

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) generally will not be subject to the United States federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual s interest in the Notes is effectively connected with the individual s conduct of a United States trade or business.

Information Reporting and Backup Withholding. A U.S. holder (other than an exempt recipient, including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding at a rate of 28% (which rate currently is scheduled to increase to 31% for taxable years beginning on or after January 1, 2013) on, and to information reporting requirements with respect to, payments of principal or interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate may apply. Non-U.S. holders generally are exempt from information reporting and backup withholding, provided, if necessary, that they demonstrate their qualification for exemption.

You should consult your tax advisor regarding the qualification for an exemption from backup withholding and information reporting and the procedures for obtaining such an exemption, if applicable. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner generally would be allowed as a refund or a credit against such beneficial owner s United States federal income tax provided the required information is timely furnished to the IRS.

You should consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.

Table of Contents

UNDERWRITING

We are offering the Notes described in this prospectus supplement and the accompanying prospectus through a number of underwriters. Stifel, Nicolaus & Company, Incorporated is acting as representative of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has agreed, severally and not jointly to purchase, the aggregate principal amount of Notes listed next to its name in the following table:

Underwriters	Principal Amount
Stifel, Nicolaus & Company, Incorporated	$
BB&T Capital Markets, a division of Scott & Stringfellow, LLC	
Sterne, Agee & Leach, Inc.	
Wunderlich Securities, Inc.	
Total	$ 25,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We expect that delivery of the Notes will be made against payment therefore on or about , 2012, which will be the fifth business day following the date of the pricing of the Notes (such settlement being herein referred to as T+5). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the date of delivery hereunder will be required, by virtue of the fact that the Notes initially will settle in T+5 business days, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement.

Commissions and Discounts

The underwriting fee is equal to the public offering price per Note less the amount paid by the underwriters to us per Note. The underwriting fee is $ per Note. The following table shows the per Note and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters option to purchase additional Notes.

	Per Note	Total	
	Without Over-Allotment	Without Over-Allotment	With Over-Allotment
Public offering price	%	$	$
Sales load (underwriting discounts and commissions)	%	$	$
Proceeds to us before expenses	%	$	$

The underwriters propose initially to offer the notes to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of % of the principal amount of the notes. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

We estimate that the total expenses of this offering payable by us, including registration, filing and listing fees, printing fees, legal and accounting expenses and certain expenses of the underwriters that we will reimburse the underwriters for, but excluding the underwriting discounts and commissions, will be approximately $250,000, or approximately $0.25 per Note excluding the overallotment and approximately $0.22 per Note including the overallotment.

New Listing of Notes

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on The New York Stock Exchange. We expect trading in the Notes on The New York Stock Exchange to begin within 30 days after the original issue date. Currently there is no public market for the Notes.

We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Overallotment Option

The underwriters have an option to buy up to an additional $3,750,000 aggregate principal amount of the Notes from us to cover sales of Notes by the underwriters which exceed the amount of Notes specified in the table above. The underwriters have 30 days from the date of this prospectus supplement to exercise this overallotment option. If any Notes are purchased with this overallotment option, the underwriters will purchase Notes in approximately the same proportion as shown in the table above. If any additional Notes are purchased, the underwriters will offer the additional Notes on the same terms as those on which all Notes are being offered.

No Sales of Similar Securities

Subject to certain exceptions, we have agreed not to directly or indirectly, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise transfer or dispose of any debt securities issued or guaranteed by the Company or any securities convertible into or exercisable or exchangeable for debt securities issued or guaranteed by the Company or file any registration statement under the Securities Act with respect to any of the foregoing for a period of 90 days after the date of this prospectus supplement without first obtaining the written consent of Stifel, Nicolaus & Company, Incorporated. This consent may be given at any time without public notice.

Price Stabilizations and Short Positions

In connection with this offering the underwriters may purchase and sell Notes in the open market. These transactions may include overallotment syndicate covering transactions and stabilizing transactions. Overallotment involves sales by the underwriters of Notes in excess of the number of securities required to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of securities made in an amount up to the number of securities represented by the underwriters overallotment option. Transactions to close out the covered syndicate short involve either purchases of such securities in the open market after the distribution has been completed or the exercise of the overallotment option. In determining the source of securities to close out the covered syndicate short position, the underwriters may consider the price of securities available for purchase in the open market as compared to the price at which they may purchase securities through the overallotment option. The underwriters may also make naked short sales, or sales in excess of the overallotment option. The underwriters must close out any naked short position by purchasing securities in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the securities in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of securities in the open market while the offering is in progress for the purpose of fixing or maintaining the price of the securities.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from an underwriter or syndicate member when the underwriters repurchase securities originally sold by that underwriter or syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of raising or maintaining the market price of the securities or preventing or retarding a decline in the market price of the securities. As a result, the price of the securities may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NYSE or otherwise. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our securities. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions. If the underwriters commence any of these transactions, they may discontinue them at any time.

In connection with this offering, the underwriters may engage in passive market making transactions in our securities on the NYSE in accordance with Rule 103 of Regulation M under the Exchange Act during a period before the commencement of offers or sales of securities and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker s bid, that bid must then be lowered when specified purchase limits are exceeded.

Additional Underwriter Relationships

Certain of the underwriters and their respective affiliates have from time to time performed and may in the future perform various commercial banking, financial advisory and investment banking services for us and our affiliates for which they have received or will receive customary compensation.

Sales Outside the United States

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of the Notes, or the possession, circulation or distribution of this prospectus supplement or accompanying prospectus or any other material relating to us or the Notes in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and none of this prospectus supplement, the accompanying prospectus or any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the underwriters may arrange to sell the Notes offered hereby in certain jurisdictions outside the United States, either directly or through affiliates, where it is permitted to do so.

Electronic Delivery

The underwriters may make this prospectus supplement and accompanying prospectus available in an electronic format. The prospectus supplement and accompanying prospectus in electronic format may be made available on a website maintained by any of the underwriters, and the underwriters may distribute such documents electronically. The underwriters may agree with us to allocate a limited number of Notes for sale to their online brokerage customers. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

We estimate that our share of the total expenses of this offering, excluding underwriting discounts, will be approximately $250,000.

We and our Advisor have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

The principal business address of Stifel, Nicholaus & Company, Incorporated is 501 N. Broadway, St. Louis, Missouri 63102. The principal business address of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, is 901 East Byrd Street, Suite 300, Richmond, Virginia 23219. The principal business address of Sterne, Agee & Leach, Inc. is 800 Shades Creek Parkway, Birmingham, Alabama 35209. The principal business address of Wunderlich Securities, Inc. is 6000 Poplar Ave., Ste. 150, Memphis, Tennessee 38119.

LEGAL MATTERS

Certain legal matters regarding the Notes offered by this prospectus supplement will be passed upon for us by Squire Sanders (US) LLP. Certain legal matters in connection with the Notes offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our consolidated financial statements as of December 31, 2011 and 2010, and for the year ended December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010, and the year ended December 31, 2009 appearing in this prospectus supplement, the accompanying prospectus and elsewhere in the registration statement have been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report appearing elsewhere herein, which report expresses an unqualified opinion, and are included in reliance upon such report and upon the authority of such firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement, of which this prospectus supplement forms a part, on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the Notes being offered by this prospectus supplement and the accompanying prospectus.

As a public company, we file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s website at *http://www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Horizon Technology Finance Corporation and Subsidiaries

Index to Consolidated Financial Statements

	Page
Management s Report on Internal Control over Financial Reporting	S-45
Report of Independent Registered Public Accounting Firm	S-46
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	S-47
Consolidated Statements of Assets and Liabilities as of December 31, 2011 and 2010	S-48
Consolidated Statements of Operations for the Year Ended December 31, 2011, the Period from October 29, 2010 to December 31, 2010, the Period from January 1, 2010 to October 28, 2010, and the Year Ended December 31, 2009	S-49
Consolidated Statements of Changes in Net Assets for the Year Ended December 31, 2011, the Period from October 29, 2010 to December 31, 2010, the Period from January 1, 2010 to October 28, 2010 and the Year Ended December 31, 2009	S-50
Consolidated Statements of Cash Flows for the Year Ended December 31, 2011, the Period from October 29, 2010 to December 31, 2010, the Period from January 1, 2010 to October 28, 2010, and the Year Ended December 31, 2009	S-51
Consolidated Schedules of Investments as of December 31, 2011 and 2010	S-52
Notes to the Consolidated Financial Statements	S-60

Table of Contents

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system is a process designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published financial statements.

The Company s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions recorded necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The Company s policies and procedures also provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the Company s financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on the assessment, management believes that, as of December 31, 2011, the Company s internal control over financial reporting is effective based on those criteria.

The Company s independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, which report appears herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Horizon Technology Finance Corporation

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Horizon Technology Finance Corporation and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010, and the year ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments as of December 31, 2011 and 2010, by correspondence with borrower; where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Technology Finance Corporation and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the year ended December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010, and the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Horizon Technology Finance Corporation and Subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2012 expressed an unqualified opinion on the effectiveness of Horizon Technology Finance Corporation s internal control over financial reporting.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut

March 13, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm on

Internal Control over Financial Reporting

To the Board of Directors and Stockholders

Horizon Technology Finance Corporation

We have audited Horizon Technology Finance Corporation and Subsidiaries (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Horizon Technology Finance Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Horizon Technology Finance Corporation and Subsidiaries as of December 31, 2011 and 2010 and for the year ended December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010 and the year ended December 31, 2009, and our report dated March 13, 2012 expressed an unqualified opinion.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut

March 13, 2012

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities

(In thousands, except share data)

	December 31,	
	2011	**2010**
Assets		
Non-affiliate investments at fair value (cost of $180,651 and $133,494, respectively) (Note 4)	$ 178,013	$ 136,810
Investment in money market funds	13,518	39,104
Cash	1,298	37,689
Interest receivable	2,985	1,938
Other assets	1,997	664
Total assets	$ 197,811	$ 216,205
Liabilities		
Borrowings (Note 6)	$ 64,571	$ 87,425
Base management fee payable (Note 3)	330	360
Incentive fee payable (Note 3)	1,766	414
Other accrued expenses	1,260	811
Total liabilities	67,927	89,010
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2011 and 2010		
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 7,636,532 and 7,593,421 shares outstanding as of December 31, 2011 and 2010	8	8
Paid-in capital in excess of par	124,512	123,836
Accumulated undistributed (distributions in excess of) net investment income	4,965	(143)
Net unrealized (depreciation) appreciation on investments	(2,659)	3,043
Net realized gains on investments	3,058	451
Total net assets	129,884	127,195
Total liabilities and net assets	$ 197,811	$ 216,205
Net asset value per common share	$ 17.01	$ 16.75

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations

(In thousands, except share data)

	Post-IPO as a Business Development Company		Pre-IPO Prior to becoming a Business Development Company	
	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010	January 1, 2010 to October 28, 2010	Year Ended December 31, 2009
Investment income				
Interest income on non-affiliate investments	$ 22,879	$ 2,993	$ 14,373	$ 14,987
Interest income on money market funds	91	10	60	67
Fee income on non-affiliate investments	1,084	248	523	272
Total investment income	24,054	3,251	14,956	15,326
Expenses				
Interest expense	2,681	508	3,622	4,246
Base management fee (Note 3)	4,192	668	2,019	2,202
Performance based incentive fee (Note 3)	3,013	414		
Administrative fee (Note 3)	1,199	88		
Professional fees	1,259	92	112	131
General and administrative	988	122	178	190
Total expenses	13,332	1,892	5,931	6,769
Net investment income before excise tax	10,722	1,359	9,025	8,557
Provision for excise tax (Note 7)	(211)			
Net investment income	10,511	1,359	9,025	8,557
Credit (provision) for loan losses			739	(274)
Net realized and unrealized gain on investments				
Net realized gain on investments	6,316	611	69	138
Provision for excise tax (Note 7)	(129)			
Net unrealized (depreciation) appreciation on investments	(5,702)	1,449	1,481	892
Net realized and unrealized gain on investments	485	2,060	1,550	1,030
Net increase in net assets resulting from operations	$ 10,996	$ 3,419	$ 11,314	$ 9,313
Net investment income per common share	$ 1.38	$ 0.18		
Change in net assets per common share	$ 1.44	$ 0.45		

Weighted average shares outstanding	7,610,818	7,555,722

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets

(In thousands, except share data)

			Common Stock						
	Members Capital	Accumulated Other Comprehensive Loss	Shares	Amount	Paid-In Capital in Excess of Par	Accumulated Undistributed (distributions in excess of) Net Investment Income	Net Unrealized Appreciation (Depreciation) on Investments	Net Realized Gains on Investments	Total Net Assets
Balance at December 31, 2008	$ 50,948	$ (1,163)		$	$	$	$	$	$ 49,785
Comprehensive income:									
Net income	9,313								9,313
Unrealized gain on interest rate swaps		395							395
Total comprehensive income									9,708
Balance at December 31, 2009	60,261	(768)							59,493
Comprehensive income:									
Net income	11,314								11,314
Unrealized gain on interest rate swaps		409							409
Total comprehensive income									11,723
Cash distribution	(18,000)								(18,000)
Balance at October 28, 2010	53,575	(359)							53,216
Election to business development company(1)	(53,575)	359	2,645,124	3	52,456		1,594		837
Issuance of common stock, net of offering costs(2)			4,910,000	5	70,815				70,820
Net increase in net assets resulting from operations						1,359	1,449	611	3,419
Issuance of common stock as stock dividend			38,297		565				565
Dividends declared						(1,502)		(160)	(1,662)
Balance at December 31, 2010			7,593,421	8	123,836	(143)	3,043	451	127,195
Net increase in net assets resulting from operations						10,511(3)	(5,702)	6,187(3)	10,996
Issuance of common stock as stock dividend			43,111		676				676
Dividends declared						(5,403)		(3,580)	(8,983)
Balance at December 31, 2011	$	$	7,636,532	$ 8	$ 124,512	$ 4,965	$ (2,659)	$ 3,058	$ 129,884

(1) Reclassification from members capital to net assets and net unrealized appreciation on investments upon election. Immediately prior to the initial public offering (IPO), the members of Compass Horizon Funding Company LLC (CHF) exchanged their membership interests for 2,645,124 shares of common stock of the Company and CHF became a wholly owned subsidiary of the Company. Concurrent with the IPO, Compass Horizon Partners, LP, one of CHF s owners, sold 1,340,000 shares.

(2) On October 28, 2010, the Company priced its IPO, offering 6,250,000 shares of its common stock at a public offering price of $16.00 per share. Of the 6,250,000 shares offered, 4,910,000 shares were sold by the Company and 1,340,000 shares were sold by Compass Horizon Partners, LP, one of CHF s owners. Total offering costs were $7,740.

(3) Net of excise tax.

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Post-IPO as a Business Development Company		Pre-IPO Prior to becoming a Business Development Company	
	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010	January 1, 2010 to October 28, 2010	Year Ended December 31, 2009
Cash flows from operating activities:				
Net increase in net assets resulting from operations	$ 10,996	$ 3,419	$ 11,314	$ 9,313
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:				
(Credit) provision for loan losses			(739)	274
Amortization of debt issuance costs	277	200	962	1,123
Net realized gain on investments	(6,599)	(611)	(69)	(138)
Net unrealized depreciation (appreciation) on investments	5,717	(1,449)	(1,481)	(892)
Purchase of investments	(97,673)	(19,316)	(65,357)	(49,936)
Principal payments received on investments	51,442	14,273	50,325	31,190
Proceeds from sale of investments	6,623	874	135	142
Stock received in settlement of fee income	(544)			
Changes in assets and liabilities:				
Net decrease (increase) in investments in money market funds	25,586	(29,122)	(895)	10,542
(Increase) decrease in interest receivable	(1,047)	675	(1,162)	(949)
Decrease in unearned loan income	(790)	(63)	(500)	(618)
(Increase) decrease in other assets	(40)	(151)	(246)	19
Increase (decrease) in other accrued expenses	707	220	74	(175)
(Decrease) increase in base management fee payable	(30)	157	21	22
Increase in incentive fee payable	1,352	414		
Net cash used in operating activities	(4,023)	(30,480)	(7,618)	(83)
Cash flows from financing activities:				
Proceeds from shares sold, net of offering costs		70,820		
Dividends and distributions paid	(8,307)	(1,097)	(18,000)	
Net (decrease) increase in revolving borrowings	(22,854)	(3,748)	27,007	493
Debt issuance costs	(1,207)			
Net cash (used in) provided by financing activities	(32,368)	65,975	9,007	493
Net (decrease) increase in cash	(36,391)	35,495	1,389	410
Cash:				
Beginning of period	37,689	2,194	805	395
End of period	$ 1,298	$ 37,689	$ 2,194	$ 805
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 2,330	$ 393	$ 2,655	$ 3,096

Supplemental non-cash investing and financing activities:								
Warrant investments received & recorded as unearned loan income	$	1,316	$	304	$	1,212	$	876
Receivables resulting from sale of investments	$	361	$		$		$	
Stock received in settlement of investments	$		$	209	$		$	198
Decrease in interest rate swap liability	$		$		$	(409)	$	(395)

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2011

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments							
Debt Investments Life Science 45.5%							
ACT Biotech Corporation	Biotechnology	Term Loan (1)	13.10%	12/1/2013	$ 913	$ 894	$ 734
		Term Loan (1)	13.01%	12/1/2013	913	906	906
		Term Loan (1)	13.01%	12/1/2013	1,410	1,378	1,378
Ambit Biosciences Corporation	Biotechnology	Term Loan (1)	12.25%	10/1/2013	4,574	4,530	4,530
Anacor Pharmaceuticals, Inc. (5)	Biotechnology	Term Loan (2)	9.41%	4/1/2015	3,333	3,240	3,240
		Term Loan (2)	9.67%	4/1/2015	2,667	2,608	2,608
GenturaDx, Inc.	Biotechnology	Term Loan (2)	11.25%	4/1/2014	1,824	1,800	1,800
N30 Pharmaceuticals, LLC	Biotechnology	Term Loan (1)	11.25%	9/1/2014	2,500	2,447	2,447
		Term Loan (2)	11.25%	7/1/2015	2,500	2,413	2,413
Pharmasset, Inc. (5)	Biotechnology	Term Loan (1)	12.50%	10/1/2012	1,111	1,107	1,107
Revance Therapeutics, Inc.	Biotechnology	Convertible Note (1)	8.00%	2/10/2013	62	66	66
Sunesis Pharmaceuticals, Inc.	Biotechnology	Term Loan (2)	8.95%	10/1/2015	2,000	1,943	1,943
Supernus Pharmaceuticals, Inc.	Biotechnology	Term Loan (2)	11.00%	8/1/2014	3,000	2,972	2,972
		Term Loan (2)	11.00%	7/1/2015	7,000	6,902	6,902
Tranzyme, Inc. (5)	Biotechnology	Term Loan (1)	10.75%	1/1/2014	4,104	4,088	4,088
Xcovery Holding Company, LLC	Biotechnology	Term Loan (2)	12.00%	10/1/2013	1,444	1,440	1,240
		Term Loan (2)	12.00%	7/1/2014	1,500	1,480	1,480
OraMetrix, Inc.	Medical Device	Term Loan (1)	11.50%	4/1/2014	4,340	4,282	4,282
PixelOptics, Inc.	Medical Device	Term Loan (2)	10.75%	11/1/2014	10,000	9,921	9,921
Tengion, Inc. (5)	Medical Device	Term Loan (2)	11.75%	1/1/2014	5,000	4,958	4,661
ViOptix, Inc.	Medical Device	Term Loan (1)	13.55%	11/1/2011	418	417	417
Total Debt Investments Life Science						59,792	59,135
Debt Investments Technology 35.7%							
OpenPeak, Inc.	Communications	Term Loan (1)	11.86%	12/1/2013	5,486	5,431	5,134
Starcite, Inc.	Consumer-related Technologies	Term Loan (1)	12.05%	9/1/2012	1,225	1,225	1,225
Tagged, Inc.	Consumer-related Technologies	Term Loan (1)	12.78%	5/1/2012	343	343	343
		Term Loan (1)	11.46%	8/1/2012	195	194	194
Xtera Communications, Inc.	Semiconductors	Term Loan	11.50%	12/1/2014	10,000	9,814	9,814
		Term Loan	11.50%	7/1/2015	2,000	1,951	1,951
Vette Corp.	Data Storage	Term Loan (1)	11.75%	7/1/2014	5,000	4,937	3,437
IntelePeer, Inc.	Networking	Term Loan (1)	12.43%	4/1/2012	139	139	139
		Term Loan (1)	12.33%	6/1/2012	214	214	214
		Term Loan (1)	12.33%	10/1/2012	573	570	570
Construction Software Technologies, Inc.	Software	Term Loan (2)	11.75%	12/1/2014	4,000	3,947	3,947
		Term Loan	11.75%	6/1/2014	2,000	1,972	1,972

Courion Corporation	Software	Term Loan (1)	11.45%	9/1/2014	7,000	6,904	6,904
Recondo Technology, Inc.	Software	Term Loan (2)	11.50%	4/1/2015	2,000	1,927	1,927

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2011

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Seapass Solutions, Inc.	Software	Term Loan (2)	11.75%	11/1/2014	5,000	4,933	4,933
StreamBase Systems, Inc.	Software	Term Loan (1)	12.51%	11/1/2013	2,816	2,787	2,787
		Term Loan (1)	12.50%	6/1/2014	896	884	884
Total Debt Investments Technology						48,172	46,375
Debt Investments Cleantech 21.7%							
Cereplast, Inc. (5)	Waste Recycling	Term Loan (1)	12.00%	4/1/2014	2,356	2,313	2,004
	Waste Recycling	Term Loan (1)	12.00%	6/1/2014	2,500	2,451	2,451
Aurora Algae, Inc.	Energy Efficiency	Term Loan (2)	10.50%	5/1/2015	2,500	2,476	2,476
Enphase Energy, Inc.	Energy Efficiency	Term Loan (1)	12.60%	10/1/2013	5,342	5,286	5,286
		Term Loan	10.75%	4/1/2015	2,000	1,972	1,972
		Term Loan	10.75%	4/1/2015	3,000	2,945	2,945
Satcon Technology Corporation (5)	Energy Efficiency	Term Loan (1)	12.58%	1/1/2014	7,882	7,740	7,740
Tigo Energy, Inc.	Energy Efficiency	Term Loan (1)	11.00%	8/1/2014	3,500	3,371	3,371
Total Debt Investments Cleantech						28,554	28,245
Debt Investments Healthcare information and services 30.4%							
BioScale, Inc.	Diagnostics	Term Loan (1)	12.00%	8/1/2012	962	960	960
		Term Loan (1)	11.51%	1/1/2014	5,000	4,953	4,953
Precision Therapeutics, Inc.	Diagnostics	Term Loan	10.25%	12/1/2014	7,000	6,958	6,958
Radisphere National Radiology Group, Inc.	Diagnostics	Term Loan (1)	12.75%	1/1/2014	8,546	8,476	8,476
Aperio Technologies, Inc.	Other Healthcare	Term Loan	9.64%	5/1/2015	5,000	4,937	4,937
Patientkeeper, Inc.	Other Healthcare	Term Loan	10.50%	12/1/2014	5,500	5,257	5,257
Singulex, Inc.	Other Healthcare	Term Loan (1)	11.00%	3/1/2014	2,736	2,709	2,709
		Term Loan (1)	11.00%	3/1/2014	1,824	1,806	1,806
Talyst, Inc.	Other Healthcare	Term Loan (1)	12.10%	12/1/2013	1,765	1,739	1,739
		Term Loan (1)	12.05%	12/1/2013	1,764	1,736	1,736
Total Debt Investment Healthcare information and services						39,531	39,531
Total Debt Investments						176,049	173,286
Warrant Investments							
Warrants Life Science 0.9%							
ACT Biotech Corporation	Biotechnology	Preferred Stock Warrants (1)				71	27
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants (1)				143	131
Anacor Pharmaceuticals, Inc. (5)	Biotechnology	Common Stock Warrants (2)				67	42
Anesiva, Inc. (5)	Biotechnology	Common Stock Warrants (1)				18	
GenturaDx, Inc.	Biotechnology	Preferred Stock Warrants (2)				63	49
N30 Pharmaceuticals, LLC	Biotechnology	Preferred Stock Warrants (1)(2)				122	249

Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants (1)	69

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2011

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Revance Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants (1)				224	496
Sunesis Pharmaceuticals, Inc.	Biotechnology	Common Stock Warrants (2)				9	9
Supernus Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants (2)				93	168
Tranzyme, Inc. (5)	Biotechnology	Common Stock Warrants (1)				1	
EnteroMedics, Inc. (5)	Medical Device	Common Stock Warrants (1)				347	
OraMetrix, Inc.	Medical Device	Preferred Stock Warrants (1)				78	1
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants (2)				96	34
Tengion, Inc. (5)	Medical Device	Common Stock Warrants (2)				62	
ViOptix, Inc.	Medical Device	Preferred Stock Warrants (1)				13	
Total Warrants Life Science						1,476	1,206
Warrants Technology 1.5%							
OpenPeak, Inc.	Communications	Preferred Stock Warrants (1)				89	
Everyday Health, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				69	103
SnagAJob.com, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				23	269
Tagged, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				17	81
Xtera Communications, Inc.	Semiconductors	Preferred Stock Warrants				206	202
Vette Corp.	Data Storage	Preferred Stock Warrants (1)				75	
XIOtech, Inc.	Data Storage	Preferred Stock Warrants (1)				22	72
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants (1)				16	24
Grab Networks, Inc.	Networking	Preferred Stock Warrants (1)				74	
IntelePeer, Inc.	Networking	Preferred Stock Warrants (1)				39	521
Motion Computing, Inc.	Networking	Preferred Stock Warrants (1)				7	305
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants (1)				7	
Clarabridge, Inc.	Software	Preferred Stock Warrants (1)				28	20
Construction Software Technologies, Inc.	Software	Preferred Stock Warrants (2)				45	35
Courion Corporation	Software	Preferred Stock Warrants (1)				85	81
DriveCam, Inc.	Software	Preferred Stock Warrants (1)				20	120
Netuitive, Inc.	Software	Preferred Stock Warrants (1)				27	18
Recondo Technology, Inc.	Software	Preferred Stock Warrants (2)				47	38
Seapass Solutions, Inc.	Software	Preferred Stock Warrants (2)				43	34
StreamBase Systems, Inc.	Software	Preferred Stock Warrants (1)				67	68
Total Warrants Technology						1,006	1,991
Warrants Cleantech 0.1%							
Cereplast, Inc. (5)	Waste Recycling	Common Stock Warrants (1)				112	
Enphase Energy, Inc.	Energy Efficiency	Preferred Stock Warrants (1)				175	110
Satcon Technology Corporation (5)	Energy Efficiency	Common Stock Warrants (1)				285	
Tigo Energy, Inc.	Energy Efficiency	Preferred Stock Warrants (1)				101	80
Total Warrants Cleantech						673	190
Warrants Healthcare information and services 0.5%							
BioScale, Inc.	Diagnostics	Preferred Stock Warrants (1)				54	51
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants				73	158

Radisphere National Radiology Group, Inc.	Diagnostics	Preferred Stock Warrants (1)	167	325

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2011

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Aperio Technologies, Inc.	Other Healthcare	Preferred Stock Warrants				34	27
Patientkeeper, Inc.	Other Healthcare	Preferred Stock Warrants				269	44
Singulex, Inc.	Other Healthcare	Preferred Stock Warrants (1)				39	25
Talyst, Inc.	Other Healthcare	Preferred Stock Warrants (1)				100	81
Total Warrants Healthcare information and services						736	711
Total Warrants						3,891	4,098
Equity 0.5%							
Insmed Incorporated (5)	Biotechnology	Common Stock (1)				227	101
Overture Networks Inc.	Communications	Preferred Stock (1)				482	526
Active Networks (5)	Consumer-related Technologies	Common Stock (1)				2	2
Total Equity						711	629
Total Portfolio Investment Assets						180,651	178,013
Short Term Investments Money Market Funds 10.4%							
Blackrock Liquid Fed Funds Institutional (Fund #30)					9,861	9,861	9,861
First American Prime Obligations Fund (Class D)					2,966	2,966	2,966
Fidelity Prime Money Market (Class I Fund #690)					691	691	691
Total Short Term Investments Money Market Funds						13,518	13,518
Total Investment Assets						$ 194,169	$ 191,531

(1) Has been pledged as collateral under the WestLB Facility.
(2) Has been pledged as collateral under the Wells Facility.
(3) All investments are less than 5% ownership of the class and ownership of the portfolio company.
(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company s debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment, we have provided the current interest rate in effect as of December 31, 2011.
(5) Portfolio company is a public company.
(6) For debt investments, represents principal balance less unearned income.
(7) Preferred and common stock warrants and equity interests are non-income producing.

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2010

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments							
Debt Investments Life Science 39.3%							
ACT Biotech Corporation	Biotechnology	Term Loan (1)	13.10%	6/1/2013	$ 971	$ 958	$ 958
		Term Loan (1)	13.01%	6/1/2013	971	957	957
		Term Loan (1)	13.01%	6/1/2013	1,500	1,478	1,478
Ambit Biosciences Corporation	Biotechnology	Term Loan (1)	12.25%	10/1/2013	6,000	5,898	5,898
GenturaDx, Inc.	Biotechnology	Term Loan	11.25%	4/1/2014	2,000	1,917	1,917
Novalar Pharmaceuticals, Inc.	Biotechnology	Term Loan (1)	12.00%	6/1/2012	3,177	3,146	3,146
Pharmasset, Inc. (4)	Biotechnology	Term Loan (1)	12.00%	8/1/2011	869	868	868
		Term Loan (1)	12.00%	1/1/2012	1,454	1,448	1,448
		Term Loan (1)	12.50%	10/1/2012	2,440	2,422	2,422
Revance Therapeutics, Inc.	Biotechnology	Term Loan (1)	10.50%	12/1/2011	1,464	1,445	1,445
		Term Loan (1)	10.50%	3/1/2013	3,535	3,478	3,478
Tranzyme, Inc.	Biotechnology	Term Loan (1)	10.75%	1/1/2014	5,000	4,966	4,966
Xcovery Holding Company, LLC	Biotechnology	Term Loan	12.00%	10/1/2013	1,500	1,490	1,490
Concentric Medical, Inc.	Medical Device	Term Loan (1)	12.04%	9/1/2013	7,000	6,887	6,887
OraMetrix, Inc.	Medical Device	Term Loan (1)	11.50%	4/1/2014	5,000	4,887	4,887
PixelOptics, Inc.	Medical Device	Term Loan (1)	13.00%	1/1/2013	4,275	4,221	4,221
Tengion, Inc. (4)	Medical Device	Term Loan (1)	12.26%	9/1/2011	2,743	2,740	2,740
ViOptix, Inc.	Medical Device	Term Loan (1)	13.55%	11/1/2011	889	885	837
Total Debt Investments Life Science						50,091	50,043
Debt Investments Technology 24.4%							
Hatteras Networks, Inc.	Communications	Term Loan (1)	12.40%	2/1/2011	1,041	1,042	1,042
OpenPeak, Inc.	Communications	Term Loan (1)	11.86%	12/1/2013	6,667	6,549	6,549
Starcite, Inc.	Consumer-related Technologies	Term Loan (1)	12.05%	9/1/12	2,695	2,679	2,679
Tagged, Inc.	Consumer-related Technologies	Term Loan (1)	12.78%	5/1/2012	1,288	1,284	1,284
		Term Loan (1)	11.46%	8/1/2012	499	498	498
Vette Corp.	Data Storage	Term Loan (1)	11.75%	7/1/2014	5,000	4,916	4,916
XIOtech, Inc.	Data Storage	Term Loan (1)	14.00%	5/1/2012	3,002	2,997	2,997
IntelePeer, Inc.	Networking	Term Loan (1)	12.43%	4/1/2012	522	515	515
		Term Loan (1)	12.33%	6/1/2012	602	598	598
		Term Loan (1)	12.33%	10/1/2012	1,183	1,171	1,171
Clarabridge, Inc.	Software	Term Loan (1)	12.50%	1/1/2013	1,182	1,166	1,166
		Term Loan (1)	12.50%	6/1/2013	692	688	688
		Term Loan (1)	12.50%	5/1/2014	750	743	743
Courion Corporation	Software	Term Loan (1)	11.45%	12/1/2011	1,086	1,083	1,083
Netuitive, Inc.	Software	Term Loan (1)	12.90%	4/1/2011	153	152	152
StreamBase Systems, Inc.	Software	Term Loan (1)	12.51%	11/1/2013	4,000	3,934	3,934
		Term Loan (1)	12.50%	6/1/2014	1,000	977	977
Total Debt Investments Technology						30,992	30,992

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2010

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments Cleantech 14.9%							
Cereplast, Inc. (4)	Waste Recycling	Term Loan (1)	12.00%	4/1/2014	2,500	2,363	2,363
Enphase Energy, Inc.	Energy Efficiency	Term Loan (1)	12.60%	10/1/2013	7,000	6,869	6,869
Satcon Technology Corporation (4)	Energy Efficiency	Term Loan (1)	12.58%	1/1/2014	10,000	9,701	9,701
Total Debt Investments Cleantech						18,933	18,933
Debt Investments Healthcare information and services 23.8%							
BioScale, Inc.	Diagnostics	Term Loan (1)	12.00%	8/1/2012	2,462	2,454	2,454
		Term Loan (1)	11.51%	1/1/2014	5,000	4,908	4,908
Precision Therapeutics, Inc.	Diagnostics	Term Loan (1)	13.00%	3/1/2012	3,275	3,255	3,255
Radisphere National Radiology Group, Inc.	Diagnostics	Term Loan (1)	12.75%	1/1/2014	10,000	9,855	9,855
Singulex, Inc.	Other Healthcare	Term Loan (1)	11.00%	3/1/2014	3,000	2,949	2,949
		Term Loan (1)	11.00%	3/1/2014	2,000	1,964	1,964
Talyst, Inc.	Other Healthcare	Term Loan (1)	12.10%	12/1/2013	2,500	2,443	2,443
		Term Loan (1)	12.05%	12/1/2013	2,500	2,438	2,438
Total Debt Investment Healthcare information and services						30,266	30,266
Total Debt Investments						130,282	130,234
Warrant Investments							
Warrants Life Science 2.1%							
ACT Biotech Corporation	Biotechnology	Preferred Stock Warrants (1)				23	23
Advanced BioHealing, Inc.	Biotechnology	Preferred Stock Warrants (1)				9	1,209
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants (1)				143	147
Anesiva, Inc. (4)	Biotechnology	Common Stock Warrants (1)				18	
GenturaDx, Inc.	Biotechnology	Preferred Stock Warrants				63	63
Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants (1)				69	
Pharmasset, Inc. (4)	Biotechnology	Common Stock Warrants (1)				126	789
Revance Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants (1)				224	121
Tranzyme, Inc.	Biotechnology	Common Stock Warrants (1)				1	1
Calypso Medical Technologies, Inc.	Medical Device	Preferred Stock Warrants (1)				17	76

Concentric Medical, Inc.	Medical Device	Preferred Stock Warrants (1)	85	89
EnteroMedics, Inc. (4)	Medical Device	Common Stock Warrants (1)	347	18
OraMetrix, Inc.	Medical Device	Preferred Stock Warrants (1)	78	83
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants (1)	61	61
Tengion, Inc. (4)	Medical Device	Common Stock Warrants (1)	15	
ViOptix, Inc.	Medical Device	Preferred Stock Warrants (1)	13	
Total Warrants Life Science			1,292	2,680

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2010

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Warrants Technology 1.2%							
Hatteras Networks, Inc.	Communications	Preferred Stock Warrants (1)					35
OpenPeak, Inc.	Communications	Preferred Stock Warrants (1)				89	92
Everyday Health, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				69	137
SnagAJob.com, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				23	39
Starcite, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				24	28
Tagged, Inc.	Consumer-related Technologies	Preferred Stock Warrants (1)				17	27
Vette Corp.	Data Storage	Preferred Stock Warrants (1)				75	49
XIOtech, Inc.	Data Storage	Preferred Stock Warrants (1)				22	81
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants (1)				16	38
Grab Networks, Inc.	Networking	Preferred Stock Warrants (1)				74	
IntelePeer, Inc.	Networking	Preferred Stock Warrants (1)				39	544
Motion Computing, Inc.	Networking	Preferred Stock Warrants (1)				7	292
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants (1)				7	
Clarabridge, Inc.	Software	Preferred Stock Warrants (1)				28	25
Courion Corporation	Software	Preferred Stock Warrants (1)				7	17
DriveCam, Inc.	Software	Preferred Stock Warrants (1)				20	8
Netuitive, Inc.	Software	Preferred Stock Warrants (1)				27	22
Plateau Systems, Ltd	Software	Preferred Stock Warrants (1)				7	35
StreamBase Systems, Inc.	Software	Preferred Stock Warrants (1)				67	69
Total Warrants Technology						618	1,538
Warrants Cleantech 1.0%							
Cereplast, Inc. (4)	Waste Recycling	Common Stock Warrants (1)				112	112
Enphase Energy, Inc.	Energy Efficiency	Preferred Stock Warrants (1)				122	122
Satcon Technology Corporation (4)	Energy Efficiency	Common Stock Warrants (1)				286	1,057

Total Warrants Cleantech			520	1,291
Warrants Healthcare information and services 0.6%				
BioScale, Inc.	Diagnostics	Preferred Stock Warrants (1)	55	49
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants (1)	52	139
Radisphere National Radiology Group, Inc.	Diagnostics	Preferred Stock Warrants (1)	167	384
Singulex, Inc.	Other Healthcare	Preferred Stock Warrants (1)	39	39
Talyst, Inc.	Other Healthcare	Preferred Stock Warrants (1)	100	105
Total Warrants Healthcare information and services			413	716
Total Warrants			2,843	6,225
Equity 0.3%				
AFS Technologies, Inc.	Software	Common Stock (1)	142	142
Insmed Incorporated (4)	Biotechnology	Common Stock (1)	227	209
Total Equity			369	351

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

December 31, 2010

(In thousands)

Portfolio Company	Sector	Type of Investment (3)(7)	Interest Rate (4)	Maturity	Principal Amount	Cost of Investments (6)	Fair Value
Total Portfolio Investment Assets						133,494	136,810
Short Term Investments Money Market Funds 30.7%							
Blackrock Liquid Fed Funds Institutional (Fund #30)						3,837	3,837
BOFA Treasury Cap Reserves (Fund #4232)						7,500	7,500
Dreyfus Tax Exempt Cash Management Trust						5,000	5,000
First American Prime Obligations Fund (Class D)						7,765	7,765
Fidelity Prime Money Market (Class I Fund #690)						15,002	15,002
Total Short Term Investments Money Market Funds						39,104	39,104
Total Investment Assets						$ 172,598	$ 175,914
Investment Liabilities							
Derivative Agreement							
WestLB, AG	Interest rate swap pay fixed/receive floating, Notional Amount $10 million		3.58%	10/14/11		$	$ 258
Total Investment Liabilities						$	$ 258

(1) Has been pledged as collateral under the WestLB Facility.
(2) All investments are less than 5% ownership of the class and ownership of the portfolio company.
(3) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company s debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment such as commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment we have provided the current interest rate in effect as of December 31, 2010.
(4) Portfolio company is a public company.
(5) For debt investments, represents principal balance less unearned income.
(6) Preferred and common stock warrants and equity interests are non-income producing.

See Notes to Consolidated Financial Statements

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Note 1. Organization

Horizon Technology Finance Corporation (the Company) was organized as a Delaware corporation on March 16, 2010 and is an externally managed non-diversified closed end investment company. The Company has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (1940 Act). In addition, for tax purposes, the Company has elected to be treated as a regulated investment company (RIC) as defined in Subtitle A, Chapter 1, under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). As a RIC, the Company will not be subject to federal income tax on the portion of its taxable income and capital gains the Company distributes to the shareholders. The Company primarily makes secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries.

On October 28, 2010, the Company completed an initial public offering (IPO) and its common stock trades on the NASDAQ Global Select Market under the symbol HRZN. The Company was formed to continue and expand the business of Compass Horizon Funding Company LLC (CHF), a Delaware limited liability company, which commenced operations in March 2008 and became the Company s wholly owned subsidiary with the completion of the IPO.

Horizon Credit I LLC (Credit I) was formed as a Delaware limited liability company on January 23, 2008, with CHF as the sole equity member. Credit I is a special purpose bankruptcy remote entity and is reported herein as a wholly owned subsidiary of the Company. Credit I is a separate legal entity from the Company and CHF and the assets conveyed to Credit I are not available to creditors of the Company or any other entity other than Credit I s lenders.

Horizon Credit II LLC (Credit II) was formed as a Delaware limited liability company on June 28, 2011, with the Company as the sole equity member. Credit II is a special purpose bankruptcy remote entity and is a separate legal entity from the Company. Any assets conveyed to Credit II are not available to creditors of the Company or any other entity other than Credit II s lenders.

Longview SBIC GP LLC and Longview SBIC LP (collectively, Horizon SBIC) were formed as a Delaware limited liability company and Delaware limited partnership, respectively on February 11, 2011. Horizon SBIC are wholly owned subsidiaries of the Company and were formed in anticipation of obtaining a license to operate a small business investment company (SBIC) from the U. S. Small Business Administration (SBA). There has been no activity in Horizon SBIC since its inception.

The Company s investment strategy is to maximize the investment portfolio s return by generating current income from the loans made and the capital appreciation from the warrants received when making such loans. The Company has entered into an investment management agreement (the Investment Management Agreement) with Horizon Technology Finance Management LLC (HTFM or the Advisor), under which the Advisor will manage the day-to-day operations of, and provide investment advisory services to, the Company.

Note 2. Basis of Presentation and Significant Accounting Policies

Election to become a Business Development Company and Basis of Financial Statement Presentation

The results of operations for the year ended December 31, 2011 reflect the Company s results as a BDC under the 1940 Act, whereas the results of operations for 2010 are divided into two periods. The period from January 1, 2010 through October 28, 2010, reflects the Company s results prior to operating as a BDC under the 1940 Act. The period from October 29, 2010 through December 31, 2010, reflects the Company s results as a BDC under the 1940 Act. Accounting principles used in the preparation of the consolidated financial statements beginning October 29, 2010 are different than those of prior periods and, therefore, the financial position and results of operations of these periods are not directly comparable. The primary differences in accounting principles relate to the carrying value of loan investments and classification of hedging activity see corresponding sections below for further discussion.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Cumulative Effect of Business Development Company Election

Effect of recording loans at fair value	$ (348)
Elimination of allowance for loan losses	1,185
Total cumulative effect of BDC election	$ 837

In addition, the balance of the unrealized loss on interest rate swaps included in accumulated other comprehensive loss at October 28, 2010 of $359 was reclassified to Paid-In Capital in Excess of Par and subsequent to October 28, 2010, changes in the fair value of the interest rate swaps are recorded in operations.

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the requirements for reporting on Form 10-K and Article 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

As permitted under Regulation S-X and the AICPA Audit and Accounting Guide for Investment Companies, the Company will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company s subsidiaries in its consolidated financial statements.

Use of Estimates

In preparing the consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheet and income and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the valuation of debt, warrant and equity investments.

Fair Value

The Company applies fair value to substantially all of its investments in accordance with relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. The Company has categorized its investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as more fully described in Note 5. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company s own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRs, (ASU 2011-04). ASU 2011-04 converges the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Company s financial statements.

See Note 5 for additional information regarding fair value.

Segments

The Company has determined that it has a single reporting segment and operating unit structure. The Company lends to and invests in portfolio companies in various technology, life science, healthcare information and services and cleantech industries. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment.

Investments

Investments are recorded at fair value. The Company s Board determines the fair value of its portfolio investments. Prior to the Company s election to become a BDC, loan investments were stated at current unpaid principal balances adjusted for the allowance for loan losses, unearned income and any unamortized deferred fees or costs.

The Company has the intent to hold its loans for the foreseeable future or until maturity or payoff.

Interest on loan investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. When a loan becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid. No loans were on non-accrual status as of December 31, 2011 and 2010.

The Company receives a variety of fees from borrowers in the ordinary course of conducting its business, including advisory fees, commitment fees, amendment fees, non-utilization fees and prepayment fees (collectively, the Fees). In a limited number of cases, the Company may also receive a non-refundable deposit earned upon the termination of a transaction. Loan origination fees, net of certain direct origination costs, are deferred, and along with unearned income, are amortized as a level yield adjustment over the respective term of the loan. Fees for counterparty loan commitments with multiple loans are allocated to each loan based upon each loan s relative fair value. When a loan is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the loan is returned to accrual status.

Certain loan agreements also require the borrower to make an end-of-term payment that is accrued into income over the life of the loan to the extent such amounts are expected to be collected. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay all principal and interest due.

In connection with substantially all lending arrangements, the Company receives warrants to purchase shares of stock from the borrower. The warrants are recorded as assets at estimated fair value on the grant date using the

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Black-Scholes valuation model. The warrants are considered loan fees and are also recorded as unearned loan income on the grant date. The unearned income is recognized as interest income over the contractual life of the related loan in accordance with the Company s income recognition policy. Subsequent to loan origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on investments. Gains from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains on investments.

Allowance for Loan Losses

Prior to the Company s election to become a BDC, the allowance for loan losses represented management s estimate of probable loan losses inherent in the loan portfolio as of the balance sheet date. The estimation of the allowance was based on a variety of factors, including past loan loss experience, the current credit profile of the Company s borrowers, adverse situations that had occurred that may affect individual borrowers ability to repay, the estimated value of underlying collateral and general economic conditions. The loan portfolio is comprised of large balance loans that are evaluated individually for impairment and are risk-rated based upon a borrower s individual situation, current economic conditions, collateral and industry-specific information that management believes is relevant in determining the potential occurrence of a loss event and in measuring impairment. The allowance for loan losses was sensitive to the risk rating assigned to each of the loans and to corresponding qualitative loss factors that the Company used to estimate the allowance. Those factors were applied to the outstanding loan balances in estimating the allowance for loan losses. If necessary, based on performance factors related to specific loans, specific allowances for loan losses were established for individual impaired loans. Increases or decreases to the allowance for loan losses were charged or credited to current period earnings through the provision (credit) for loan losses. Amounts determined to be uncollectible were charged against the allowance for loan losses, while amounts recovered on previously charged-off loans increased the allowance for loan losses.

A loan was considered impaired when, based on current information and events, it was probable that the Company was unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral, if the loan was collateral dependent.

Impaired loans also included loans modified in troubled debt restructurings where concessions had been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Debt Issuance Costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and are recognized as assets and are amortized as interest expense over the term of the related credit facility. The unamortized balance of debt issuance costs as of December 31, 2011 and 2010, included in other assets, was $1,124 and $194, respectively. The accumulated amortization balances as of December 31, 2011 and 2010 was $84 and $3,292, respectively. The amortization expense for the year ended

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

December 31, 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010 and the year ended December 31, 2009 relating to debt issuance costs was $277, $200, $962 and $1,123, respectively.

Income Taxes

The Company elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

The Company evaluates tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company s policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at December 31, 2011 and 2010. The 2010, 2009 and 2008 tax years remain subject to examination by U.S. federal and state tax authorities.

Prior to the Company s election to become a BDC, the Company was a limited liability company treated as a partnership for U.S. federal income tax purposes and, as a result, all items of income and expense were passed through to, and are generally reportable on, the tax returns of the respective members of the limited liability company. Therefore, no federal or state income tax provision has been recorded for the period from January 1, 2010 to October 28, 2010 and the years ended December 31, 2009 and 2008.

Dividends

Dividends and distributions to common stockholders are recorded on the declaration date. The amount to be paid out as a dividend is determined by the Board. Net realized capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment.

The Company has adopted a dividend reinvestment plan that provides for reinvestment of cash distributions and other distributions on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board authorizes, and the Company declares, a cash dividend, then stockholders who have not opted out of the dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of the Company s common stock, rather than receiving the cash dividend. The Company may use newly issued shares to implement the plan (especially if the Company s shares are trading at a premium to net asset value), or the Company may purchase shares in the open market in connection with the obligations under the plan.

Interest Rate Swaps and Hedging Activities

The Company entered into interest rate swap agreements to manage interest rate risk. The Company does not hold or issue interest rate swap agreements or other derivative financial instruments for speculative purposes.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Subsequent to the Company s election to become a BDC, the interest rate swaps are recorded at fair value with changes in fair value reflected in net unrealized appreciation or depreciation of investments during the reporting period. The Company records the accrual of periodic interest settlements of interest rate swap agreements in net unrealized appreciation or depreciation of investments and subsequently records the amount as a net realized gain or loss on investments on the interest settlement date. Cash payments received or paid for the termination of an interest rate swap agreement would be recorded as a realized gain or loss upon termination in the consolidated statements of operations.

Prior to the Company s election to become a BDC, the Company recognized its interest rate swap derivatives on the balance sheet as either an asset or liability measured at fair value. Changes in the derivatives fair value were recognized in income unless specific hedge accounting criteria were met. Special accounting for qualifying hedges allows a derivative s gains and losses to offset related results on the hedged item in the statement of operations and required the Company to formally document, designate and assess effectiveness of transactions that receive hedge accounting. Derivatives that are not hedges are adjusted to fair value through earnings. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value, if any, would have been recognized as interest expense.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Reclassifications

Certain 2010 amounts were reclassified to conform with the 2011 financial statement presentation. Such reclassifications had no impact on the 2010 and 2009 Statements of Operations.

Note 3. Related Party Transactions

Investment Management Agreement

On October 28, 2010, the Company entered into the Investment Management Agreement with the Advisor, under which the Advisor manages the day-to-day operations of, and provides investment advisory services to the Company. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company s investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company s prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

The Advisor s services under the Investment Management Agreement are not exclusive to the Company, and the Advisor is free to furnish similar services to other entities so long as its services to the Company are not impaired. The Advisor is a registered investment adviser with the SEC. The Advisor receives fees for providing services, consisting of two components, a base management fee and an incentive fee.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of the Company s gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term gross assets includes any assets acquired with the proceeds of leverage. The base management fee expense was $4,192 and $668 for the year ended December 31, 2011 and the period from October 29, 2010 through December 31, 2010, respectively. The accrued management fee as of December 31, 2011 and 2010 was $330 and $360, respectively.

The incentive fee has two parts, as follows:

The first part is calculated and payable quarterly in arrears based on the Company s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. The incentive fee with respect to the pre-incentive fee net income is 20.00% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 1.75% (which is 7.00% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, the Advisor receives no incentive fee until the net investment income equals the hurdle rate of 1.75%, but then receives, as a catch-up, 100.00% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.1875% in any calendar quarter, the Advisor will receive 20.00% of the pre-incentive fee net investment income as if a hurdle rate did not apply.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly minimum hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to realized and unrealized capital losses. The Company s net investment income used to calculate this part of the incentive fee is also included in the amount of the Company s gross assets used to calculate the 2.00% base management fee. These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date), and equals 20.00% of the Company s aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee.

The total performance based incentive fee expense was $3,013 and $414 for the year ended December 31, 2011 and the period from October 29, 2010 through December 31, 2010, respectively. The incentive fee payable

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

as of December 31, 2011 and 2010 was $1,766 and $414, respectively. The incentive fee payable as of December 31, 2011 includes $1,409 for part one and $356 for part two of the incentive fee, respectively.

Prior to the Company s election to become a BDC, the Advisor served as the Advisor for CHF under a Management and Services Agreement which provided for management fees to be paid monthly at a rate of 2.00% per annum of the gross investment assets of CHF. Total management fee expense under this agreement was $2,019 for the period from January 1, 2010 to October 28, 2010, and $2,202 for the year ended December 31, 2009.

Administration Agreement

The Company entered into an Administration Agreement with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company will reimburse the Advisor for the Company s allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company s allocable portion of the costs of compensation and related expenses of the Company s chief compliance officer and chief financial officer and their respective staffs. For the year ended December 31, 2011 and for the period from October 29, 2010 to December 31, 2010, $1,199 and $88 was charged to operations under this agreement, respectively.

Note 4. Investments

Investments, all of which are with portfolio companies in the United States, consisted of the following:

	December 31, 2011		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 13,518	$ 13,518	$ 39,104	$ 39,104
Non-affiliate investments				
Debt	176,049	173,286	130,282	130,234
Warrants	3,891	4,098	2,843	6,225
Equity	711	629	369	351
Total non-affiliate investments	$ 180,651	$ 178,013	$ 133,494	$ 136,810

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The following table shows the Company s portfolio investments by industry sector:

	December 31, 2011		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Life Science				
Biotechnology	$ 41,322	$ 41,127	$ 31,138	$ 31,614
Medical Device	20,173	19,315	20,472	21,317
Technology				
Consumer-related Technologies	1,871	2,217	4,592	4,692
Networking	1,043	1,749	2,405	3,120
Software	23,715	23,768	9,042	9,062
Data Storage	5,051	3,533	8,010	8,042
Internet and Media			16	38
Communications	6,003	5,660	7,681	7,719
Semiconductors	11,979	11,967	7	
Healthcare Information and Services				
Diagnostics	21,640	21,881	20,745	21,044
Other Healthcare Related Services	18,627	18,361	9,934	9,938
Cleantech				
Energy Efficiency	24,351	23,980	16,977	17,749
Waste Recycling	4,876	4,455	2,475	2,475
Total non-affiliate investments	$ 180,651	$ 178,013	$ 133,494	$ 136,810

Note 5. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The Company s fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Cash and interest receivable: The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis.

Money Market Funds: The carrying amounts are valued at their net asset value as of the close of business on the day of valuation. These financial instruments are recorded at fair value on a recurring basis and are categorized as Level 2 within the fair value hierarchy described above as these funds can be redeemed daily.

Debt Investments: For variable rate loans which re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolio. The fair value of fixed rate loans is estimated by discounting the expected future cash flows using the year end rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolio. Therefore, the Company has categorized loan investments as Level 3 within the fair value hierarchy described above. Upon the Company s election to become a BDC, these assets are recorded at fair value on a recurring basis.

Under certain circumstances the Company may use an alternative technique to value debt investments that better reflects its fair value such as the use of multiple probability weighted cash flow models when the expected future cash flows contain elements of variability. Prior to the year ended December 31, 2011, there were no debt investments that required valuation under alternative techniques.

Warrant Investments: The Company values its warrants using the Black-Scholes valuation model incorporating the following material assumptions:

Underlying asset value of the issuer is estimated based on information available, including any information regarding the most recent rounds of borrower funding.

Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on guideline publicly traded companies within indices similar in nature to the underlying company issuing the warrant. A total of seven such indices were used. The

weighted average volatility assumptions used for the warrant valuation at December 31, 2011, 2010 and 2009 were 24%, 30% and 29%, respectively.

The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Other adjustments, including a marketability discount on private company warrants, are estimated based on management s judgment about the general industry environment. The marketability discount used for the warrant valuation at December 31, 2011, 2010 and 2009 was 20%.

Under certain circumstances the Company may use an alternative technique to value warrants that better reflects the warrants fair value, such as an expected settlement of a warrant in the near term or a model that incorporates a put feature associated with the warrant. The fair value may be determined based on the expected proceeds to be received from such settlement or based on the net present value of the expected proceeds from the put option. Prior to the year ended December 31, 2011, there were no warrants that required valuation under alternative techniques.

The fair value of the Company s warrants held in publicly traded companies is determined based on inputs that are readily available in public markets or can be derived from information available in public markets. Therefore, the Company has categorized these warrants as Level 2 within the fair value hierarchy described in Note 2. The fair value of the Company s warrants held in private companies is determined using both observable and unobservable inputs and represents management s best estimate of what market participants would use in pricing the warrants at the measurement date. Therefore, the Company has categorized these warrants as Level 3 within the fair value hierarchy described above. These assets are recorded at fair value on a recurring basis.

Equity Investments: The fair value of an equity investment in a privately held company is initially the face value of the amount invested. The Company adjusts the fair value of equity investments in private companies upon the completion of a new third-party round of equity financing. The Company may make adjustments to fair value, absent a new equity financing event, based upon positive or negative changes in a portfolio company s financial or operational performance. The fair value of an equity investment in a publicly traded company is based upon the closing public share price on the date of measurement. These assets are recorded at fair value on a recurring basis.

Borrowings: The carrying amount of borrowings under the revolving credit facility approximates its fair value due to the short duration and variable interest rate of this debt. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. These liabilities are not recorded at fair value on a recurring basis.

Interest Rate Swap Derivatives: The fair value of the Company s interest rate swap derivative instruments is estimated as the amount the Company would pay to terminate its swaps at the balance sheet date, taking into account current interest rates and the creditworthiness of the counterparty for assets and the creditworthiness of the Company for liabilities. The Company has categorized these derivative instruments as Level 2 within the fair value hierarchy described above. These instruments are recorded at fair value on a recurring basis.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standings. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The following tables detail the assets and liabilities that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2011 and 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 13,518	$	$ 13,518	$
Debt investments	$ 173,286	$	$	$ 173,286
Warrant investments	$ 4,098	$	$ 50	$ 4,048
Equity investments	$ 629	$ 103	$	$ 526

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 39,104	$	$ 39,104	$
Debt investments	$ 130,234	$	$	$ 130,234
Warrant investments	$ 6,225	$	$ 1,976	$ 4,249
Equity investments	$ 351	$ 209	$	$ 142
Interest rate swap liability	$ 258	$	$ 258	$

The following tables show a reconciliation of the beginning and ending balances for Level 3 assets:

	Post-IPO as a BDC December 31, 2011			
	Debt Investments	Warrant Investments	Equity Investments	Total
Level 3 assets, beginning of period	$ 130,234	$ 4,249	$ 142	$ 134,625
Purchase of investments	97,673			97,673
Warrants and equity received and classified as Level 3		1,193	482	1,675
Principal payments received on investments	(51,442)			(51,442)
Proceeds from sale of investments		(4,846)		(4,846)
Net realized gain on investments		4,729		4,729
Unrealized (depreciation) appreciation included in earnings	(2,715)	(1,277)	44	(3,948)

Other	(464)		(142)	(606)
Level 3 assets, end of period	$ 173,286	$ 4,048	$ 526	$ 177,860

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

	October 29, 2010 to December 31, 2010			
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Total**
Level 3 assets, beginning of period	$	$ 3,715	$	$ 3,715
Transfers into Level 3 upon election to BDC	125,741		142	125,883
Purchase of investments	19,316			19,316
Warrants and equity received and classified as Level 3		192		192
Principal payments received on investments	(14,273)			(14,273)
Unrealized (depreciation) appreciation included in earnings	(48)	528		480
Other	(502)	(186)		(688)
Level 3 assets, end of period	$ 130,234	$ 4,249	$ 142	$ 134,625

	Pre-IPO Prior to becoming a BDC	
	January 1, 2010 through October 28, 2010	**Year Ended December 31, 2009**
Warrants		
Level 3 assets, beginning of period	$ 2,010	$ 557
Warrants received and classified as Level 3	927	535
Unrealized appreciation included in earnings	780	918
Other	(2)	
Level 3 assets, end of period	$ 3,715	$ 2,010

The total change in unrealized appreciation (depreciation) included in the statement of operations attributable to Level 3 investments still held at December 31, 2011 includes $2,715 depreciation on loans, $79 appreciation on warrants and $44 appreciation on equity investments.

The Company discloses fair value information about financial instruments, whether or not recognized in the statement of assets and liabilities, for which it is practicable to estimate that value. Certain financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The fair value amounts for 2011 and 2010 have been measured as of the reporting date, and have not been reevaluated or updated for purposes of these financial statements subsequent to that date. As such, the fair values of these financial instruments subsequent to the reporting date may be different than amounts reported at year-end.

As of December 31, 2011 and 2010, the recorded book balances equaled fair values of all the Company s financial instruments.

Off-balance-sheet instruments

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company s financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and by investing in securities with terms that mitigate the Company s overall interest rate risk.

Note 6. Borrowings

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of December 31, 2011, the asset coverage for borrowed amounts was 291%.

The Company entered into a revolving credit facility (the WestLB Facility) with WestLB, AG, New York Branch (WestLB) effective March 4, 2008. The WestLB Facility had a three year initial revolving term and on March 3, 2011, the revolving term ended. The outstanding principal balance of the WestLB Facility is amortizing based on loan investment payments received through March 3, 2015. The interest rate is based upon the one-month LIBOR (0.30% as of December 31, 2011 and 0.26% as of December 31, 2010) plus a spread of 2.50%. The rates at December 31, 2011 and 2010 were 2.80% and 2.76%, respectively, and the average rates for the years ended December 31, 2011 and 2010 were 2.74% and 2.78%, respectively.

The WestLB Facility is collateralized by all loans and warrants held by Credit I and permits an advance rate of up to 75% of eligible loans held by Credit I. The WestLB Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the WestLB Facility to certain criteria for qualified loans, and includes portfolio company concentration limits as defined in the related loan agreement. The average amount of borrowings was approximately $71,400 and $77,000 for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company had borrowings outstanding of $46,722 and $87,425, respectively, on the WestLB Facility.

The Company entered into a revolving credit facility (the Wells Facility) with Wells Fargo Capital Finance, LLC (Wells) effective July 14, 2011. The Wells Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the current $75 million commitment provided by Wells. The Wells Facility has a three year revolving term followed by a three year amortization period and matures on July 14, 2017. The interest rate is based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. The rate at December 31, 2011 was 5.0%, and the average rate for the three months ended December 31, 2011 was 5.0%.

The Wells Facility is collateralized by all loans and warrants held by Credit II and permits an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Wells Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The average amount of borrowings was approximately $6,700 for the year ended December 31, 2011. At December 31, 2011, the Company had borrowings outstanding of $17,849 on the Wells Facility.

Note 7. Federal Income Tax

The Company elected to be treated as a RIC under Subchapter M of the Code and to distribute substantially all of its respective net taxable income. Accordingly, no provision for federal income tax has been recorded in the financial statements. Taxable income differs from net increase in net assets resulting from operations primarily due to unrealized appreciation on investments as investment gains and losses are not included in taxable income until they are realized.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The following reconciles net increase in net assets resulting from operations to taxable income:

	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010
Net increase in net assets resulting from operations	$ 10,996	$ 3,419
Net unrealized depreciation (appreciation) on investments	5,702	(1,449)
Other temporary differences	526	143
Taxable income before deductions for distributions	$ 17,224	$ 2,113

The tax character of distributions paid are as follows:

	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010
Ordinary income	$ 5,403	$ 1,502
Long-term capital gains	3,580	160
Total	$ 8,983	$ 1,662

The components of undistributed ordinary income earnings on a tax basis were as follows:

	As of December 31, 2011	As of December 31, 2010
Undistributed ordinary income	$ 5,505	$
Undistributed long-term gain	3,187	451
Unrealized (depreciation) appreciation	(5,702)	1,449
Total	$ 2,990	$ 1,900

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. For the year ended December 31, 2011, the Company elected to pay an excise tax of approximately $0.3 million on approximately $8.5 million of undistributed earnings from operations and capital gains that it intends to distribute in 2012.

Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statement of assets and liabilities. The Company attempts to limit its credit risk by conducting extensive due diligence and obtaining collateral where appropriate.

The balance of unfunded commitments to extend credit was approximately $22,500 and $26,500 as of December 31, 2011 and 2010, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Note 9. Concentrations of Credit Risk

The Company s loan portfolio consists primarily of loans to development-stage companies at various stages of development in the technology, life science, healthcare information and services and cleantech industries. Many of these companies may have relatively limited operating histories and also may experience variation in operating results. Many of these companies conduct business in regulated industries and could be affected by changes in government regulations. Most of the Company s borrowers will need additional capital to satisfy their continuing working capital needs and other requirements, and in many instances, to service the interest and principal payments on the loans.

The largest loans may vary from year to year as new loans are recorded and repaid. The Company s five largest loans represented approximately 28% and 31% of total loans outstanding as of December 31, 2011 and 2010, respectively. No single loan represents more than 10% of the total loans as of December 31, 2011 and 2010. Loan income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 21%, 22% and 23% of total loan interest and fee income for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 10: Interest Rate Swaps and Hedging Activities

On October 14, 2008, the Company entered into two interest rate swap agreements (collectively, the Swap) with WestLB, fixing the rate of $10 million at 3.58% and $15 million at 3.20% on the first advances of a like amount of variable rate Credit Facility borrowings. The $15 million interest rate swap expired in October 2010 and the $10 million expired in October 2011. The objective of the Swap was to hedge the risk of changes in cash flows associated with the future interest payments on the first $25 million of the variable rate Credit Facility debt with a combined notional amount of $25 million.

During the year ended December 31, 2011, approximately $273 of net unrealized appreciation from the Swap was recorded in the consolidated statement of operations, and approximately $283 of net realized losses from the Swap was recorded in the consolidated statement of operations.

During the period from October 29, 2010 to December 31, 2010, approximately $85 of net unrealized appreciation from the Swap was recorded in the statement of operations, and approximately $42 of net realized losses from the Swap was recorded in the statement of operations.

Prior to the Company s election to become a BDC, the Swap was designated as a hedging instrument and the Company applied cash flow hedge accounting. The Swap was recorded in the consolidated statement of assets and liabilities at fair value, and any related increases or decreases in the fair value were recognized within accumulated other comprehensive income.

Prior to the Company s election to become a BDC, the Company assessed the effectiveness of the Swap on a quarterly basis. The Company had considered the impact of the then current credit crisis in the United States in assessing the risk of counterparty default. As most of the critical terms of the hedging instruments and hedged items matched, the hedging relationship was considered to be highly effective. No ineffectiveness on the Swap was recognized during the year ended December 31, 2010.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Note 11: Dividends and Distributions

The Company s dividends and distributions are recorded on the record date. The following table summarizes the Company s dividend declaration and distribution activity during the years ended December 31, 2011 and 2010:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
Year Ended December 31, 2010						
12/15/10	12/28/10	12/31/10	$ 0.22	$ 1,097	38,297	$ 565
Year Ended December 31, 2011						
5/10/11	5/19/11	5/26/11	$ 0.33	$ 2,190	20,104	$ 316
8/9/11	8/23/11	8/30/11	$ 0.40	$ 2,836	13,193	$ 209
11/8/11	11/23/11	11/30/11	$ 0.45	$ 3,281	9,814	$ 151
			$ 1.18	$ 8,307	43,111	$ 676

Note 12: Financial Highlights

The financial highlights for the Company are as follows:

	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010
Per share data:		
Net asset value at beginning of period	$ 16.75	$ 7.15
Issuance of common stock and capital contributions		9.67
Offering costs		(0.30)
Dividend declared and distributed	(1.18)	(0.22)
Net investment income	1.38	0.18
Realized gain on investments	0.81	0.08
Unrealized (depreciation) appreciation on investments	(0.75)	0.19
Net asset value at end of period	$ 17.01	$ 16.75
Per share market value, end of period	16.32	14.44%
Total return based on a market value	21.2%	(8.4)%(2)
Shares outstanding at end of period	7,636,532	7,593,421
Ratios to average net assets:		
Expenses without incentive fees	7.9%	9.8%(1)
Incentive fees	2.3%	2.8%(1)

Total expenses	10.2%	12.6%(1)
Net investment income with incentive fees	8.1%	9.0%(1)
Net investment income without incentive fees	10.4%	11.8%(1)
Average net asset value	$ 130,385	$ 90,205(1)

(1) Annualized.

(2) The total return for the year ended December 31, 2011 and the period ended December 31, 2010 equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

Table of Contents

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

Note 13: Selected Quarterly Financial Data (Unaudited)

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Total investment income	$ 6,183	$ 6,441	$ 5,970	$ 5,460
Net investment income	3,310	2,993	1,980	2,228
Net realized and unrealized (loss) gain	(2,524)	(234)	1,843	1,400
Net (decrease) increase in net asset resulting from operations	786	2,759	3,823	3,628
Earnings per share (1)	0.10	0.36	0.50	0.48
Net asset value per share at period end (2)	$ 17.01	$ 17.36	$ 17.40	$ 17.23

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Total investment income	$ 4,956	$ 5,189	$ 4,270	$ 3,793
Net investment income	2,507	3,257	2,509	2,113
Net realized and unrealized gain (loss)	2,063	1,711	(366)	202
Net increase in net asset resulting from operations	4,570	5,288	2,259	2,618
Earnings per share	N/A	N/A	N/A	N/A
Net asset value per share at period end (2)(3)	$ 16.75	N/A	N/A	N/A

(1) Based on weighted average shares outstanding for the respective period.
(2) Based on shares outstanding at the end of the respective period.
(3) For periods ended prior to October 29, 2010, the Company did not have common shares outstanding or an equivalent and therefore, cannot calculate earnings per share and net asset value per share.

Table of Contents

$250,000,000

Horizon Technology Finance Corporation

Common Stock

Preferred Stock

Subscription Rights

Debt Securities

Warrants

and

1,322,669 Shares of Common Stock Offered by the Selling Stockholders

We are a non-diversified closed-end management investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940 (the 1940 Act). We are externally managed by Horizon Technology Finance Management LLC, a registered investment adviser under the Investment Advisers Act of 1940 (the Advisers Act). Our investment objective is to maximize our investment portfolio s return by generating current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $250,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities which we refer to, collectively, as the securities. In addition, certain of our stockholders may offer for resale, from time to time, up to an aggregate of 1,322,669 shares of common stock under this prospectus. We will not receive any of the proceeds from the sale of shares of our common stock by any selling stockholders. Sales of common stock by the selling stockholders may negatively impact the price of our common stock.

We and/or the selling stockholders may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock or warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with the exercise of certain warrants, options or rights whose issuance has been approved by our stockholders at an exercise or conversion price not less than the market value of our common stock at the date of issuance (or, if no such market value exists, the net asset value per share of our common stock as of such date); (2) to the extent such an offer or sale is approved by a majority of our stockholders and by our board of directors (our Board); or (3) under such other circumstances as may be permitted under the 1940 Act or by the Securities and Exchange Commission (the SEC). We intend to seek stockholder approval to offer our shares below net asset value in the future. The selling stockholders will not be restricted from selling their shares when the market price is below net asset value.

The shares of our common stock which are offered for resale by this prospectus are offered for the accounts of one or more of the selling stockholders named herein, who acquired such shares as described under Selling Stockholders. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling stockholders.

Our common stock is listed on The NASDAQ Global Select Market (NASDAQ) under the symbol HRZN. On February 3, 2012, the last reported sale price of a share of our common stock on NASDAQ was $16.66. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was $17.36. Shares of our common stock sold by the selling stockholders will generally be freely tradable. Sales of substantial amounts of our common stock, including by the selling stockholders, or the availability of such common stock for sale, whether or not sold, could adversely affect the prevailing market prices for our common stock.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this public offering. See Risk Factors Risks Related to Offerings Under This Prospectus Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their

net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering on page 18 for more information.

This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities and should be retained for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the SEC. We maintain a website at *www.horizontechnologyfinancecorp.com* and intend to make all of the foregoing information available, free of charge, on or through our website. You may also obtain such information by contacting us at 312 Farmington Avenue, Farmington, Connecticut 06032, or by calling us at (860) 676-8654. The SEC maintains a website at *www.sec.gov* where such information is available without charge. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus.

Investing in our securities is highly speculative and involves a high degree of risk, and you could lose your entire investment if any of the risks occur. For more information regarding these risks, please see Risk Factors beginning on page 14. The individual securities in which we invest will not be rated by any rating agency. If they were, they would be rated as below investment grade or junk. Indebtedness of below investment grade quality has predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is February 6, 2012

Table of Contents

You should rely only on the information contained in this prospectus or any accompanying supplement to this prospectus. We have not, and the selling stockholders have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the selling stockholders are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate. You should assume that the information in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition and prospects may have changed since that date. We will update this prospectus to reflect material changes to the information contained herein.

TABLE OF CONTENTS

	Page
About this Prospectus	1
Prospectus Summary	2
Offerings	8
Fees and Expenses	13
Selected Consolidated Financial and Other Data	16
Risk Factors	18
Cautionary Note Regarding Forward-Looking Statements	40
Use of Proceeds	41
Price Range of Common Stock and Distributions	41
Management s Discussion and Analysis of Financial Condition and Results of Operations	44
Senior Securities	58
Business	59
Portfolio Companies	69
Management	75
Certain Relationships and Related Transactions	82
Our Advisor	83
Investment Management and Administration Agreements	83
Control Persons and Principal Stockholders	90
Determination of Net Asset Value	91
Dividend Reinvestment Plan	93

	Page
Description of Securities That We May Issue	94
Description of Common Stock That We May Issue	95
Description of Preferred Stock That We May Issue	100
Description of Subscription Rights That We May Issue	101
Description of Debt Securities That We May Issue	102
Description of Warrants That We May Issue	103
Shares Eligible for Future Sale	104
Selling Stockholders	105
Regulation	106
Brokerage Allocations and Other Practices	111
Plan of Distribution	111
Material U.S. Federal Income Tax Considerations	114
Custodian, Transfer Agent, Dividend Paying Agent and Registrar	122
Legal Matters	122
Independent Registered Public Accounting Firm	122
Where You Can Find More Information	123
Index to Consolidated Financial Statements	F-1

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to $250,000,000 of our common stock, preferred stock, subscription rights, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on terms to be determined at the time of the offering, and the selling stockholders may offer for resale up to 1,322,669 shares of our common stock. This prospectus provides you with a general description of the securities that we and/or one or more of the selling stockholders may offer. Each time we and/or one or more of the selling stockholders use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any accompanying prospectus supplement together with the additional information described under Where You Can Find More Information and Risk Factors before you make an investment decision. During an offering, we will disclose material amendments to this prospectus through a post-effective amendment or prospectus supplement.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider before investing in our common stock. You should read the entire prospectus and any prospectus supplement carefully, including Risk Factors, Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements contained elsewhere in this prospectus.

Horizon Technology Finance Corporation, a Delaware corporation, was formed on March 16, 2010 for the purpose of acquiring, continuing and expanding the business of its wholly-owned subsidiary, Compass Horizon Funding Company LLC, a Delaware limited liability company, which we refer to as Compass Horizon, raising capital in its initial public offering, or IPO, and operating as an externally managed BDC under the 1940 Act. Except where the context suggests otherwise, the terms we, us, our and Company refer to Compass Horizon and its consolidated subsidiary prior to our IPO and to Horizon Technology Finance Corporation and its consolidated subsidiaries after the IPO. In addition, we refer to Horizon Technology Finance Management LLC, a Delaware limited liability company, as HTFM, our Advisor or our Administrator.

Our Company

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services, and cleantech industries (collectively, our Target Industries). Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans (Venture Loans) to companies backed by established venture capital and private equity firms in our Target Industries (Venture Lending). We also selectively lend to publicly traded companies in our Target Industries. Venture Lending is typically characterized by, among other things, (i) the making of a secured loan after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company s debt service obligations under the Venture Loan, (ii) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (iii) the relatively rapid amortization of the Venture Loan, and (iv) the lender s receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our assessment of market conditions and other factors at the time of any proposed borrowing.

We have elected to be treated for federal income tax purposes as a regulated investment company (RIC), under Subchapter M of the Internal Revenue Code (the Code). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution, asset diversification and other requirements.

We are externally managed and advised by our Advisor. Our Advisor manages our day-to-day operations and also provides all administrative services necessary for us to operate.

Our Advisor

Our investment activities are managed by our Advisor and we expect to continue to benefit from our Advisor s ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage our diversified portfolio of investments. In addition to the experience gained from the years that they have worked together both at our Advisor and prior to the formation

by our Advisor of the Company, the members of our investment team have broad lending backgrounds, with substantial experience at a variety of commercial finance companies, technology banks and private debt funds, and have developed a broad network of contacts within the venture capital and private equity community. This network of contacts provides a principal source of investment opportunities.

Our Advisor is led by five senior managers, including its two co-founders, Robert D. Pomeroy, Jr., our Chief Executive Officer, and Gerald A. Michaud, our President. The other senior managers include Christopher M. Mathieu, our Senior Vice President and Chief Financial Officer, John C. Bombara, our Senior Vice President, General Counsel and Chief Compliance Officer, and Daniel S. Devorsetz, our Senior Vice President and Chief Credit Officer.

Our Strategy

Our investment objective is to maximize our investment portfolio s total return by generating current income from the loans we make and capital appreciation from the warrants we receive when making such loans. To further implement our business strategy, our Advisor will continue to employ the following core strategies:

Structured Investments in the Venture Capital and Private Equity Markets. We make loans to development-stage companies within our Target Industries typically in the form of secured amortizing loans. The secured amortizing debt structure provides a lower risk strategy, as compared to equity investments, to participate in the emerging technology markets because the debt structures we typically utilize provide collateral against the downside risk of loss, provide return of capital in a much shorter timeframe through current pay interest and amortization of loan principal and have a senior position in the capital structure to equity in the case of insolvency, wind down or bankruptcy. Unlike venture capital and private equity investments, our investment returns and return of our capital do not require equity investment exits such as mergers and acquisitions or initial public offerings. Instead, we receive returns on our loans primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the loan. Only the potential gains from warrants are dependent upon exits.

Enterprise Value Lending. We and our Advisor take an enterprise value approach to the loan structuring and underwriting process. We secure a senior or subordinated lien position against the enterprise value of a portfolio company.

Creative Products with Attractive Risk-Adjusted Pricing. Each of our existing and prospective portfolio companies has its own unique funding needs for the capital provided from the proceeds of our Venture Loans. These funding needs include, but are not limited to, funds for additional development runways, funds to hire or retain sales staff or funds to invest in research and development in order to reach important technical milestones in advance of raising additional equity. Our loans include current pay interest, commitment fees, final payments, pre-payment fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies requirements while mitigating risk and maximizing returns on our investments.

Opportunity for Enhanced Returns. To enhance our loan portfolio returns, in addition to interest and fees, we obtain warrants to purchase the equity of our portfolio companies as additional consideration for making loans. The warrants we obtain generally include a cashless exercise provision to allow us to exercise these rights without requiring us to make any additional cash investment. Obtaining warrants in our portfolio companies has allowed us to participate in the equity appreciation of our portfolio companies, which we expect will enable us to generate higher returns for our investors.

Direct Origination. We originate transactions directly with technology, life science, healthcare information and services and cleantech companies. These transactions are referred to our Advisor from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity firms, portfolio company management teams, legal firms, accounting firms, investment banks

3

and other lenders that represent companies within our Target Industries. Our Advisor has been the sole or lead originator in substantially all transactions in which the funds it manages have invested.

Disciplined and Balanced Underwriting and Portfolio Management. We use a disciplined underwriting process that includes obtaining information validation from multiple sources, extensive knowledge of our Target Industries, comparable industry valuation metrics and sophisticated financial analysis related to development-stage companies. Our Advisor s due diligence on investment prospects includes obtaining and evaluating information on the prospective portfolio company s technology, market opportunity, management team, fund raising history, investor support, valuation considerations, financial condition and projections. We seek to balance our investment portfolio to reduce the risk of down market cycles associated with any particular industry or sector, development-stage or geographic area. Our Advisor employs a hands on approach to portfolio management requiring private portfolio companies to provide monthly financial information and to participate in regular updates on performance and future plans.

Use of Leverage. We currently use leverage to increase returns on equity through revolving credit facilities provided by WestLB AG (the WestLB Facility) and Wells Fargo Capital Finance, LLC (the Wells Facility and collectively with the WestLB Facility, the Credit Facilities). See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information about the Credit Facilities. In addition, we may issue debt securities in one or more series or preferred stock in the future. The specific terms of each series of debt securities we publicly offer will be described in the particular prospectus supplement relating to that series and the particular terms of any preferred stock we offer will be described in the prospectus supplement relating to such preferred stock shares. See Description of Debt Securities that We May Issue and Description of Preferred Stock that We May Issue for additional information about the debt securities or preferred stock we may issue.

Market Opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include communications, networking, wireless communications, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include alternative energy, water purification, energy efficiency, green building materials and waste recycling.

We believe that Venture Lending has the potential to achieve enhanced returns that are attractive notwithstanding the high degree of risk associated with lending to development-stage companies. Potential benefits include:

- interest rates that typically exceed rates that would be available to portfolio companies if they could borrow in traditional commercial financing transactions;
- the loan support provided by cash proceeds from equity capital invested by venture capital and private equity firms;
- relatively rapid amortization of loans;
- senior ranking to equity and collateralization of loans to minimize potential loss of capital; and
- potential equity appreciation through warrants.

4

Table of Contents

We believe that Venture Lending also provides an attractive financing source for portfolio companies, their management teams and their equity capital investors, as it:

- is typically less dilutive to the equity holders than additional equity financing;
- extends the time period during which a portfolio company can operate before seeking additional equity capital or pursuing a sale transaction or other liquidity event; and
- allows portfolio companies to better match cash sources with uses.

Competitive Strengths

We believe that we, together with our Advisor, possess significant competitive strengths, which include the following:

- *Consistently Execute Commitments and Close Transactions.* Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and closing Venture Loans. Our Advisor has directly originated, underwritten and managed more than 130 Venture Loans with an aggregate original principal amount over $800 million since it commenced operations in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.
- *Robust Direct Origination Capabilities.* Our Advisor s managing directors each have significant experience originating Venture Loans in our Target Industries. This experience has given each managing director a deep knowledge of our Target Industries and an extensive base of transaction sources and references. Our Advisor s brand name recognition in our market has resulted in a steady flow of high quality investment opportunities that are consistent with the strategic vision and expectations of our Advisor s senior management.
- *Highly Experienced and Cohesive Management Team.* Our Advisor has had the same senior management team of experienced professionals since its inception. This consistency allows companies, their management teams and their investors to rely on consistent and predictable service, loan products and terms and underwriting standards.
- *Relationships with Venture Capital and Private Equity Investors*. Our Advisor has developed strong relationships with venture capital and private equity firms and their partners. The strength and breadth of our Advisor s venture capital and private equity relationships would take considerable time and expense to develop.
- *Well-Known Brand Name.* Our Advisor has originated Venture Loans to more than 130 companies in our Target Industries under the Horizon Technology Finance brand. Each of these companies is backed by one or more venture capital or private equity firms. We believe that the Horizon Technology Finance brand, as a competent, knowledgeable and active participant in the Venture Lending marketplace, will continue to result in a significant number of referrals and prospective investment opportunities in our Target Industries.

Our Portfolio

Since our inception and through September 30, 2011, we have funded 65 portfolio companies and have invested $337.9 million in loans (including 28 loans that have been repaid). As of September 30, 2011, our total investment portfolio consisted of 37 loans which totaled $174.4 million and our net assets were $132.4 million. Our existing loans are secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The loans in our loan portfolio generally are not rated by any rating agency. If the individual loans in our

portfolio companies were rated, they would be rated below investment grade because they are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns.

Table of Contents

For the nine months ended September 30, 2011, our loan portfolio had a dollar-weighted average annualized yield of approximately 14.6% (excluding any yield from warrants). As of September 30, 2011, our loan portfolio had a dollar-weighted average term of approximately 38 months from inception and a dollar-weighted average remaining term of approximately 28 months. In addition, we held warrants to purchase either common stock or preferred stock in 48 portfolio companies. As of September 30, 2011, our loans had an original committed principal amount of between $1 million and $12 million, repayment terms of between 30 and 48 months and bore current pay interest at annual interest rates of between 10% and 14%.

Risk Factors

The values of our assets, as well as the market price of our shares, fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in us involves other risks, including the following:

- We have a limited operating history and may not be able to achieve our investment objective or generate sufficient revenue to make or sustain distributions to our stockholders and your investment in us could decline substantially;

- We and our Advisor have limited experience operating under the constraints imposed on a BDC or managing an investment company, which may affect our ability to manage our business and impair your ability to assess our prospects;

- We are dependent upon key personnel of our Advisor and our Advisor s ability to hire and retain qualified personnel;

- We operate in a highly competitive market for investment opportunities, and if we are not able to compete effectively, our business, results of operations and financial condition may be adversely affected and the value of your investment in us could decline;

- If we are unable to satisfy the requirements under the Code for qualification as a RIC, we will be subject to corporate-level federal income tax;

- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital, which may expose us to additional risks;

- We have not yet identified many of the potential investment opportunities for our portfolio that we will invest in with the proceeds of an offering under this registration statement;

- If our investments do not meet our performance expectations, you may not receive distributions;

- Most of our portfolio companies will need additional capital, which may not be readily available;

- Economic recessions or downturns could adversely affect our business and that of our portfolio companies which may have an adverse effect on our business, results of operations and financial condition;

- Our investment strategy focuses on investments in development-stage companies in our Target Industries, which are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns, and would be rated below

investment grade ;

We cannot assure you that the market price of shares of our common stock will not decline following an offering;

Subsequent sales in the public market of substantial amounts of our common stock by the selling stockholders may have an adverse effect on the market price of our common stock and the registration of a substantial amount of insider shares, whether or not actually sold, may have a negative impact on the market price of our common stock;

Our common stock price may be volatile and may decrease substantially;

We may allocate the net proceeds from an offering in ways with which you may not agree;

Your interest in us may be diluted if you do not fully exercise subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares;

- Investors in offerings of our common stock may incur immediate dilution upon the closing of such offering;
- If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material;
- There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time, and that a portion of distributions paid to you may be a return of capital;
- Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering;
- Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan;
- The trading market or market value of publicly issued debt securities that we may issue may fluctuate;
- The securities in which we invest generally will have no market price and we value them based on estimates. Our valuations are inherently uncertain and may differ materially from the values that would be assessed if a ready market for these securities existed.
- Terms relating to redemption may materially adversely affect return on any debt securities that we may issue; and
- Credit ratings provided by third party credit rating agencies may not reflect all risks of an investment in any debt securities that we may issue.
- Shares of our common stock sold by the selling stockholders will generally be freely tradable. Sales of substantial amounts of our common stock, including by the selling stockholders, or the availability of such common stock for sale, whether or not sold, could adversely affect the prevailing market prices for our common stock.

See Risk Factors beginning on page 14 and the other information included in this prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our securities.

Company Information

Our administrative and executive offices and those of our Advisor are located at 312 Farmington Avenue, Farmington, Connecticut 06032, and our telephone number is (860) 676-8654. Our corporate website is located at *www.horizontechnologyfinancecorp.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus.

Table of Contents

OFFERINGS

We may offer, from time to time, up to $250,000,000 of our common stock, preferred stock, subscription rights, debt securities and/or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on terms to be determined at the time of the offering. Any debt securities, preferred stock, warrants and subscription rights offered by means of this prospectus may be convertible or exchangeable into shares of our common stock, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. The selling stockholders may offer, from time to time, up to 1,322,669 shares of our common stock for resale at prices and on terms to be set forth in one or more supplements to this prospectus.

We and/or one or more of the selling stockholders may offer our securities directly to one or more purchasers, including existing stockholders in a rights offering, through agents that we designate from time to time or to or through underwriters or dealers. The prospectus supplement relating to each offering will identify any agents or underwriters involved in the sale of our securities and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We and/or the selling stockholders may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding offerings of our securities:

Use of proceeds	We intend to use the net proceeds from selling our securities to make new investments in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes. We will not receive any proceeds from the sale of our common stock by the selling stockholders.
Listing	Our common stock is traded on NASDAQ under the symbol HRZN.
Dividends and Distributions	We pay quarterly dividends to our stockholders out of assets legally available for distribution. Our dividends, if any, will be determined by our Board. Our ability to declare dividends depends on our earnings, our overall financial condition (including our liquidity position), maintenance of RIC status and such other factors as our Board may deem relevant from time to time. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a return of capital to our common stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

Table of Contents

Taxation	We have elected to be treated as a RIC. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.
Leverage	We borrow funds to make additional investments. We use this practice, which is known as leverage, to attempt to increase returns to our stockholders, but it involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.
Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. This risk is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade above, at or below net asset value.
Dividend Reinvestment Plan	We have a dividend reinvestment plan for our stockholders. The dividend reinvestment plan is an opt out dividend reinvestment plan. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.
Sales of Common Stock Below Net Asset Value	In the event we offer common stock or warrants or rights to acquire such common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with the exercise of certain warrants, options or rights whose issuance has been approved by our stockholders at an exercise or conversion price not less than the market value of our common stock at the date of issuance (or, if no such market value

	exists, the net asset value per share of our common stock as of such date); (2) to the extent such an offer or sale is approved by a majority of our stockholders and our Board; or (3) under such other circumstances as may be permitted under the 1940 Act or by the SEC. For purposes of (2) above, a majority of outstanding securities is defined in the 1940 Act as (i) 67% or more of the voting securities present at a stockholders meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (ii) 50% of the outstanding voting securities of the Company, whichever is less. Restrictions on selling below net asset value are not applicable to the selling stockholders.
Selling Stockholders	The selling stockholders are Compass Horizon Partners LP and HTF-CHF Holdings LLC. HTF-CHF Holdings LLC is substantially owned by the Company s officers, as described under the sections entitled Control Persons and Principal Stockholders and Selling Stockholders. Prior to completion of our IPO, the owners of membership interests in Compass Horizon exchanged their membership interests for shares of our common stock and we entered into a registration rights agreement with respect to those shares. Pursuant to the terms of the registration rights agreement, we have agreed to bear specific expenses of the selling stockholders in connection with the registration and sale of such shares. HTF-CHF Holdings LLC does not currently intend to sell its shares within a year of the effective date of this Registration Statement. All contractual lock-ups and other restrictions applicable to sales by insiders have expired. Once the shares of the selling stockholders are sold under this registration statement, the shares will be freely tradable in the hands of persons other than our affiliates. See Certain Relationships and Related Transactions and Shares Eligible for Future Sale.
Certain Anti-Takeover Provisions	Our certificate of incorporation and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See Description of Common Stock That We May Issue.

Table of Contents

Investment Management Agreement

We have entered into an investment management agreement (the Investment Management Agreement) with our Advisor, under which our Advisor, subject to the overall supervision of our Board, manages our day-to-day operations and provides investment advisory services to us. For providing these services, our Advisor receives a base management fee from us, paid monthly in arrears, at an annual rate of 2% of our gross assets, including any assets acquired with the proceeds of leverage. The Investment Management Agreement also provides that our Advisor or its affiliates may be entitled to an incentive fee under certain circumstances. The incentive fee has two parts, which are independent of each other, with the result that one part may be payable even if the other is not. Under the first part, we will pay our Advisor each quarter 20% of the amount by which our accrued net income for the quarter after expenses and excluding the effect of any realized capital gains and losses and any unrealized appreciation and depreciation for the quarter exceeds 1.75% (which is 7% annualized) of our average net assets at the end of the immediately preceding calendar quarter, subject to a catch-up feature. Under the second part of the incentive fee, we will pay our Advisor at the end of each calendar year 20% of our realized capital gains from inception through the end of that year, computed net of all realized capital losses and all unrealized depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is not subject to any minimum return to stockholders. The Investment Management Agreement may be terminated by either party without penalty by delivering written notice to the other party upon not more than 60 days written notice. See Investment Management and Administration Agreements Investment Management Agreement.

Administration Agreement	We reimburse our Administrator for the allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under an administration agreement (the Administration Agreement), including furnishing rent, the fees and expenses associated with performing compliance functions and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and chief financial officer and their respective staffs. See Investment Management and Administration Agreements Administration Agreement.
Available Information	We are required to file periodic reports, current reports, proxy statements and other information with the SEC. This information is available on the SEC s website at www.sec.gov. You can also inspect any materials we file with the SEC, without charge, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You may also obtain such information by contacting us at 312 Farmington Avenue, Farmington, Connecticut 06032 or by calling us at (860) 676-8654. We intend to provide much of the same information on our website at www.horizontechnologyfinancecorp.com. Information contained on our website is not part of this prospectus or any prospectus supplement and should not be relied upon as such.

Table of Contents

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table and example should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in the Company.

Stockholder Transaction Expenses		
Sales Load (as a percentage of offering price)		%[1]
Offering Expenses (as a percentage of offering price)		%[2]
Dividend Reinvestment Plan Fees	None	[3]
Total Stockholder Transaction Expenses (as a percentage of offering price)		**%**
Annual Expenses (as a Percentage of Net Assets Attributable to Common Stock)[4]		
Base Management Fee	3.30	%[5]
Incentive Fees Payable Under the Investment Management Agreement	2.15	%[6]
Interest Payments on Borrowed Funds	3.58	%[7]
Other Expenses (estimated for the current fiscal year)	1.81	%[8]
Acquired Fund Fees and Expenses	0.03	%[9]
Total Annual Expenses (estimated)	10.83	%[5][10]

(1) In the event that securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

(2) In the event that we conduct an offering of any of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses because they will be ultimately borne by the Company.

(3) The expenses of the dividend reinvestment plan are included in Other Expenses in the table. See Dividend Reinvestment Plan.

(4) Net Assets Attributable to Common Stock equals estimated average net assets for the current fiscal year and is based on our net assets at September 30, 2011.

(5) Our base management fee under the Investment Management Agreement is based on our gross assets, which includes assets acquired using leverage, and is payable monthly in arrears. The management fee referenced in the table above is based on our average gross assets of $218 million for the three months ended September 30, 2011 and includes assets estimated to be acquired in the current fiscal year using leverage. See Investment Management and Administration Agreements Investment Management Agreement.

(6) Our incentive fee payable under the Investment Management Agreement consists of two parts:

The first part, which is payable quarterly in arrears, equals 20% of the excess, if any, of our Pre-Incentive Fee Net Investment Income over a 1.75% quarterly (7% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our Advisor receives no incentive fee until our net investment income equals the hurdle rate of 1.75% but then receives, as a catch-up, 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875%. The effect of this provision is that, if Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, our Advisor will receive 20% of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply. The first part of the incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash.

Table of Contents

The second part of the incentive fee equals 20% of our Incentive Fee Capital Gains, if any, which will equal our realized capital gains on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is payable, in arrears, at the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date). For a more detailed discussion of the calculation of this fee, see Investment Management and Administration Agreements Investment Management Agreement.

The incentive fee payable to our Advisor is based on the actual amount incurred under the first part of the Investment Management Agreement during the three months ended September 30, 2011, annualized for a full year. As we cannot predict the occurrence of any capital gains from the portfolio, we have assumed no Incentive Fee Capital Gains.

(7) We will continue to borrow funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. The costs associated with our outstanding borrowings are indirectly borne by our investors. For purposes of this section, we have computed the interest expense using the balance outstanding at September 30, 2011 which represents an estimate of our interest expense for the current fiscal year. We used the LIBOR rate on September 30, 2011 and the interest rates on the Credit Facilities. We have also included the estimated amortization of fees incurred in establishing the Credit Facilities. At September 30, 2011, we had approximately $66 million outstanding under the WestLB Facility and approximately $16 million outstanding under the Wells Facility. We also assumed that we increased outstanding borrowings by $25 million at a fixed rate of 7.25% plus 0.45% for the estimated amortization of fees incurred in establishing this additional borrowing. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act, however, we have no current intention to do so during the year following the effective date of this registration statement.

(8) Includes our overhead expenses, including payments under the Administration Agreement, based on our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement. See Investment Management and Administration Agreements Administration Agreement. Other Expenses are based on estimated amounts to be incurred on an annual basis.

(9) Amount reflects our estimated expenses of the temporary investment of offering proceeds in money market funds pending our investment of such proceeds in portfolio companies in accordance with the investment objective and strategies described in this prospectus.

(10) Total Annual Expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the Total Annual Expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been funded with borrowed monies.

Table of Contents

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown. In calculating the following expense amounts, we have assumed that our annual operating expenses remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 87	$ 250	$ 400	$ 724

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or lesser than those shown.

While the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Management Agreement is unlikely to be significant assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. See Investment Management and Administration Agreements Examples of Incentive Fee Calculation for additional information regarding the calculation of incentive fees. In addition, while the example assumes reinvestment of all dividends and other distributions at net asset value, participants in our dividend reinvestment plan receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. This price may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected historical financial and other data below reflects our consolidated operations. The selected financial data for the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010, the year ended December 31, 2009 and the period from March 4, 2008 to December 31, 2008 have been derived from our consolidated financial statements that have been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm. Interim financial information for the nine months ended September 30, 2011 and 2010 is derived from our unaudited consolidated financial statements, and in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim period. Results for the year ended December 31, 2010 and the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the current year. You should read this selected consolidated financial and other data in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto.

	Post-IPO as a Business Development Company Nine Months Ended September 30, 2011	Pre-IPO Prior to becoming a Business Development Company Nine Months Ended September 30, 2010	Post-IPO as a Business Development Company October 29, 2010 to December 31, 2010	January 1, 2010 to October 28, 2010	Year Ended December 31, 2009	March 4, 2008 (Inception) through December 31, 2008
	(Dollar amounts in thousands, except per share data)					
Total investment income	$ 17,871	$ 13,250	$ 3,251	$ 14,956	$ 15,326	$ 7,021
Total expenses	10,670	5,372	1,892	5,931	6,769	4,031
Net investment income	7,201	7,878	1,359	9,025	8,557	2,990
Credit (provision) for loan losses		739		739	(274)	(1,650)
Net realized gain (loss) on investments	5,544	(2)	611	69	138	22
Net unrealized (depreciation) appreciation on investments	(2,535)	1,549	1,449	1,481	892	(73)
Net increase in net assets resulting from operations	$ 10,210	$ 10,164	$ 3,419	$ 11,314	$ 9,313	$ 1,289
Net investment income per common share	$ 0.95	N/A	$ 0.18	N/A	N/A	N/A
Net increase in net assets per common share	$ 1.34	N/A	$ 0.45	N/A	N/A	N/A
Per share dividend declared	$ 0.73	N/A	$ 0.22	N/A	N/A	N/A
Dollar amount of dividends declared	$ 5,551	N/A	$ 1,662	N/A	N/A	N/A
Weighted average common shares	7,604,345	N/A	7,555,722	N/A	N/A	N/A

	September 30, 2011	September 30, 2010	December 31, 2010	December 31, 2009	December 31, 2008
	(Dollar amounts in thousands, except per share data)				
Balance sheet data at period end:					
Investments	$ 180,186	$ 137,818	$ 136,810	$ 111,954	$ 92,174
Other assets	36,685	22,118	79,395	12,914	23,041
Total assets	216,871	159,936	216,205	124,868	115,215
Total liabilities	84,492	89,870	89,010	65,375	65,430
Total net assets	132,379	70,065	127,195	59,493	49,785

Table of Contents

SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth certain quarterly financial information for each of the eleven quarters ending with the quarter ended September 30, 2011. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	2011		
	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)		
Total investment income	$ 6,441	$ 5,970	$ 5,460
Net investment income	$ 2,993	$ 1,980	$ 2,228
Net realized and unrealized (loss) gain	$ (234)	$ 1,843	$ 1,400
Net increase in net assets resulting from operations	$ 2,759	$ 3,823	$ 3,628
Earnings per share[(1)]	$ 0.39	$ 0.26	$ 0.29
Net asset value per share at the end of the quarter[(2)]	$ 17.36	$ 17.40	$ 17.23

	2010			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	$ 4,956	$ 5,189	$ 4,270	$ 3,793
Net investment income	$ 2,507	$ 3,257	$ 2,509	$ 2,113
Net realized and unrealized gain (loss)	$ 2,063	$ 1,711	$ (366)	$ 202
Net increase in net assets resulting from operations	$ 4,570	$ 5,288	$ 2,259	$ 2,618
Earnings per share[(3)]	$ N/A	$ N/A	$ N/A	$ N/A
Net asset value per share at the end of the quarter[(2)(3)]	$ 16.75	$ N/A	$ N/A	$ N/A

	2009			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	$ 4,155	$ 4,169	$ 3,746	$ 3,256
Net investment income	$ 2,492	$ 2,393	$ 1,998	$ 1,673
Net realized and unrealized gain (loss)	$ 498	$ (55)	$ 143	$ 445
Net increase in net assets resulting from operations	$ 3,343	$ 2,004	$ 1,884	$ 2,083
Earnings per share[(3)]	$ N/A	$ N/A	$ N/A	$ N/A
Net asset value per share at the end of the quarter[(3)]	$ N/A	$ N/A	$ N/A	$ N/A

(1) Based on the weighted average shares outstanding for the respective period.
(2) Based on shares outstanding at the end of the respective period.
(3) For periods prior to October 29, 2010, the Company did not have common shares outstanding or an equivalent and, therefore, cannot calculate earnings per share and net asset value per share.

Table of Contents

RISK FACTORS

Investing in our securities involves a high degree of risk. Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus and any accompanying prospectus supplement, before you decide whether to make an investment in our securities. The risks set forth below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Structure

We have a limited operating history and may not be able to achieve our investment objective or generate sufficient revenue to make or sustain distributions to our stockholders and your investment in us could decline substantially.

We commenced operations in March 2008 and became a public company on October 28, 2010. As a result of our limited operating history, we are subject to certain business risks and uncertainties associated with any recently formed business enterprise, including the risk that we will not achieve our investment objective and that the value of your investment in us could decline substantially. As a public company, we are subject to the regulatory requirements of the SEC, in addition to the specific regulatory requirements applicable to BDCs under the 1940 Act and RICs under the Code. Our management and our Advisor have limited experience operating under this regulatory framework, and we may incur substantial additional costs, and expend significant time or other resources, to do so. From time to time our Advisor may pursue investment opportunities, like equity investments, in which our Advisor has more limited experience. In addition, we may be unable to generate sufficient revenue from our operations to make or sustain distributions to our stockholders.

We and our Advisor have limited experience operating under the constraints imposed on a BDC or managing an investment company, which may affect our ability to manage our business and impair your ability to assess our prospects.

Prior to becoming a public company in October 2010, we did not operate as a BDC or manage an investment company under the 1940 Act. As a result, we have limited operating results under this regulatory framework that can demonstrate to you either its effect on our business or our ability to manage our business within this framework. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily securities of eligible portfolio companies (as defined in the 1940 Act), cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. See Regulation. Our Advisor s lack of experience in managing a portfolio of assets under these constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, could impair our ability to achieve our investment objective. Furthermore, if we are unable to comply with the requirements imposed on BDCs by the 1940 Act, the SEC could bring an enforcement action against us and/or we could be exposed to claims of private litigants. In addition, we could be regulated as a closed-end management investment company under the 1940 Act, which could further decrease our operating flexibility and may prevent us from operating our business, either of which could have a material adverse effect on our business, results of operations or financial condition.

We are dependent upon key personnel of our Advisor and our Advisor s ability to hire and retain qualified personnel.

We depend on the members of our Advisor s senior management, particularly Mr. Pomeroy, our Chairman and Chief Executive Officer, and Mr. Michaud, our President, as well as other key personnel for the identification, evaluation, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships that we rely on to implement our business plan to originate Venture Loans in our Target Industries. Our future success depends on the continued service of Mr. Pomeroy and Mr. Michaud as well as the other senior members of our Advisor s management team. If our Advisor were to lose the services of either Mr. Pomeroy or Mr. Michaud or any of the other senior members of

our Advisor s management team, we may not be able to operate our business as we expect, and our ability to compete could be harmed, either of which could cause our business, results of operations or financial condition to suffer. In addition, if either of Mr. Pomeroy or Mr. Michaud cease to be employed by us, WestLB AG (WestLB) could, absent a waiver or cure, demand repayment of any outstanding obligations under the WestLB Facility and, if more than one of Mr. Pomeroy, Mr. Michaud or Mr. Mathieu, our Chief Financial Officer, shall cease to be actively involved in the Company or our Advisor, and are not replaced by individuals satisfactory to Wells Fargo Capital Finance, LLC (Wells) within ninety days, Wells could, absent a waiver or cure, demand repayment of any outstanding obligations under the Wells Facility. Our future success also depends, in part, on our Advisor s ability to identify, attract and retain sufficient numbers of highly skilled employees. Absent exemptive or other relief granted by the SEC and for so long as we remain externally managed, the 1940 Act prevents us from granting options to our employees and adopting a profit sharing plan, which may make it more difficult for us to attract and retain highly skilled employees. If we are not successful in identifying, attracting and retaining these employees, we may not be able to operate our business as we expect. Moreover, we cannot assure you that our Advisor will remain our investment advisor or that we will continue to have access to our Advisor s investment professionals or its relationships. For example, our Advisor may in the future manage investment funds with investment objectives similar to ours thereby diverting the time and attention of its investment professionals that we rely on to implement our business plan.

We operate in a highly competitive market for investment opportunities, and if we are not able to compete effectively, our business, results of operations and financial condition may be adversely affected and the value of your investment in us could decline.

We compete for investments with a number of investment funds and other BDCs, as well as traditional financial services companies such as commercial banks and other financing sources. Some of our competitors are larger and have greater financial, technical, marketing and other resources than we have. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. This may enable these competitors to make commercial loans with interest rates that are comparable to, or lower than, the rates we typically offer. We may lose prospective portfolio companies if we do not match our competitors pricing, terms and structure. If we do match our competitors pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships than us and build their market shares. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC or that the Code imposes on us as a RIC. If we are not able to compete effectively, we may not be able to take advantage of attractive investment opportunities that we identify and may not be able to fully invest our available capital. If this occurs, our business, financial condition and results of operations could be materially adversely affected.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Leverage is generally considered a speculative investment technique, and we intend to continue to borrow money as part of our business plan. The use of leverage magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in us. We borrow from and issue senior debt securities to banks and other lenders. Such senior debt securities include those under the Credit Facilities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. Lenders of senior debt securities have fixed dollar claims on our assets that are superior to the claims of our common stockholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. However, any decrease in our income would cause net income to decline more sharply than it would have had we not leveraged. This decline could adversely affect our ability to make common stock dividend payments. In addition, because our investments may be illiquid, we may be unable to dispose of them, or unable to do so at a favorable price in the event we need to do so, if we are unable to refinance any indebtedness upon maturity, and, as a result, we may suffer losses.

Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. Moreover, as our Advisor s management fee is payable to our Advisor based on our gross assets, including those assets acquired through the use of leverage, our Advisor may have a financial incentive to incur leverage which may not be consistent with our stockholders interests. In addition, holders of our common stock bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to our Advisor.

Illustration: The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations are hypothetical and actual returns may be higher or lower than those appearing in the table below:

	Assumed Return on Our Portfolio (Net of Expenses)				
	-10%	**-5%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[1]	-18.50%	-10.28%	-2.06%	6.16%	14.38%

(1) Assumes $217 million in total assets, $82 million in debt outstanding, $132 million in stockholders equity, and an average cost of funds of 3.32%. Assumptions are based on our financial condition and our average costs of funds at September 30, 2011. Actual interest payments may be different.

Based on our outstanding indebtedness of $82 million as of September 30, 2011 and the effective annual interest rate of 3.32% as of that date, our investment portfolio would have been required to experience an annual return of at least 1.52% to cover annual interest payments on the outstanding debt.

If we are unable to comply with the covenants or restrictions in our Credit Facilities or make payments when due thereunder, our business could be materially adversely affected.

Our Credit Facilities are secured by a lien on the assets of our wholly owned subsidiaries, Horizon Credit I LLC (Credit I) and Horizon Credit II LLC (Credit II), which hold substantially all of our assets. The breach of certain of the covenants or restrictions or our failure to make payments when due under the Credit Facilities, unless cured within the applicable grace period, would result in a default under the Credit Facilities that would permit the lenders to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness and the lenders may exercise rights available to them, including, without limitation, to the extent permitted under applicable law, the seizure of such assets without adjudication.

The Credit Facilities include covenants that, among other things, restrict the ability of Credit I and Credit II to (i) make loans to, or investments in, third parties (other than Venture Loans and warrants or other equity participation rights), (ii) pay dividends and distributions, (iii) incur additional indebtedness, (iv) engage in mergers or consolidations, (v) create liens on the collateral securing the Credit Facilities, (vi) permit additional negative pledges on such collateral, (vii) change the business currently conducted by them, and (viii) to have a change of control.

The Credit Facilities also require Credit I, Credit II and our Advisor to comply with various financial covenants, including, among other covenants, maintenance by our Advisor of a minimum tangible net worth and limitations on the value of, and modifications to, the loan collateral that secures the Credit Facilities. Complying with these restrictions may prevent us from taking actions that we believe would help us to grow our business or are otherwise consistent with our investment objective. These restrictions could also limit our ability to plan for or react to market conditions, meet extraordinary capital needs or otherwise restrict corporate activities, and could result in our failing to qualify as a RIC resulting in our becoming subject to corporate-level income tax. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information regarding our credit arrangements.

An event of default or acceleration under the Credit Facilities could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to the Credit Facilities if for any reason we are unable to comply with it, and we may not be able to refinance the Credit Facilities on terms acceptable to us, or at all.

20

Table of Contents

The impact of recent financial reform legislation on us is uncertain.

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act institutes a wide range of reforms that will have an impact on all financial institutions. Many of these provisions are subject to rule making procedures and studies that will be conducted in the future. Accordingly, we cannot predict the effect it or its implementing regulations will have on our business, results of operations or financial condition.

Because we distribute all or substantially all of our income and any realized net short-term capital gains over realized net long-term capital losses to our stockholders, we will need additional capital to finance our growth, if any. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

To satisfy the requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of corporate-level federal income taxes, we intend to distribute to our stockholders all or substantially all of our net ordinary income and realized net short-term capital gains over realized net long-term capital losses except that we may retain certain net long-term capital gains, pay applicable income taxes with respect thereto, and elect to treat such retained capital gains as deemed distributions to our stockholders. As a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we continue to need capital to grow our loan and investment portfolio, this limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are limited in our ability to issue equity securities priced below net asset value. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

If we are unable to obtain additional debt financing, our business could be materially adversely affected.

We may want to obtain additional debt financing, or need to do so upon maturity of the Credit Facilities, in order to obtain funds which may be made available for investments. We currently may not request new advances under the WestLB Facility and we must repay the outstanding advances under the WestLB Facility at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the WestLB Facility. All outstanding amounts under the WestLB Facility are due and payable on March 4, 2015. We may borrow under the Wells Facility until July 14, 2014, and, after such date, we must repay the outstanding advances under the Wells Facility in accordance with its terms and conditions. All outstanding advances under the Wells Facility are due and payable on July 14, 2017, unless such date is extended in accordance with its terms. If we are unable to increase, renew or replace any such facility and enter into a new debt financing facility on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such facilities and are declared in default or are unable to renew or refinance these facilities, we may not be able to make new investments or operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as lack of access to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we have withdrawn our application to the Small Business Administration (SBA) for a license to operate as a small business investment company (SBIC), which was originally filed on December 6, 2010, and, though we may in the future submit a new application, we have no present intention to do so and, therefore, do not expect to be able to access liquidity by issuing SBA-guaranteed debentures.

Table of Contents

Changes in interest rates may affect our cost of capital and net investment income.

Because we currently incur indebtedness to fund our investments, a portion of our income depends upon the difference between the interest rate at which we borrow funds and the interest rate at which we invest these funds. Most of our investments have fixed interest rates, while our borrowings have floating interest rates. As a result, a significant change in interest rates could have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds could increase, which would reduce our net investment income. We may hedge against interest rate fluctuations by using hedging instruments such as swaps, futures, options and forward contracts, subject to applicable legal requirements, including, without limitation, all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission. These activities may limit our ability to benefit from lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions or any adverse developments from our use of hedging instruments could have a material adverse effect on our business, financial condition and results of operations. In addition, we may be unable to enter into appropriate hedging transactions when desired and any hedging transactions we enter into may not be effective.

Because many of our investments typically are not and will not be in publicly traded securities, the value of our investments may not be readily determinable, which could adversely affect the determination of our net asset value.

Our investments consist, and we expect our future investments to consist, primarily of loans or securities issued by privately held companies. The fair value of these investments that are not publicly traded may not be readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. We value these investments on a quarterly basis, or more frequently as circumstances require, in accordance with our valuation policy consistent with generally accepted accounting principles. Our Board employs an independent third-party valuation firm to assist them in arriving at the fair value of our investments. Our Board discusses valuations and determines the fair value in good faith based on the input of our Advisor and the third-party valuation firm. The factors that may be considered in fair value pricing our investments include the nature and realizable value of any collateral, the portfolio company s earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments are materially higher than the values that we ultimately realize upon the disposal of these investments.

Disruption in the capital markets and the credit markets could adversely affect our business.

Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new investment opportunities. The global capital markets are in a period of disruption and extreme volatility and, accordingly, there has been and will continue to be uncertainty in the financial markets in general. Ongoing disruptive conditions in the financial industry could restrict our business operations and could adversely impact our results of operations and financial condition. We are unable to predict when economic and market conditions may become more favorable. Even if these conditions improve significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

We may not realize gains from our equity investments.

We may make non-control, equity co-investments in companies in conjunction with private equity sponsors. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains we do realize on the disposition of any

equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, refinancing or public offering, which would allow us to sell the underlying equity interests. In addition, our Advisor s significant experience in Venture Lending may not result in returns on our equity investments.

From time to time we may also acquire equity participation rights in connection with an investment which will allow us, at our option, to participate in future rounds of equity financing through direct capital investments in our portfolio companies. Our Advisor determines whether to exercise any of these rights. Accordingly, you will have no control over whether or to what extent these rights are exercised, if at all. If we exercise these rights, we will be making an additional investment completely in the form of equity which will subject us to significantly more risk than our Venture Loans and we may not receive the returns that are anticipated with respect to these investments.

We may not realize expected returns on warrants received in connection with our debt investments.

As discussed above, we generally receive warrants in connection with our debt investments. If we do not receive the returns that are anticipated on the warrants, our investment returns on our portfolio companies, and the value of your investment in us, may be lower than expected.

Regulations governing our operation as a BDC affect our ability to, and the way in which, we raise additional capital, which may expose us to additional risks.

Our business plan contemplates a need for a substantial amount of capital in addition to our current amount of capital. We may obtain additional capital through the issuance of debt securities or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. If we issue senior securities, we would be exposed to typical risks associated with leverage, including an increased risk of loss. In addition, if we issue preferred stock, it would rank senior to common stock in our capital structure and preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. We do not presently intend to issue preferred stock within one year of the effective date of this registration statement.

The 1940 Act permits us to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If our asset coverage ratio is not at least 200%, we are not permitted to pay dividends or issue additional senior securities. If the value of our assets declines, we may be unable to satisfy this asset coverage test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when we may be unable to do so or unable to do so on favorable terms. See Note 6 to Consolidated Financial Statements for additional information regarding borrowings.

As a BDC, we generally are not able to issue our common stock at a price below net asset value without first obtaining the approval of our stockholders and our independent directors, and we intend to seek such approval to sell our common stock below net asset value in the future. This requirement does not apply to stock issued upon the exercise of options, warrants or rights that we may issue from time to time. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

If we are unable to satisfy the requirements under the Code for qualification as a RIC, we will be subject to corporate-level federal income tax.

To qualify as a RIC under the Code, we must meet certain source-of-income, diversification and other requirements contained in Subchapter M of the Code and maintain our election to be regulated as a BDC under the 1940 Act. We must also meet the Annual Distribution Requirement, as defined in Material U.S. Federal Income Tax Considerations to avoid corporate-level federal income tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders.

The source-of-income requirement is satisfied if we derive in each taxable year at least 90% of our gross income from dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, other income (including but not limited to gain from options, futures or forward contracts) derived with respect to our business of investing in stock, securities or currencies, or net income derived from an interest in a qualified publicly traded partnership. The status of certain forms of income we receive could be subject to different interpretations under the Code and might be characterized as non-qualifying income that could cause us to fail to qualify as a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may cause us to be subject to corporate-level federal income taxes.

The Annual Distribution Requirement for a RIC is satisfied if we distribute to our stockholders on an annual basis an amount equal to at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. If we borrow money, we may be subject to certain asset coverage ratio requirements under the 1940 Act and loan covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may be subject to corporate-level income tax.

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (i) dispose of certain investments quickly; (ii) raise additional capital to prevent the loss of RIC status; or (iii) engage in certain remedial actions that may entail the disposition of certain investments at disadvantageous prices that could result in substantial losses, and the payment of penalties, if we qualify to take such actions. Because most of our investments are and will be in development-stage companies within our Target Industries, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we raise additional capital to satisfy the asset diversification requirements, it could take a longer time to invest such capital. During this period, we will invest in temporary investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of our investments in secured and amortizing loans.

If we were to fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level federal income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. In addition, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC. See Regulation.

We may have difficulty paying our required distributions if we recognize taxable income before or without receiving cash.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt instruments that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in taxable income each year a portion of the original issue discount that accrues over the life of the debt instrument, regardless of whether cash representing such income is received by us in the same taxable year. We do not have a policy limiting our ability to invest in original issue discount instruments, including payment-in-kind loans. Because in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the requirement that we distribute an amount equal to at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized long-term capital losses, if any.

Accordingly, we may need to sell some of our assets at times that we would not consider advantageous, raise additional debt or equity capital or forego new investment opportunities or otherwise take actions that are

Table of Contents

disadvantageous to our business (or be unable to take actions that we believe are necessary or advantageous to our business) in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources to satisfy the Annual Distribution Requirement, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level federal income tax on all our income. The proportion of our income, consisting of net investment income and our realized gains and losses, that resulted from the portion of original issue discount not received in cash for the years ended December 31, 2009 and 2010 and the nine months ended September 30, 2011 was 8.7%, 9.1% and 7.0%, respectively.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

As a BDC, we are prohibited from acquiring any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Substantially all of our assets are qualifying assets and we expect that substantially all assets that we may acquire in the future will be qualifying assets, although we may decide to make other investments that are not qualifying assets to the extent permitted by the 1940 Act. If we acquire debt or equity securities from an issuer that has outstanding marginable securities at the time we make an investment, these acquired assets may not be treated as qualifying assets. This result is dictated by the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding marginable securities. See Regulation Qualifying Assets. If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC, which would have a material adverse effect on our business, financial condition and results of operations.

Changes in laws or regulations governing our business could adversely affect our business, results of operations and financial condition.

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations, our cost of doing business and our investment strategy. We are subject to federal, state and local laws and regulations and judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, portfolio composition and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements, we may incur significant expenses to comply with these laws, regulations or decisions or we might have to restrict our operations or alter our investment strategy. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

Our Advisor has significant potential conflicts of interest with us and our stockholders.

As a result of our arrangements with our Advisor, there may be times when our Advisor has interests that differ from those of our stockholders, giving rise to a potential conflict of interest. Our executive officers and directors, as well as the current and future executives and employees of our Advisor, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of our stockholders. In addition, our Advisor may manage other funds in the future that may have investment objectives that are similar, in whole or in part, to ours. Our Advisor may determine that an investment is appropriate for us and for one or more of those other funds. In such an event, depending on the availability of the investment and other appropriate factors, our Advisor will endeavor to allocate investment opportunities in a fair and equitable manner and act in accordance with its written conflicts of interest policy to address and, if necessary, resolve any conflicts of interest. It is also possible that we may not be given the opportunity to participate in these other investment opportunities.

Table of Contents

We pay management and incentive fees to our Advisor and reimburse our Advisor for certain expenses it incurs. As a result, investors in our common stock invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Also, the incentive fee payable by us to our Advisor may create an incentive for our Advisor to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangements.

We have entered into a license agreement with Horizon Technology Finance, LLC, pursuant to which it has agreed to grant us a non-exclusive, royalty-free right and license to use the service mark Horizon Technology Finance. Under this agreement, we have a right to use the Horizon Technology Finance service mark for so long as the Investment Management Agreement is in effect between us and our Advisor. In addition, we pay our Advisor our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our chief financial officer and any administrative support staff. Any potential conflict of interest arising as a result of our arrangements with our Advisor could have a material adverse effect on our business, results of operations and financial condition.

Our incentive fee may impact our Advisor s structuring of our investments, including by causing our Advisor to pursue speculative investments.

The incentive fee payable by us to our Advisor may create an incentive for our Advisor to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Advisor is calculated based on a percentage of our return on invested capital. This may encourage our Advisor to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of our common stock. In addition, our Advisor receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, our Advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income-producing securities. Such a practice could result in our investing in more speculative investments than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. In addition, the incentive fee may encourage our Advisor to pursue different types of investments or structure investments in ways that are more likely to result in warrant gains or gains on equity investments, including upon exercise of equity participation rights, which are inconsistent with our investment strategy and disciplined underwriting process.

The incentive fee payable by us to our Advisor may also induce our Advisor to pursue investments on our behalf that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our stockholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash. In addition, the catch-up portion of the incentive fee may encourage our Advisor to accelerate or defer interest payable by portfolio companies from one calendar quarter to another, potentially resulting in fluctuations in the timing and amounts of dividends. Our governing documents do not limit the number of loans we may make with deferred interest features or the proportion of our income we derive from such loans.

Our Advisor s liability is limited, and we have agreed to indemnify our Advisor against certain liabilities, which may lead our Advisor to act in a riskier manner on our behalf than it would when acting for its own account.

Under the Investment Management Agreement, our Advisor does not assume any responsibility to us other than to render the services called for under that agreement, and it is not responsible for any action of our Board in following or declining to follow our Advisor s advice or recommendations. Under the terms of the Investment

Table of Contents

Management Agreement, our Advisor, its officers, members, personnel and any person controlling or controlled by our Advisor is not liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary s stockholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Management Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of our Advisor s duties under the Investment Management Agreement. In addition, we have agreed to indemnify our Advisor and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Management Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person s duties under the Investment Management Agreement. These protections may lead our Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

If we are unable to manage our future growth effectively, we may be unable to achieve our investment objective, which could adversely affect our business, results of operations and financial condition and cause the value of your investment in us to decline.

Our ability to achieve our investment objective depends on our ability to achieve and sustain growth, which depends, in turn, on our Advisor s direct origination capabilities and disciplined underwriting process in identifying, evaluating, financing, investing in and monitoring suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Advisor s marketing capabilities, management of the investment process, ability to provide efficient services and access to financing sources on acceptable terms. In addition to monitoring the performance of our existing investments, our Advisor may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow the rate of investment. If we fail to manage our future growth effectively, our business, results of operations and financial condition could be materially adversely affected and the value of your investment in us could decrease.

Our Board may change our operating policies and strategies, including our investment objective, without prior notice or stockholder approval, the effects of which may adversely affect our business.

Our Board may modify or waive our current operating policies and strategies, including our investment objective, without prior notice and without stockholder approval (provided that no such modification or waiver may change the nature of our business so as to cease to be, or withdraw our election as, a BDC as provided by the 1940 Act without stockholder approval at a special meeting called upon written notice of not less than ten or more than sixty days before the date of such meeting). We cannot predict the effect any changes to our current operating policies and strategies would have on our business, results of operations or financial condition or on the value of our stock. However, the effects of any changes might adversely affect our business, any or all of which could negatively impact our ability to pay dividends or cause you to lose all or part of your investment in us.

Our quarterly and annual operating results may fluctuate due to the nature of our business.

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including: our ability to make investments in companies that meet our investment criteria; the interest rate payable on our loans; the default rate on these investments; the level of our expenses, variations in, and the timing of, the recognition of realized and unrealized gains or losses; and the degree to which we encounter competition in our markets and general economic conditions. For example, we have historically experienced greater investment activity during the second and fourth quarters relative to other periods. As a result of these factors, you should not rely on the results for any prior period as being indicative of our performance in future periods.

Our business plan and growth strategy depends to a significant extent upon our Advisor s referral relationships. If our Advisor is unable to develop new or maintain existing relationships, or if these relationships fail to generate investment opportunities, our business could be materially adversely affected.

We have historically depended on our Advisor s referral relationships to generate investment opportunities. For us to achieve our future business objectives, members of our Advisor need to maintain these relationships with venture capital and private equity firms and management teams and legal firms, accounting firms, investment banks and other lenders, and we rely to a significant extent upon these relationships to provide us with investment opportunities. If they fail to maintain their existing relationships or develop new relationships with other firms or sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, persons with whom our Advisor has relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will lead to the origination of debt or other investments.

Our Advisor can resign on 60 days notice and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, results of operations or financial condition.

Under the Investment Management Agreement, our Advisor has the right to resign at any time, including during the first two years following the Investment Management Agreement s effective date, upon not more than 60 days written notice, whether we have found a replacement or not. If our Advisor resigns, we may not be able to find a new investment advisor or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so, our operations are likely to be disrupted, our business, results of operations and financial condition and our ability to pay distributions may be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of new management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, results of operations or financial condition.

Our ability to enter into transactions with our affiliates is restricted.

As a BDC, we are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is considered our affiliate for purposes of the 1940 Act. We are generally prohibited from buying or selling any security from or to an affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain joint transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to that person or certain of that person s affiliates, or entering into prohibited joint transactions with those persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions could limit or prohibit us from making certain attractive investments that we might otherwise make absent such restrictions.

While we have no current intention to enter into any principal transactions or joint arrangements with any affiliates, we have considered and evaluated, and will continue to consider and evaluate, the potential advantages and disadvantages of doing so. If we decide to enter into any such transactions in the future we will not do so until we have requested and received the requisite exemptive relief under Section 57 of the 1940 Act, the filing of which our Board has previously authorized.

Table of Contents

We incur significant costs as a result of being a publicly traded company.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 (the Sarbanes Oxley Act), and other rules implemented by the SEC.

Efforts to comply with Section 404 of the Sarbanes-Oxley Act may involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our common stock.

Under current SEC rules, we are required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and related rules and regulations of the SEC. As a result, we incur additional expenses that may negatively impact our financial performance and our ability to make distributions. This process also results in a diversion of management s time and attention. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations, and we may not be able to ensure that the process is effective or that our internal control over financial reporting is or will be effective in a timely manner. In the event that we are unable to maintain or achieve compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

Terrorist attacks and other catastrophic events may disrupt the businesses in which we invest and harm our operations and our profitability.

Terrorist attacks and threats, escalation of military activity or acts of war may significantly harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or United States businesses. Such attacks or armed conflicts in the United States or elsewhere may impact the businesses in which we invest directly or indirectly, by undermining economic conditions in the United States or elsewhere. In addition, because many of our portfolio companies operate and rely on network infrastructure and enterprise applications and internal technology systems for development, marketing, operational, support and other business activities, a disruption or failure of any or all of these systems in the event of a major telecommunications failure, cyber-attack, fire, earthquake, severe weather conditions or other catastrophic event could cause system interruptions, delays in product development and loss of critical data and could otherwise disrupt their business operations. Losses resulting from terrorist attacks are generally uninsurable.

Risks Related to our Investments

We have not yet identified many of the potential investment opportunities for our portfolio.

We have not yet identified many of the potential investment opportunities for our portfolio. Our future investments will be selected by our Advisor, subject to the approval of its investment committee. Our stockholders do not have input into our Advisor s investment decisions. As a result, our stockholders are unable to evaluate any of our future portfolio company investments. These factors increase the uncertainty, and thus the risk, of investing in our securities.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on stake holdings in investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a

Table of Contents

greater extent than that of a diversified investment company as a result of changes in the financial condition or the market s assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

If our investments do not meet our performance expectations, you may not receive distributions.

We intend to make distributions of income on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See Regulation. Also, restrictions and provisions in any existing or future credit facilities may limit our ability to make distributions. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including failure to obtain, or possible loss of, the federal income tax benefits allowable to RICs.

Most of our portfolio companies will need additional capital, which may not be readily available.

Our portfolio companies typically require substantial additional financing to satisfy their continuing working capital and other capital requirements and service the interest and principal payments on our investments. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. Each round of institutional equity financing is typically intended to provide a company with only enough capital to reach the next stage of development. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms that are unfavorable to the portfolio company, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or lenders, thereby requiring these companies to cease or curtail business operations. Accordingly, investing in these types of companies generally entails a higher risk of loss than investing in companies that do not have significant incremental capital raising requirements.

Economic recessions or downturns could adversely affect our business and that of our portfolio companies which may have an adverse effect on our business, results of operations and financial condition.

General economic conditions may affect our activities and the operation and value of our portfolio companies. Economic slowdowns or recessions may result in a decrease of institutional equity investment, which would limit our lending opportunities. Furthermore, many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions could also increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the loans that we hold. We may incur expenses to the extent necessary to recover our investment upon default or to negotiate new terms with a defaulting portfolio company. These events could harm our financial condition and operating results.

Table of Contents

Our investment strategy focuses on investments in development-stage companies in our Target Industries, which are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns, and would be rated below investment grade.

We intend to invest, under normal circumstances, most of the value of our total assets (including the amount of any borrowings for investment purposes) in development-stage companies, which may have relatively limited operating histories, in our Target Industries. Many of these companies may have narrow product lines and small market shares, compared to larger established publicly-owned firms, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns. The revenues, income (or losses) and valuations of development-stage companies in our Target Industries can and often do fluctuate suddenly and dramatically. For these reasons, investments in our portfolio companies, if rated by one or more ratings agency, would typically be rated below investment grade, which refers to securities rated by ratings agencies below the four highest rating categories. These companies may also have more limited access to capital and higher funding costs. In addition, development-stage technology markets are generally characterized by abrupt business cycles and intense competition, and the competitive environment can change abruptly due to rapidly evolving technology. Therefore, our portfolio companies may face considerably more risk than companies in other industry sectors. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us and may materially adversely affect the return on, or the recovery of, our investments in these businesses.

Because of rapid technological change, the average selling prices of products and some services provided by development-stage companies in our Target Industries have historically decreased over their productive lives. These decreases could adversely affect their operating results and cash flow, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect our business, financial condition and results of operations.

Any unrealized depreciation we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC, we are required to carry our investments at fair value which shall be the market value of our investments or, if no market value is ascertainable, at the fair value as determined in good faith pursuant to procedures approved by our Board in accordance with our valuation policy. We are not permitted to maintain a reserve for loan losses. Decreases in the fair values of our investments are recorded as unrealized depreciation. Any unrealized depreciation in our loan portfolio could be an indication of a portfolio company s inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately reduces our income available for distribution in future periods.

If the assets securing the loans we make decrease in value, we may not have sufficient collateral to cover losses and may experience losses upon foreclosure.

We believe our portfolio companies generally are and will be able to repay our loans from their available capital, from future capital-raising transactions or from cash flow from operations. However, to mitigate our credit risks, we typically take a security interest in all or a portion of the assets of our portfolio companies, including the equity interests of their subsidiaries. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to appraise or sell in a timely manner and may fluctuate in value based upon the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration of a portfolio company s financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration of the value of the collateral for the loan. Consequently, although such loan is secured, we may not receive principal and interest payments according to the loan s terms and the value of the collateral may not be sufficient to recover our investment should we be forced to enforce our remedies.

In addition, because we invest in development-stage companies in our Target Industries, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory,

equipment, cash and accounts receivables. Intellectual property, if any, which secures a loan, could lose value if the company s rights to the intellectual property are challenged or if the company s license to the intellectual property is revoked or expires. In addition, in lieu of a security interest in a portfolio company s intellectual property, we may sometimes obtain a security interest in all assets of the portfolio company other than intellectual property and also obtain a commitment by the portfolio company not to grant liens to any other creditor on the company s intellectual property. In these cases, we may have additional difficulty recovering our principal in the event of a foreclosure. Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure.

We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company s business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. These events could harm our financial condition and operating results.

The lack of liquidity in our investments may adversely affect our business, and if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.

We plan to generally invest in loans with terms of up to four years and hold such investments until maturity, unless earlier prepaid, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We expect to primarily invest in companies whose securities are not publicly-traded, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. We may also face other restrictions on our ability to liquidate an investment in a public portfolio company to the extent that we possess material non-public information regarding the portfolio company. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to dispose of our investments in the near term. However, we may be required to do so in order to maintain our qualification as a BDC and as a RIC if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. Because most of our investments are illiquid, we may be unable to dispose of them, in which case we could fail to qualify as a RIC and/or BDC, or we may not be able to dispose of them at favorable prices, and as a result, we may suffer losses.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We plan to invest primarily in loans issued by our portfolio companies. Some of our portfolio companies are permitted to have other debt that ranks equally with, or senior to, our loans in the portfolio company. By their terms, these debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of our loans. These debt instruments may prohibit the portfolio companies from paying interest on or repaying our investments in the event of, and during, the continuance of a default under the debt instruments. In addition, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any payment in respect of our investment. After repaying senior creditors, a

portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with our loans, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy.

There may be circumstances where our loans could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though certain of our investments are structured as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a portfolio company s business, including in rendering significant managerial assistance, or instances where we exercise control over the portfolio company.

An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We currently invest, and plan to invest, primarily in privately held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our Advisor to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies frequently have less diverse product lines and a smaller market presence than larger competitors. Thus, they are generally more vulnerable to economic downturns and may experience substantial variations in operating results. These factors could affect our investment returns.

In addition, our success depends, in large part, upon the abilities of the key management personnel of our portfolio companies, who are responsible for the day-to-day operations of our portfolio companies. Competition for qualified personnel is intense at any stage of a company s development. The loss of one or more key managers can hinder or delay a company s implementation of its business plan and harm its financial condition. Our portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively affect our investment returns.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. For example, most of our debt investments have historically been repaid prior to maturity by our portfolio companies. At the time of a liquidity event, such as a sale of the business, refinancing or public offering, many of our portfolio companies have availed themselves of the opportunity to repay our loans prior to maturity. Our investments generally allow for repayment at any time subject to certain penalties. When this occurs, we generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments have substantially lower yields than the debt being prepaid, and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting the industries in which our portfolio companies operate change.

Some of our portfolio companies operate in industries that are highly regulated by federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or

new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns.

Our portfolio companies operating in the life science industry are subject to extensive government regulation and certain other risks particular to that industry.

As part of our investment strategy, we have invested, and plan to invest in the future, in companies in the life science industry that are subject to extensive regulation by the Food and Drug Administration and to a lesser extent, other federal and state agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Portfolio companies in the life science industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair our ability to timely collect principal and interest payments owed to us.

If our portfolio companies are unable to commercialize their technologies, products, business concepts or services, the returns on our investments could be adversely affected.

The value of our investments in our portfolio companies may decline if our portfolio companies are not able to commercialize their technology, products, business concepts or services. Additionally, although some of our portfolio companies may already have a commercially successful product or product line at the time of our investment, technology-related products and services often have a more limited market or life span than products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate in increasingly competitive markets. If they are unable to do so, our investment returns could be adversely affected and their ability to service their debt obligations to us over the life of the loan could be impaired. Our portfolio companies may be unable to successfully acquire or develop any new technologies and the intellectual property they currently hold may not remain viable. Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

If our portfolio companies are unable to protect their intellectual property rights, our business and prospects could be harmed, and if portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of our investment could be reduced.

Our future success and competitive position depends in part upon the ability of our portfolio companies to obtain, maintain and protect proprietary technology used in their products and services. The intellectual property held by our portfolio companies often represents a substantial portion of the collateral securing our investments and/or constitutes a significant portion of the portfolio companies value that may be available in a downside scenario to repay our loans. Our portfolio companies rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation to enforce their patents, copyrights or other intellectual property rights, protect their trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is

found to infringe or misappropriate a third party s patent or other proprietary rights, it could be required to pay damages to the third party, alter its products or processes, obtain a license from the third party and/or cease activities utilizing the proprietary rights, including making or selling products utilizing the proprietary rights. Any of the foregoing events could negatively affect both the portfolio company s ability to service our debt investment and the value of any related debt and equity securities that we own, as well as the value of any collateral securing our investment.

We do not expect to control any of our portfolio companies.

We do not control, or expect to control in the future, any of our portfolio companies, even though our debt agreements may contain certain restrictive covenants that limit the business and operations of our portfolio companies. We also do not maintain, or intend to maintain in the future, a control position to the extent we own equity interests in any portfolio company. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity of the investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and we may therefore, suffer a decrease in the value of our investments.

Risks Related to Offerings Under This Prospectus

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and, a portion of distributions paid to you may be a return of capital.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay dividends might be adversely affected by, among other things, the impact of one or more risk factors described herein. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. All distributions will be paid at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with BDC regulation and such other factors as our Board may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See Price Range of Common Stock and Distributions.

On an annual basis, we will be required to determine the extent to which any distributions we made were paid out of current or accumulated earnings, recognized capital gains or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes, which will result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value. In addition, any return of capital will be net of any sales load and offering expenses associated with sales of shares of our common stock. In the future, our distributions may include a return of capital.

We cannot assure you that the market price of shares of our common stock will not decline.

Prior to our IPO, there was no public trading market for our common stock. We cannot predict the prices at which our common stock will trade. Shares of closed-end management investment companies have in the past frequently traded at discounts to their net asset values and our common stock has been and may continue to be discounted in the market. This characteristic of closed-end management investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we will generally not be able to sell additional shares of our common stock to the public at its market price without first obtaining the approval of our stockholders (including our unaffiliated stockholders) and our independent directors.

Table of Contents

Our common stock price may be volatile and may decrease substantially.

The trading price of our common stock may fluctuate substantially and the liquidity of our common stock may be limited, in each case depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include the following:

- price and volume fluctuations in the overall stock market or in the market for BDCs from time to time;
- investor demand for our shares of common stock;
- significant volatility in the market price and trading volume of securities of registered closed-end management investment companies, BDCs or other financial services companies;
- our inability to raise capital, borrow money or deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs or BDCs;
- losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results;
- changes in the value of our portfolio of investments;
- general economic conditions, trends and other external factors;
- departures of key personnel; or
- loss of a major source of funding.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management s attention and resources from our business.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering.

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies frequently trade at a discount to their net asset value and our stock may also be discounted in the market. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. In addition, if our common stock trades below its net asset value, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval of our stockholders and our independent directors.

We currently invest a portion of our capital in high-quality short-term investments, which generate lower rates of return than those expected from investments made in accordance with our investment objective.

We currently invest a portion of the net proceeds of our capital in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once these proceeds are fully invested in accordance with our investment objective.

Table of Contents

Investing in shares of our common stock may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk, volatility or loss of principal than alternative investment options. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for investors with lower risk tolerance.

We may allocate the net proceeds from an offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

We estimate that it will take up to 6 months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal. Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, may result in lower distributions, if any, during such period. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

Anti-takeover provisions in our charter documents and other agreements and certain provisions of the DGCL could deter takeover attempts and have an adverse impact on the price of our common stock.

The Delaware General Corporation Law (the DGCL), our certificate of incorporation and our bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. Among other things, our certificate of incorporation and bylaws:

- provide for a classified board of directors, which may delay the ability of our stockholders to change the membership of a majority of our Board;
- authorize the issuance of blank check preferred stock that could be issued by our Board to thwart a takeover attempt;
- do not provide for cumulative voting;
- provide that vacancies on our Board, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit the calling of special meetings of stockholders;
- provide that our directors may be removed only for cause;
- require supermajority voting to effect certain amendments to our certificate of incorporation and our bylaws; and
- require stockholders to provide advance notice of new business proposals and director nominations under specific procedures.

These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. Our WestLB Facility also contains a covenant that prohibits us from merging

or consolidating with any other person or selling all or substantially all of our assets without the prior written consent of WestLB. If we were to engage in such a transaction without such consent, WestLB could accelerate our repayment obligations under, and/or terminate, our WestLB Facility. In addition, it is a default under our Wells Facility if (i) a person or group of persons (within the meaning of the Exchange Act) acquires beneficial ownership of 20% or more of our issued and outstanding stock or (ii) during any twelve month period individuals who at the beginning of such period constituted our Board cease for any reason, other than death or disability, to constitute a majority of the directors in office. If either event were to occur, Wells could accelerate our repayment obligations under, and/or terminate, our Wells Facility.

Table of Contents

If we elect to issue preferred stock, holders of any such preferred stock will have the right to elect members of our Board and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. Such dilution is not currently determinable because it is not known what proportion of the shares will be purchased as a result of such rights offering. Any such dilution will disproportionately affect nonexercising stockholders. If the subscription price per share is substantially less than the current net asset value per share, this dilution could be substantial.

In addition, if the subscription price is less than our net asset value per share, our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of such rights offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

Investors in offerings of our common stock may incur immediate dilution upon the closing of such offering.

If the public offering price for any offering of shares of our common stock is higher than the book value per share of our outstanding common stock, investors purchasing shares of common stock in any such offering pursuant to this prospectus will pay a price per share that exceeds the tangible book value per share after such offering.

If we sell common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. See Sales of Common Stock Below Net Asset Value.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All dividends payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan will experience dilution over time.

The trading market or market value of our publicly issued debt securities that we may issue may fluctuate.

Upon issuance, any publicly issued debt securities that we may issue will not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or, if developed, will be maintained. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect your return on the debt securities that we may issue.

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if such debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Credit ratings provided by third party credit rating agencies may not reflect all risks of an investment in debt securities that we may issue.

Credit ratings provided by third party credit rating agencies are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of debt securities that we may issue. Credit ratings provided by third party credit rating agencies, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for any publicly issued debt securities that we may issue.

Subsequent sales in the public market of substantial amounts of our common stock by the selling stockholders may have an adverse effect on the market price of our common stock and the registration of a substantial amount of insider shares, whether or not actually sold, may have a negative impact on the market price of our common stock.

Shares of our common stock sold by the selling stockholders will generally be freely tradeable. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, whether or not actually sold, including those registered pursuant to this Registration Statement, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so. In addition, because shares owned by HTF-CHF Holdings LLC, an entity that is primarily owned by certain of our officers, are being registered for resale, a negative perception could be created in the market about the Company s prospects by such registration.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to factors previously identified elsewhere in this prospectus, including the Risk Factors section of this prospectus, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

our future operating results, including the performance of our existing loans and warrants;

the introduction, withdrawal, success and timing of business initiatives and strategies;

changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;

the relative and absolute investment performance and operations of our Advisor;

the impact of increased competition;

the impact of investments we intend to make and future acquisitions and divestitures;

the unfavorable resolution of legal proceedings;

our business prospects and the prospects of our portfolio companies;

the projected performance of other funds managed by our Advisor;

the impact, extent and timing of technological changes and the adequacy of intellectual property protection;

our regulatory structure and tax status;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our portfolio companies;

the impact of interest rate volatility on our results, particularly because we use leverage as part of our investment strategy;

the ability of our portfolio companies to achieve their objectives;

- our ability to cause a subsidiary to become a licensed SBIC;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our Advisor;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals; and
- the impact of changes to tax legislation and, generally, our tax position.

This prospectus, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, plan, potential, projec remain, maintain, sustain, seek, achieve and similar expressions, or future or conditional verbs such as will, would, should, could, expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act or Section 21E of the Exchange Act. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

Table of Contents

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of our securities for investment in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We estimate that it will take up to 6 months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal. Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective. We will not receive any proceeds from the resale of our common stock by the selling stockholders.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on NASDAQ, under the symbol HRZN. The following table sets forth, for each fiscal quarter since our IPO, the range of high and low sales prices of our common stock as reported on NASDAQ, the sales price as a percentage of our net asset value and the distributions declared by us for each fiscal quarter.

	Net Asset Value[1]	Closing Sales Price		Premium/ discount of High Sales Price to Net Asset Value[2]	Premium/ Discount of Low Sales Price to Net Asset Value[2]	Cash Distributions per Share[3]
		High	Low			
Year ended December 31, 2012						
First Quarter[4]	$ *	$ 16.89	$ 15.79	*%	*%	$ *
Year ended December 31, 2011						
Fourth Quarter	$ *	$ 16.32	$ 14.40	*%	*%	$ *
Third Quarter	$ 17.36	$ 16.25	$ 13.88	94%	80%	$ 0.45
Second Quarter	$ 17.40	$ 16.17	$ 15.21	93%	87%	$ 0.40
First Quarter	$ 17.23	$ 16.25	$ 14.90	94%	86%	$ 0.33
Year ended December 31, 2010						
Fourth Quarter[5]	$ 16.75	$ 15.59	$ 13.83	93%	83%	$ 0.22

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
(2) Calculated as the respective high or low sales price divided by net asset value.
(3) Represents the distribution declared for the specified quarter. We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions are automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See Dividend Reinvestment Plan.
(4) From January 1, 2012 to February 3, 2012.
(5) From October 29, 2010 (initial public offering) to December 31, 2010.
* Not yet determined at the time of filing.

Table of Contents

The last reported price for our common stock on February 3, 2012 was $16.66 per share. As of February 3, 2012, we had four stockholders of record, which does not include stockholders for whom shares are held in nominee or street name.

Shares of BDCs may trade at a market price that is less than the net asset value that is attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our Board. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a return of capital to our common stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

To maintain RIC status, we must, among other things, meet the Annual Distribution Requirement. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Distributions of any such carryover taxable income must be made through a dividend declared prior to filing the final tax return related to the year in which such taxable income was generated in order to count towards the satisfaction of the Annual Distribution Requirement in the year in which such income was generated. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See Material U.S. Federal Income Tax Considerations.

In January 2010, the Internal Revenue Service (the IRS) extended a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared on or before December 31, 2012 with respect to a taxable year ending on or before December 31, 2011 and (3) each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which must be at least 10% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder electing to receive cash receive less than 10% of his or her entire distribution in cash. We have not elected to distribute stock as a dividend but reserve the right to do so.

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute at least 98% of our ordinary income and 98% (or, for our taxable years beginning in 2011, 98.2%) of our capital gain net income on an annual basis and any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax to avoid a U.S. federal excise tax. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our qualification as a RIC. We cannot assure stockholders that they will receive any distributions.

Table of Contents

We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions are automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our dividend reinvestment plan. If a stockholder opts out, that stockholder receives cash distributions. Although distributions paid in the form of additional shares of our common stock are generally subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan do not receive any corresponding cash distributions with which to pay any such applicable taxes.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this section, except where the context suggests otherwise, the terms we, us, our and Horizon Technology Finance refer to Horizon Technology Finance Corporation and its consolidated subsidiaries. The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this registration statement on Form N-2. For periods prior to October 28, 2010, the consolidated financial statements and related footnotes reflect the performance of our predecessor, Compass Horizon, and its wholly-owned subsidiary, Horizon Credit I LLC, both of which were formed in January 2008 and commenced operations in March 2008. Amounts are stated in thousands, except shares and per share data and where otherwise noted. Our actual results could differ materially from those anticipated by forward-looking information due to factors discussed under Risk Factors and Cautionary Note Regarding Forward-Looking Statements appearing elsewhere herein.

Overview

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries. Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make Venture Loans to companies backed by established venture capital and private equity firms in our Target Industries. We also selectively lend to publicly traded companies in our Target Industries.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

Compass Horizon, our predecessor company, commenced operation in March 2008. We were formed in March 2010 for the purpose of acquiring Compass Horizon and continuing its business as a public entity.

Portfolio Composition and Investment Activity

The following table shows our portfolio by asset class as of September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
	# of Investments	Fair Value	% of Total Portfolio	# of Investments	Fair Value	% of Total Portfolio
			($ in thousands)			
Term loans	35	$ 170,187	94.5%	31	$ 127,949	93.5%
Revolving loans	1	2,933	1.6%			
Equipment loans	1	1,282	0.7%	1	2,285	1.6%
Total loans	37	174,402	96.8%	32	130,234	95.1%
Warrants	48	5,091	2.8%	43	6,225	4.6%
Equity	2	693	0.4%	2	351	0.3%
Total		$ 180,186	100.0%		$ 136,810	100.0%

44

Table of Contents

Total portfolio investment activity for the three and nine month periods ended September 30, 2011 and 2010 was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	($ in thousands)			
Beginning portfolio	$ 186,029	$ 143,008	$ 136,810	$ 113,878
New loan funding	7,000	15,000	86,833	75,517
Less refinanced balances			(8,677)	(10,909)
Net new loan funding	7,000	15,000	78,156	64,608
Principal and stock payments received on investments	(8,559)	(11,278)	(22,666)	(28,104)
Early pay-offs	(4,315)	(9,777)	(9,908)	(13,231)
Accretion of loan fees	527	451	1,356	934
New loan fees	(40)	(134)	(967)	(651)
New equity investments		79	577	79
Net depreciation on investments	(456)	1,654	(3,172)	1,490
Ending portfolio	$ 180,186	$ 139,003	$ 180,186	$ 139,003

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period.

The following table shows our debt investments by industry sector as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
	($ in thousands)			
Life Science				
Biotechnology	$ 28,118	16.1%	$ 30,470	23.4%
Medical Device	26,499	15.2%	19,572	15.0%
Technology				
Consumer-related Technologies	2,574	1.5%	4,460	3.4%
Networking	1,282	0.7%	2,285	1.8%
Semiconductors	9,739	5.6%		0.0%
Software	23,719	13.6%	8,745	6.7%
Data Storage	4,929	2.8%	7,912	6.1%
Communications	5,648	3.2%	7,591	5.9%
Cleantech				
Energy Efficiency	25,479	14.6%	16,570	12.7%
Waste Recycling	4,889	2.8%	2,363	1.8%
Healthcare Information and Services				
Diagnostics	22,584	13.0%	20,472	15.7%
Other Healthcare Related Services and Technologies	18,942	10.9%	9,794	7.5%
Total	$ 174,402	100.0%	$ 130,234	100.0%

The largest loans may vary from year to year as new loans are recorded and repaid. Our five largest loans represented approximately 27% and 31% of total loans outstanding as of September 30, 2011 and December 31, 2010, respectively. No single loan represented more than 10% of our total loans as of September 30, 2011 and December 31, 2010.

As of September 30, 2011 and December 31, 2010, interest receivable was $2.5 million and $1.9 million, respectively, which represents one month of accrued interest income on loans. The increase in 2011 was due to a larger loan portfolio relative to 2010.

Loan Portfolio Asset Quality

We use a credit rating system which rates each loan on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 or 1 represents a deteriorating credit quality and increased risk. The following table shows the classification of our loan portfolio by credit rating as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio
	($ in thousands)			
Credit Rating				
4	$ 34,161	19.6%	$ 29,054	22.3%
3	126,168	72.3%	94,200	72.3%
2	14,073	8.1%	6,980	5.4%
1				
Total	$ 174,402	100.0%	$ 130,234	100.0%

As of September 30, 2011 and December 31, 2010, our loan portfolio had a weighted average credit rating of 3.2. As of September 30, 2011 and December 31, 2010, no investments were on non-accrual status.

Results of Operations

The consolidated results of operations set forth below include historical financial information of our predecessor, Compass Horizon, prior to our election to become a BDC and our election to be treated as a RIC. As a BDC and a RIC for U.S. federal income tax purposes, we are also subject to certain constraints on our operations, including limitations imposed by the 1940 Act and the Code. Also, the management fee that we pay to our Advisor under the Investment Management Agreement is determined by reference to a formula that differs materially from the management fee paid by Compass Horizon in prior periods. For these and other reasons set forth below, the results of operations described below may not be indicative of the results we report in future periods.

Table of Contents

Consolidated Results of Operations for the Three Months Ended September 30, 2011 and 2010

Consolidated operating results for the three months ended September 30, 2011 and 2010 are as follows:

	For the Three Months Ended September 30,	
	2011	2010
	($ in thousands)	
Total investment income	$ 6,441	$ 5,189
Total expenses	3,448	1,932
Net investment income	2,993	3,257
Net realized loss on investments	(17)	
Net unrealized (depreciation) appreciation on investments	(217)	1,711
Credit for loan losses		320
Net increase in net assets resulting from operations	$ 2,759	$ 5,288
Average debt investments, at fair value	$ 180,951	$ 137,867
Average borrowings outstanding	$ 80,871	$ 91,640

Net investment income for the three months ended September 30, 2011 was $3.0 million or $0.39 per share. Excluding the impact of the reduction in the second part of the incentive fee expense of $0.2 million, net investment income totaled $2.8 million or $0.37 per share.

Investment Income

Investment income increased by $1.3 million, or 24.1%, for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. For the three months ended September 30, 2011, total investment income consisted primarily of $6.1 million in interest income from investments, which included $0.5 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Fee income on investments was primarily comprised of prepayment fees collected from our portfolio companies. For the three months ended September 30, 2010, total investment income consisted primarily of $5.0 million in interest income from investments, which included $0.5 million in income from the amortization of discounts and origination fees on investments. For the three months ended September 30, 2011 and 2010, our dollar-weighted average annualized yield on average loans was approximately 14.2% and 15.0%, respectively.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 27% and 31% of investment income for the three months ended September 30, 2011 and 2010, respectively.

Expenses

Total expenses increased by $1.5 million, or 78.5%, to $3.4 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees and interest expense and, to a lesser degree, professional fees and general and administrative expenses. Interest expense, which includes the amortization of debt issuance costs, decreased for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to the end of our WestLB Facility s revolving term and the scheduled amortization of the remaining balance.

Effective with the completion of our IPO in October 2010, we pay management and incentive fees under the Investment Management Agreement, which provides a higher management fee base as compared to amounts previously paid by Compass Horizon. Base management fee expense for the three months ended September 30,

Table of Contents

2011 increased by approximately $0.4 million compared to the three months ended September 30, 2010 primarily due to the higher management fee base. Incentive fees for the three months ended September 30, 2011 totaled approximately $0.6 million compared to no incentive fees for the three months ended September 30, 2010. The incentive fees for the three months ended September 30, 2011 consisted of approximately $0.7 million for part one of the incentive fee offset by a reduction of previously accrued part two incentive fees. In connection with the Administration Agreement, we incurred $0.4 million of administrative expenses for the three months ended September 30, 2011. We did not pay an administrative servicing fee for the three months ended September 30, 2010.

Professional fees and general and administrative expenses include legal and audit fees, insurance premiums, and miscellaneous other expenses. These expenses for the three months ended September 30, 2011 increased by approximately $0.6 million compared to the three months ended September 30, 2010 primarily due to the increased cost of being a public company and the expensing of $0.2 million of previously capitalized costs related to our efforts to obtain a license to operate a SBIC.

Net Realized Gain (Loss) and Net Unrealized Appreciation (Depreciation)

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized, and includes investments charged off during the period, net of recoveries. The net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

Consolidated Results of Operations for the Nine Months Ended September 30, 2011 and 2010

	For the Nine Months Ended September 30,	
	2011	2010
	($ in thousands)	
Total investment income	$ 17,871	$ 13,250
Total expenses	10,670	5,372
Net investment income	7,201	7,878
Net realized gain (loss) on investments	5,544	(2)
Net unrealized (depreciation) appreciation on investments	(2,535)	1,549
Credit for loan losses		739
Net increase in net assets resulting from operations	$ 10,210	$ 10,164
Average debt investments, at fair value	$ 162,623	$ 123,298
Average borrowings outstanding	$ 82,606	$ 78,195

Net investment income for the nine months ended September 30, 2011 was $7.2 million or $0.95 per share. Excluding the impact of the capital gains incentive fee expense of $0.7 million, net investment income totaled $7.9 million or $1.04 per share.

Investment Income

Investment income increased by $4.6 million, or 34.9%, for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. For the nine months ended September 30, 2011, total investment income consisted primarily of $16.9 million in interest income from investments, which included $1.3 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to the increased average size of the loan

portfolio. Fee income on investments was primarily comprised of a one-time success fee received upon the completion of an acquisition of one of our portfolio companies and from prepayment fees collected from our portfolio companies. For the nine months ended September 30, 2010, total investment income consisted primarily of $12.9 million in interest income from investments, which included $0.9 million in income from the amortization of discounts and origination fees on investments. For the nine months ended September 30, 2011 and 2010, our dollar-weighted average annualized yield on average loans was approximately 14.6% and 14.3%, respectively.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 25% and 19% of investment income for the nine months ended September 30, 2011 and 2010, respectively.

Expenses

Total expenses increased by $5.3 million, or 98.6%, to $10.6 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees, interest expense and, to a lesser degree, professional fees and general and administrative expenses. Interest expense, which includes the amortization of debt issuance costs, decreased for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to the expiration of our WestLB Facility s revolving term and the amortization of the remaining balance.

Effective with the completion of our IPO in October 2010, we pay management and incentive fees under the Investment Management Agreement, which provides a higher management fee base as compared to amounts previously paid by Compass Horizon. Base management fee expense for the nine months ended September 30, 2011 increased by approximately $1.4 million compared to the nine months ended September 30, 2010 primarily due to the higher management fee base. Incentive fees for the nine months ended September 30, 2011 totaled approximately $2.7 million compared to no incentive fees for the nine months ended September 30, 2010. The incentive fees for the nine months ended September 30, 2011 consisted of approximately $2.0 million and $0.7 million for part one and part two of the incentive fee, respectively. In connection with the Administration Agreement, we incurred $0.9 million of administrative expenses for the nine months ended September 30, 2011. We did not pay an administrative servicing fee for the nine months ended September 30, 2010.

Professional fees and general and administrative expenses include legal and audit fees, insurance premiums and miscellaneous other expenses. These expenses for the nine months ended September 30, 2011 increased by approximately $1.5 million compared to the nine months ended September 30, 2010 primarily due to the increased cost of being a public company and the expensing of previously capitalized costs related to our efforts to obtain a license to operate a SBIC.

Net Realized Gain (Loss) and Net Unrealized Appreciation (Depreciation)

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized, and includes investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the nine months ended September 30, 2011, we had $5.5 million in net realized gain on investments. Net realized gain on investments resulted primarily from the sale of stock through the exercise of warrants in portfolio companies.

Credit for Loan Losses

For the three and nine months ended September 30, 2010, the credit for loan losses was $0.3 million and $0.7 million, respectively. The loan portfolio had a weighted average credit rating of 3.1 as of September 30,

Table of Contents

2010. See Loan Portfolio Asset Quality. As of October 28, 2010, the date of our election to be treated as a BDC, we no longer record a credit or provision for loan losses. We record each individual loan and investment on a quarterly basis at fair value. Changes in fair value are recorded through our statement of operations.

Consolidated Results of Operations for the Years Ended December 31, 2010 and 2009, and the Period from March 4, 2008 (Inception) to December 31, 2008

Compass Horizon, our predecessor for accounting purposes, was formed as a Delaware limited liability company in January 2008 and had limited operations through March 3, 2008. As a result, there is no period with which to compare our results of operations for the period from January 1, 2008 through March 3, 2008 or for the period from March 4, 2008 through December 31, 2008.

Consolidated operating results for the years ended December 31, 2010 and 2009, and the period from March 4, 2008 (inception) to December 31, 2008 are as follows:

	2010	2009	2008
		($ in thousands)	
Total investment income	$ 18,207	$ 15,326	$ 7,021
Total expenses	7,823	6,769	4,031
Net investment income	10,384	8,557	2,990
Net realized gains	680	138	22
Net unrealized appreciation (depreciation) on investments	2,930	892	(73)
Credit (provision) for loan losses	739	(274)	(1,650)
Net income	$ 14,733	$ 9,313	$ 1,289
Average debt investments, at fair value	$ 124,027	$ 109,561	$ 63,111
Average borrowings outstanding	$ 77,174	$ 70,582	$ 37,010

Net income can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, annual comparisons of net income may not be meaningful.

Investment Income

Investment income increased by $2.9 million, or 19.0%, for the year ended December 31, 2010 as compared to the year ended December 31, 2009. For the year ended December 31, 2010, total investment income consisted primarily of $17.4 million in interest income from investments, which included $1.4 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Other investment income was primarily comprised of loan prepayment fees collected from our portfolio companies and increased primarily due to a higher number of prepayments in 2010.

Investment income increased by $8.3 million, or 118.3%, for the year ended December 31, 2009 as compared to the period from March 4, 2008 (inception) to December 31, 2008. For the year ended December 31, 2009, total investment income consisted primarily of $14.9 million in interest income from investments, which included $1.0 million in income from the amortization of discounts and origination fees on investments. Interest income on investments and other investment income increased primarily due to (i) the increased average size of the loan portfolio and (ii) there being a full 12 months of income in 2009 compared to only 10 months in 2008 in light of when we commenced operations. Other investment income was primarily comprised of loan prepayment fees collected from our portfolio companies.

For the years ended December 31, 2010, December 31, 2009 and the ten month period ended December 31, 2008, our dollar-weighted average annualized yield on average loans was approximately 14.6%, 13.9% and 12.7%, respectively. We compute the yield on average loans as (i) total investment interest and other investment

income divided by (b) average gross loans receivable. We used month end loan balances during the period to compute average loans receivable. Since we commenced operations in March 2008, the results for the period ended December 31, 2008 were annualized.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 22%, 23% and 21% of investment income for the years ended December 31, 2010, December 31, 2009 and the period from March 4, 2008 (inception) to December 31, 2008, respectively.

Expenses

Total expenses increased by $1.1 million, or 15.6%, to $7.8 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009. Total expenses increased by $2.7 million, or 67.9%, to $6.8 million for the year ended December 31, 2009 as compared to the period from March 4, 2008 to December 31, 2008.

Total operating expenses for each period consisted principally of management fees and interest expense and, to a lesser degree, professional fees and general and administrative expenses. Interest expense, which includes the amortization of debt issuance costs, increased in 2010 from 2009 primarily from higher average outstanding debt balances on the WestLB Facility. Interest expense increased in 2009 from the ten months ended December 31, 2008 primarily due to higher average outstanding debt balances on the WestLB Facility, partially offset by lower rates charged on the WestLB Facility due to a lower level of the WestLB Facility s index rate, one-month LIBOR.

Effective with the completion of our IPO in October 2010, we now pay management and incentive fees under the Investment Management Agreement which provides a higher management fee base as compared to amounts previously paid by Compass Horizon. Management fee expense in 2010 increased compared to 2009 primarily due to an increase in the average loan portfolio in 2010 from 2009 and increased in 2009 compared to the ten months ended December 31, 2008 due to a full twelve months of expense in 2009 compared to only ten months in 2008. Incentive fees for the period since our IPO totaled approximately $414,000 compared to no incentives fees prior to the IPO.

In connection with the Administrative Agreement, we have incurred $88,000 for the period since our IPO through December 31, 2010. We did not pay an administrative servicing fee prior to our IPO.

Professional fees and general and administrative expenses include legal, accounting fees, insurance premiums and miscellaneous other expenses. These expenses increased in 2010 from 2009 primarily from the increased cost as a public company. These expenses increased in 2009 from the ten months ended December 31, 2008 primarily because of the longer period in 2009.

Net Realized Gains and Net Unrealized Appreciation and Depreciation

During the years ended December 31, 2010 and 2009, we had $0.7 million and $0.1 million in net realized gains on investments, respectively. During the same periods, we had $2.9 million and $0.9 million in unrealized appreciation on investments, respectively. Net realized gain on warrants resulted from the sale of stock through the exercise of warrants in portfolio companies. For these periods, the net increase in unrealized appreciation on investments was primarily from our warrant investments. Net unrealized appreciation on warrants is the difference between the net changes in warrant fair values from the prior determination date and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. The increase in net unrealized appreciation on warrants in 2010 and 2009 is primarily due to an increase in the enterprise value of a number of private companies for which we hold warrants. In addition, the increased net appreciation on warrants is due to the increase in the share value of the public company warrants held.

Credit or Provision for Loan Losses

For the period from January 1, 2010 through October 28, 2010 the credit for loan losses was $0.7 million and for the year ended December 31, 2009 and the period from March 4, 2008 to December 31, 2008 the

provision for loan losses was $0.3 million and $1.6 million, respectively. The credit rose from December 31, 2009 through October 28, 2010 primarily due to improved portfolio asset quality during 2010 across all Credit Ratings within the loan portfolio. The loan portfolio had a weighted average credit rating of 3.1 and 2.9 as of October 28, 2010 and December 31, 2009, respectively. See Loan Portfolio Asset Quality. The decrease in the provision for loan losses in 2009 compared to 2008 was due to less significant loan growth in 2009. As of our election to be treated as a BDC, we no longer record a credit or provision for loan losses. We record each individual loan and investment on a quarterly basis at fair value. Changes in fair value are recorded through our statement of operations.

Liquidity and Capital Resources

As of September 30, 2011 and December 31, 2010, we had cash and cash equivalents of $32.6 million and $76.8 million, respectively. Cash and cash equivalents are available to fund new investments, reduce borrowings under the Credit Facilities, pay operating expenses and pay dividends. To date, our primary sources of capital have been from our IPO, use of the Credit Facilities and the private placement for $50 million of equity capital completed on March 4, 2008.

The WestLB Facility had a three year initial revolving term and on March 3, 2011 the revolving term ended. The balance as of September 30, 2011 of $66 million will be amortized based on loan investment payments received through March 3, 2015.

As of September 30, 2011, we had available borrowing capacity of approximately $59.2 million under our Wells Facility, subject to existing terms and advance rates.

Our operating activities used cash of $32.4 million for the nine months ended September 30, 2011, and our financing activities used cash of $11.8 million for the same period. Our operating activities used cash primarily for investing in portfolio companies. Such cash was provided primarily from proceeds from our IPO and draws under the Credit Facilities.

Our operating activities used cash of $15.5 million for the nine months ended September 30, 2010, and our financing activities provided net cash proceeds of $24.8 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from our availability under our WestLB Facility.

Our operating activities used cash of $8 million for the year ended December 31, 2010 and our financing activities provided net cash proceeds of $75 million for the same period. Our operating activities used cash primarily for investing in portfolio companies. Such cash was provided primarily from proceeds from our IPO and draws under the WestLB Facility.

Our operating activities used cash of $11 million for the year ended December 31, 2009 and our financing activities provided net cash proceeds of $0.5 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from our availability on our WestLB Facility.

Our operating activities used cash of $90 million for the 10 month period ended December 31, 2008 and our financing activities provided net cash proceeds of $110 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from proceeds from an equity private placement and draws under the WestLB Facility.

Our primary use of available funds is investments in portfolio companies and cash distributions to holders of our common stock. We seek to opportunistically raise additional capital as needed, and subject to market conditions, to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act.

In order to satisfy the Code requirements applicable to a RIC, we intend to distribute to our stockholders all or substantially all of our income except for certain net capital gains. In addition, as a BDC, we generally are required to meet an asset coverage ratio of 200%. This requirement limits the amount that we may borrow.

Distributions

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute at least 98% of our ordinary income and 98% (or, for our taxable years beginning in 2011, 98.2%) of our capital gain net income on an annual basis and any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax to avoid a U.S. federal excise tax. We intend to distribute quarterly dividends to our stockholders as determined by our Board.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a BDC under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our qualification as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

We have adopted an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically opts out of our dividend reinvestment plan. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes.

Current Borrowings

We, through our wholly-owned subsidiary, Credit I, entered into the WestLB Facility. Per this agreement, base rate borrowings bear interest at one-month LIBOR (0.24% as of September 30, 2011 and 0.26% as of December 31, 2010) plus 2.50%. The rates were 2.74% and 2.76% as of September 30, 2011 and December 31, 2010, respectively. We were able to request advances under the WestLB Facility through March 4, 2011. We may not request new advances and we must repay the outstanding advances under the WestLB Facility as of such date and at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the WestLB Facility, particularly the condition that the principal balance of the WestLB Facility does not exceed 75% of the aggregate principal balance of our eligible loans to our portfolio companies. All outstanding advances under the WestLB Facility are due and payable on March 4, 2015.

The WestLB Facility is collateralized by all loans and warrants held by Credit I and permits an advance rate of up to 75% of eligible loans held by Credit I. The WestLB Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the WestLB Facility to certain criteria for qualified loans, and includes portfolio company concentration limits as defined in the related loan agreement.

We, through our wholly-owned subsidiary, Credit II, entered into the Wells Facility. Per this agreement, the interest rate is based upon the one-month LIBOR plus a spread of 4%, with a LIBOR floor of 1%. The rate was 5% as of September 30, 2011.

We may request advances under the Wells Facility through July 14, 2014 (the Revolving Period). After the Revolving Period, we may not request new advances and we must repay the outstanding advances under the

Wells Facility as of such date, at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Wells Facility. All outstanding advances under the Wells Facility are due and payable on July 14, 2017.

The Wells Facility is collateralized by loans held by Credit II and permits an advance rate of up to 50% of eligible loans and warrants held by Credit II. The Wells Facility contains covenants that, among other things, require the Company to maintain a minimum net worth, to restrict the loans securing the Wells Facility to certain criteria for qualified loans and to comply with portfolio company concentration limits as defined in the related loan agreement.

Interest Rate Swaps and Hedging Activities

In 2008, we entered into two interest rate swap agreements with WestLB, fixing the rate of $10 million at 3.58% and $15 million at 3.2% on the first advances of a like amount of variable rate WestLB Facility borrowings. As of September 30, 2011, only the $10 million interest rate swap was still outstanding, which expired in October 2011.

Contractual Obligations and Off-Balance Sheet Arrangements

A summary of our significant contractual payment obligations as of September 30, 2011 is as follows:

	Payments due by period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Borrowings	$ 81,885	$ 36,278	$ 45,607	$	$
Unfunded commitments	18,667	9,834	8,833		
Total contractual obligations	$ 100,552	$ 46,112	$ 54,440	$	$

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2011, we had unfunded commitments of approximately $18.7 million. These commitments are subject to the same underwriting and ongoing portfolio maintenance as are the balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

In addition to the Credit Facilities, we have certain commitments pursuant to the Investment Management Agreement entered into with our Advisor. We have agreed to pay a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. Payments under the Investment Management Agreement are equal to (1) a base management fee equal to a percentage of the value of our average gross assets and (2) a two-part incentive fee. We have also entered into a contract with our Advisor to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our Advisor s overhead in performing its obligation under the agreement, including rent, fees and other expenses inclusive of our allocable portion of the compensation of our chief financial officer and any administrative staff. See Note 3 to Consolidated Financial Statements for additional information regarding the Investment Management Agreement and the Administration Agreement.

Critical Accounting Policies

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities,

Table of Contents

revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our significant accounting policies in the notes to our consolidated financial statements.

We have identified the following items as critical accounting policies.

Valuation of Investments

Investments are recorded at fair value. Our Board determines the fair value of our portfolio investments. Prior to our election to become a BDC, loan investments were stated at current unpaid principal balances adjusted for the allowance for loan losses, unearned income and any unamortized deferred fees or costs.

We apply fair value to substantially all of our investments in accordance with relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity-specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three categories within the hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

See Note 5 to Consolidated Financial Statements for further information regarding fair value.

Income Recognition

Interest on loan investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. When a loan becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid.

We receive a variety of fees from borrowers in the ordinary course of conducting our business, including advisory fees, commitment fees, amendment fees, non-utilization fees and prepayment fees. In a limited number of cases, we may also receive a non-refundable deposit earned upon the termination of a transaction. Loan origination fees, net of certain direct origination costs, are deferred, and along with unearned income, are amortized as a level yield adjustment over the respective term of the loan. Fees for counterparty loan commitments with multiple loans are allocated to each loan based upon each loan s relative fair value. When a loan is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the loan is returned to accrual status.

Certain loan agreements also require the borrower to make an end-of-term payment that is accrued into income over the life of the loan to the extent such amounts are expected to be collected. We generally cease accruing the income if there is insufficient value to support the accrual or if we do not expect the borrower to be able to pay all principal and interest due.

In connection with substantially all lending arrangements, we receive warrants to purchase shares of stock from the borrower. The warrants are recorded as assets at estimated fair value on the grant date using the Black-Scholes valuation model. The warrants are considered loan fees and are also recorded as unearned loan income on the grant date. The unearned income is recognized as interest income over the contractual life of the related loan in accordance with our income recognition policy. Subsequent to loan origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on warrants. Gains from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains on warrants.

Allowance for Loan Losses

Prior to our election to become a BDC, the allowance for loan losses represented management s estimate of probable loan losses inherent in the loan portfolio as of the balance sheet date. The estimation of the allowance was based on a variety of factors, including past loan loss experience, the current credit profile of our borrowers, adverse situations that had occurred that may affect individual borrowers ability to repay, the estimated value of underlying collateral and general economic conditions. The loan portfolio is comprised of large balance loans that are evaluated individually for impairment and are risk-rated based upon a borrower s individual situation, current economic conditions, collateral and industry-specific information that management believes is relevant in determining the potential occurrence of a loss event and in measuring impairment. The allowance for loan losses was sensitive to the risk rating assigned to each of the loans and to corresponding qualitative loss factors that we used to estimate the allowance. Those factors were applied to the outstanding loan balances in estimating the allowance for loan losses. If necessary, based on performance factors related to specific loans, specific allowances for loan losses were established for individual impaired loans. Increases or decreases to the allowance for loan losses were charged or credited to current period earnings through the provision (credit) for loan losses. Amounts determined to be uncollectible were charged against the allowance for loan losses, while amounts recovered on previously charged-off loans increased the allowance for loan losses.

A loan was considered impaired when, based on current information and events, it was probable that we were unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral, if the loan was collateral dependent.

Impaired loans also included loans modified in troubled debt restructurings where concessions had been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Income taxes

We have elected to be treated as a RIC under subchapter M of the Code and to operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, we are required to meet certain source of income and asset diversification requirements and we must timely distribute to our

Table of Contents

stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which generally relieves us from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that we determine our estimated current year annual taxable income will be in excess of estimated current year dividend distributions, we will accrue excise tax, if any, on estimated excess taxable income as taxable income is earned. For the nine months ended September 30, 2011, no amount was recorded for U.S. federal excise tax.

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at September 30, 2011 and December 31, 2010.

Prior to our election to become a BDC, we were a limited liability company treated as a partnership for U.S. federal income tax purposes and, as a result, all items of income and expense were passed through to, and are generally reportable on, the tax returns of the respective members of the limited liability company. Therefore, no federal or state income tax provision has been recorded for the nine months ended September 30, 2010.

Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the loans within our portfolio were all at fixed rates and we expect that our loans in the future will also have primarily fixed interest rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index and typically have interest rates that are fixed at the time of the loan funding and remain fixed for the term of the loan.

Assuming that the balance sheet as of September 30, 2011 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

The Credit Facilities have floating interest rate provisions based on a LIBOR index which resets daily, and we expect that any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations and we may use them in the future. Such instruments may include swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

Because we currently fund, and will continue to fund, our investments with borrowings, our net income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by floating rate assets in our investment portfolio.

Table of Contents

SENIOR SECURITIES

Information about our senior securities is shown in the following table as of September 30, 2011, December 31, 2010, December 31, 2009 and December 31, 2008. The information contained in the table for the years ended December 31, 2010 and 2009 and the period from March 4, 2008 (inception) to December 31, 2008 has been derived from our audited financial statements and the information contained in the table in respect of September 30, 2011 has been derived from unaudited financial data. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Current Borrowings for more detailed information regarding the senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities[1] (dollar amounts in millions)	Asset Coverage per Unit[2]	Involuntary Liquidation Preference per Unit[3]	Average Market Value per Unit[4]
Credit Facilities				
2011 (as of September 30, 2011)	$ 81.9	$ 2,617		N/A
2010	$ 87.4	$ 2,455		N/A
2009	$ 64.2	$ 1,927		N/A
2008	$ 63.7	$ 1,782		N/A

(1) Total amount of senior securities outstanding at the end of the period presented.

(2) Asset coverage per unit is the ratio of the total carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.

(3) The amount of which such class of senior security would be entitled upon the voluntary liquidation of the issuer in preference to any security junior to it. The in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of securities.

(4) Not applicable because senior securities are not registered for public trading.

Table of Contents

BUSINESS

General

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries. We were formed on March 16, 2010 as a Delaware corporation for the purpose of acquiring, continuing and expanding the business of our wholly-owned subsidiary, Compass Horizon and operating as an externally managed BDC under the 1940 Act. Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans to companies backed by established venture capital and private equity firms in our Target Industries. We also selectively lend to publicly-traded companies in our Target Industries. Venture Lending is typically characterized by, among other things, (i) the making of a secured loan after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company s debt service obligations under the Venture Loan, (ii) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (iii) the relatively rapid amortization of the Venture Loan, and (iv) the lender s receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing.

We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution, asset diversification and other requirements.

We are externally managed and advised by our Advisor. Our Advisor manages our day-to-day operations and also provides all administrative services necessary for us to operate.

Our Portfolio

Since our inception and through September 30, 2011, we have funded 65 portfolio companies and have invested $337.9 million in loans (including 28 loans that have been repaid). As of September 30, 2011, our total investment portfolio consisted of 37 loans which totaled $174.4 million and our net assets were $132.4 million. Our existing loans are secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The loans in our loan portfolio generally are not rated by any rating agency. For the nine months ended September 30, 2011, our loan portfolio had a dollar-weighted average annualized yield of approximately 14.6% (excluding any yield from warrants). As of September 30, 2011, our loan portfolio had a dollar-weighted average term of approximately 38 months from inception and a dollar-weighted average remaining term of approximately 28 months. In addition, we held warrants to purchase either common stock or preferred stock in 48 portfolio companies. As of September 30, 2011, our loans had an original committed principal amount of between $1 million and $12 million, had repayment terms of between 30 and 48 months and bore current pay interest at annual interest rates of between 10% and 14%.

Our Advisor

Our investment activities are managed by our Advisor and we expect to continue to benefit from our Advisor s ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage our diversified portfolio of investments. In addition to the

experience gained from the years that they have worked together both at our Advisor and prior to the formation by our Advisor of the Company, the members of our investment team have broad lending backgrounds, with substantial experience at a variety of commercial finance companies, technology banks and private debt funds, and have developed a broad network of contacts within the venture capital and private equity community. This network of contacts provides a principal source of investment opportunities.

Our Advisor is led by five senior managers, including its two co-founders, Robert D. Pomeroy, Jr., our Chief Executive Officer, and Gerald A. Michaud, our President. The other senior managers include Christopher M. Mathieu, our Senior Vice President and Chief Financial Officer, John C. Bombara, our Senior Vice President, General Counsel and Chief Compliance Officer, and Daniel S. Devorsetz, our Senior Vice President and Chief Credit Officer.

Our Strategy

Our investment objective is to maximize our investment portfolio s total return by generating current income from the loans we make and capital appreciation from the warrants we receive when making such loans. To further implement our business strategy, our Advisor employs the following core strategies:

Structured Investments in the Venture Capital and Private Equity Markets. We make loans to development-stage companies within our Target Industries typically in the form of secured amortizing loans. The secured amortizing debt structure provides a lower risk strategy, as compared to equity investments, to participate in the emerging technology markets because the debt structures we typically utilize provide collateral against the downside risk of loss, provide return of capital in a much shorter timeframe through current pay interest and amortization of loan principal and have a senior position in the capital structure to equity in the case of insolvency, wind down or bankruptcy. Unlike venture capital and private equity-backed investments, our investment returns and return of our capital do not require equity investment exits such as mergers and acquisitions or initial public offerings. Instead, we receive returns on our loans primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the loan. Only the potential gains from warrants are dependent upon exits.

Enterprise Value Lending. We and our Advisor take an enterprise value approach to the loan structuring and underwriting process. We secure a senior or subordinated lien position against the enterprise value of a portfolio company and generally our exposure is less than 25% of the enterprise value and we obtain pricing enhancements in the form of warrants and other success-based fees that build long-term asset appreciation in our portfolio. These methods reduce the downside risk of Venture Lending. Enterprise value lending requires an in-depth understanding of the companies and markets served. We believe that this in-depth understanding of how venture capital and private equity-backed companies in our Target Industries grow in value, finance that growth over time and various business cycles can be carefully analyzed by Venture Lenders who have substantial experience, relationships and knowledge within the markets they serve. We believe the experience that our Advisor possesses gives us enhanced capabilities in making these qualitative enterprise value evaluations, which we believe can produce a high quality Venture Loan portfolio with enhanced returns for our stockholders.

Creative Products with Attractive Risk-Adjusted Pricing. Each of our existing and prospective portfolio companies has its own unique funding needs for the capital provided from the proceeds of our Venture Loans. These funding needs include, but are not limited to, funds for additional development runways, funds to hire or retain sales staff or funds to invest in research and development in order to reach important technical milestones in advance of raising additional equity. Our loans include current pay interest, commitment fees, pre-payment fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies requirements while mitigating risk and maximizing returns on our investments.

Opportunity for Enhanced Returns. To enhance our loan portfolio returns, in addition to interest and fees, we obtain warrants to purchase the equity of our portfolio companies as additional consideration

for making loans. The warrants we obtain generally include a cashless exercise provision to allow us to exercise these rights without requiring us to make any additional cash investment. Obtaining warrants in our portfolio companies has allowed us to participate in the equity appreciation of our portfolio companies which we expect will enable us to generate higher returns for our investors.

Direct Origination. We originate transactions directly with technology, life science, healthcare information and services and cleantech companies. These transactions are referred to our Advisor from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity firms, portfolio company management teams, legal firms, accounting firms, investment banks and other lenders that represent companies within our Target Industries. Our Advisor has been the sole or lead originator in substantially all transactions in which the funds it manages have invested.

Disciplined and Balanced Underwriting and Portfolio Management. We use a disciplined underwriting process that includes obtaining information validation from multiple sources, extensive knowledge of our Target Industries, comparable industry valuation metrics and sophisticated financial analysis related to development-stage companies. Our Advisor s due diligence on investment prospects includes obtaining and evaluating information on the prospective portfolio company s technology, market opportunity, management team, fund raising history, investor support, valuation considerations, financial condition and projections. We seek to balance our investment portfolio to reduce the risk of down market cycles associated with any particular industry or sector, development stage or geographic area. Our Advisor employs a hands on approach to portfolio management requiring private portfolio companies to provide monthly financial information and to participate in regular updates on performance and future plans.

Use of Leverage. We currently use leverage to increase returns on equity through revolving credit facilities provided by WestLB and Wells. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. In addition, we may issue debt securities in one or more series or preferred stock in the future. The specific terms of each series of debt securities we publicly offer will be described in the particular prospectus supplement relating to that series and the particular terms of any preferred stock we offer will be described in the prospectus supplement relating to such preferred shares. See Description of Debt Securities that We May Issue and Description of Preferred Stock that We May Issue for additional information about the debt securities and preferred stock we may issue.

Customized Loan Documentation Process. Our Advisor employs an internally managed documentation process that assures that each loan transaction is documented using our enterprise value loan documents specifically tailored to each transaction. Our Advisor uses experienced in-house senior legal counsel to oversee the documentation and negotiation of each of our transactions.

Active Portfolio Management. Because many of our portfolio companies are privately held, development-stage companies in our Target Industries, our Advisor employs a hands on approach to its portfolio management processes and procedures. Our Advisor requires the private portfolio companies to provide monthly financial information, and our Advisor participates in quarterly discussions with the management and investors of our portfolio companies. Our Advisor prepares monthly management reporting and internally rates each portfolio company.

Portfolio Composition. Monitoring the composition of the portfolio is an important component of the overall growth and portfolio management strategy. Our Advisor monitors the portfolio regularly to avoid undue focus in any sub-industry, stage of development or geographic area. By regularly monitoring the portfolio for these factors we attempt to reduce the risk of down market cycles associated with any particular industry, development stage or geographic area.

Market Opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include

communications, networking, wireless communications, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include alternative energy, water purification, energy efficiency, green building materials and waste recycling.

We believe that Venture Lending has the potential to achieve enhanced returns that are attractive notwithstanding the high degree of risk associated with lending to development-stage companies. Potential benefits include:

Higher Interest Rates. Venture Loans typically bear interest at rates that exceed the rates that would be available to portfolio companies if they could borrow in traditional commercial financing transactions. We believe these rates provide a risk-adjusted return to lenders compared with other types of debt investing and provide a significantly less expensive alternative to equity financing for development-stage companies.

Loan Support Provided by Cash Proceeds from Equity Capital Provided by Venture Capital and Private Equity Firms. In many cases, a Venture Lender makes a Venture Loan to a portfolio company in conjunction with, or immediately after, a substantial venture capital or private equity investment in the portfolio company. This equity capital investment supports the loan by initially providing a source of cash to fund the portfolio company s debt service obligations. In addition, because the loan ranks senior in priority of payment to the equity capital investment, the portfolio company must repay that debt before the equity capital investors realize a return on their investment. If the portfolio company subsequently becomes distressed, its venture capital and private equity investors will likely have an incentive to assist it in avoiding a payment default, which could lead to foreclosure on the secured assets. We believe that the support of venture capital and private equity investors increases the likelihood that a Venture Loan will be repaid.

Relatively Rapid Amortization of Loans. Venture Loans typically require that interest payments begin within one month of closing, and principal payments begin within twelve months of closing, thereby returning capital to the lender and reducing the capital at risk with respect to the investment. Because Venture Loans are typically made at the time of, or soon after, a portfolio company completes a significant venture capital or private equity financing, the portfolio company usually has sufficient funds to begin making scheduled principal and interest payments even if it is not then generating revenue and/or positive cash flow. If a portfolio company is able to increase its enterprise value during the term of the loan (which is typically between 24 and 48 months), the lender may also benefit from a reduced loan-to-value ratio, which reduces the risk of the loan.

Senior Ranking to Equity and Collateralization. A Venture Loan is typically secured by some or all of the portfolio company s assets, thus making the loan senior in priority to the equity invested in the portfolio company. In many cases, if a portfolio company defaults on its loan, the value of this collateral will provide the lender with an opportunity to recover all or a portion of its investment. Because holders of equity interests in a portfolio company will generally lose their investments before the Venture Lender experiences losses, we believe that the likelihood of losing all of our invested capital in a Venture Loan is lower than would be the case with an equity investment.

Potential Equity Appreciation Through Warrants. Venture Lenders are typically granted warrants in portfolio companies as additional consideration for making Venture Loans. The warrants permit the Venture Lender to purchase equity securities of the portfolio companies at the same price paid by the portfolio company s investors for such preferred stock in the most recent or next equity round of the portfolio company s financing. Historically, warrants granted to Venture Lenders have generally had a term of ten years and been in dollar amounts equal to between 5% and 20% of the principal loan amount. Warrants provide Venture Lenders with an opportunity to participate in the potential growth in value of the portfolio company, thereby increasing the potential return on investment.

Table of Contents

We believe that Venture Lending also provides an attractive financing source for portfolio companies, their management teams and their equity capital investors, because of the following:

Venture Loans are Typically Less Dilutive than Venture Capital and Private Equity Financing. Venture Loans allow a company to access the cash necessary to implement its business plan without diluting the existing investors in the company. Typically, the warrants or other equity securities issued as part of a Venture Lending transaction result in only minimal dilution to existing investors as compared to the potential dilution of a new equity round of financing.

Venture Loans Extend the Time Period During Which a Portfolio Company Can Operate Before Seeking Additional Equity Financing. By using a Venture Loan, development-stage companies can postpone the need for their next round of equity financing, thereby extending their cash available to fund operations. This delay can provide portfolio companies with additional time to improve technology, achieve development milestones and, potentially, increase the company s valuation before seeking more equity investments.

Venture Loans Allow Portfolio Companies to Better Match Cash Sources with Uses. Debt is often used to fund infrastructure costs, including office space and laboratory equipment. The use of debt to fund infrastructure costs allows a portfolio company to spread these costs over time, thereby conserving cash at a stage when its revenues may not be sufficient to cover expenses. Similarly, working capital financing may be used to fund selling and administrative expenses ahead of anticipated corresponding revenue. In both instances, equity capital is preserved for research and development expenses or future expansion.

Competitive Strengths

We believe that we, together with our Advisor, possess significant competitive strengths, including:

Consistently Execute Commitments and Close Transactions. Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and closing Venture Loans. Our Advisor has directly originated, underwritten and managed more than 130 Venture Loans with an aggregate original principal amount over $800 million since it commenced operations in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.