Horizon Technology Finance Corp
Form 497
September 26, 2017

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 497
Registration No. 333-201886

Subject to Completion Dated September 26, 2017

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated August 1, 2017)

$30,000,000

Horizon Technology Finance Corporation

% Notes due 2022

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 debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We make secured debt investments to development-stage companies in the technology, life science, healthcare information and services and cleantech industries.

We are offering $ in aggregate principal amount of % notes due 2022 (the Notes). The Notes will mature on September 15, 2022. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning on December 15, 2017. We may redeem the Notes in whole or in part at any time or from time to time on or after September 15, 2019 at our sole option at the redemption prices set forth under Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. Holders of the Notes will not have the option to have the Notes repaid prior to the stated maturity. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Notes will be our direct 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.

Under the terms of this variable price reoffer, the underwriters have agreed to purchase the Notes from us at % of the aggregate principal amount of the Notes (resulting in $ in aggregate proceeds to us, before deducting expenses payable by us). The underwriters propose to offer the Notes for sale, from time to time, in one or more negotiated transactions, at prices that may be different than par. These sales may occur at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

The underwriters may also purchase up to an additional $ aggregate principal amount of Notes offered hereby, within 30 days of the date of this prospectus supplement, to cover overallotments. If the underwriters exercise this overallotment option in full, the total aggregate proceeds to us, before deducting expenses payable by us, will be $.

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-9 of this prospectus supplement and page 17 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 contain 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). We maintain a website at *www.horizontechfinance.com* and make all of the foregoing information available, free of charge, on or through our website. This information is also 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.

Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC 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 , 2017.

Sole Book-running Manager

Keefe, Bruyette & Woods
A Stifel Company

Co-Managers

BB&T Capital Markets	**William Blair**	**Janney Montgomery Scott**	**Oppenheimer & Co.**

The date of this prospectus supplement is , 2017.

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus when considering whether to purchase the securities offered by this prospectus supplement. 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 the Notes 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.

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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.

Except where the context suggests otherwise, the terms we, us, our and Company refer to our predecessor Compass Horizon Funding Company, LLC and its consolidated subsidiary prior to our IPO and to Horizon Technology Finance Corporation and its consolidated subsidiaries after the IPO. The terms our Advisor and our Administrator refer to Horizon Technology Finance Management, LLC, a Delaware limited liability company, and, where the context requires, Horizon Technology Finance, LLC, our Advisor s predecessor.

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, which we refer to collectively as our Target Industries. Our investment objective is to maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments, which we refer to as Venture Loans, to venture capital backed companies in our Target Industries, which we refer to as Venture Lending. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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, (2) 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, (3) the relatively rapid amortization of the Venture Loan and (4) 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. In addition, for U.S. federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. 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 a portion of 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. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute to our stockholders as long as 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 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 of our Advisor, 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

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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 Robert D. Pomeroy, Jr., our Chief Executive Officer, Gerald A. Michaud, our President, Daniel R. Trolio, 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 Investment 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 debt investments. To further implement our business strategy, we expect our Advisor to continue to employ the following core strategies:

Structured investments in the venture capital and private and public equity markets. We make loans to development-stage companies within our Target Industries typically in the form of secured loans. The secured debt structure provides a lower risk strategy, as compared to equity or unsecured debt 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 principal and have a senior position to equity and unsecured debt in the borrower s capital structure 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 debt investments primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.

Enterprise value lending. We and our Advisor take an enterprise value approach to structuring and underwriting loans. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the applicable portfolio company s particular technology, service or customer base. We secure our lien position against the enterprise value of each 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 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, end-of-term payments, or ETPs, pre-payment fees, success fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies financing requirements while mitigating risk and maximizing returns on our investments.

Opportunity for enhanced returns. To enhance our debt investment portfolio returns, in addition to interest and fees, we frequently obtain warrants to purchase the equity of our portfolio companies as additional consideration for making debt investments. 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 by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. 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. For public companies, our Advisor typically relies on publicly reported quarterly financials.

Use of leverage. We use leverage to increase returns on equity through our credit facility, or the Key Facility, provided by KeyBank National Association, or Key, and our 7.375% senior notes due 2019, or the 2019 Notes (which we intend to redeem with the proceeds of this offering). See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources for additional information about our use of leverage. In addition, we may issue additional debt securities or 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, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug discovery, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, electronic 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, power management, energy efficiency, green building materials and waste recycling. We refer to all of these companies as technology-related companies because the companies are developing or offering goods and services to businesses and consumers which utilize scientific knowledge, including techniques, skills, methods, devices and processes, to solve problems. We intend, under normal market conditions, to invest at least 80% of the value of our total assets in such companies.

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 debt investment support provided by cash proceeds from equity capital invested by venture capital and private equity firms or access to public equity markets to access capital;

relatively rapid amortization of principal;

senior ranking to equity and collateralization of debt investments to minimize potential loss of capital; and

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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;

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 managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed Venture Loans with an aggregate original principal amount over $1.3 billion to more than 210 companies since operations commenced in 2004.

Robust direct origination capabilities. Our Advisor has significant experience originating Venture Loans in our Target Industries. This experience has given our Advisor a deep knowledge of our Target Industries and an extensive base of transaction sources and references.

Highly experienced and cohesive management team. Our Advisor s senior management team of experienced professionals has been together since our 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.

Well-known brand name. Our Advisor has originated Venture Loans to more than 210 companies in our Target Industries under the Horizon Technology Finance brand.

Our portfolio

From the commencement of operations of our predecessor on March 4, 2008 through June 30, 2017, we funded 151 portfolio companies and invested $887.5 million in debt investments. As of June 30, 2017, our debt investment portfolio consisted of 37 debt investments with an aggregate fair value of $164.9 million. As of June 30, 2017, 99.0%, or $163.2 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. As of June 30, 2017, our net assets were $136.8 million, and all of our debt investments were secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The debt investments in our portfolio are generally not rated by any rating agency. If the individual debt investments in our portfolio were rated, they would be rated below investment grade . Debt investments that are unrated or rated below investment grade are sometimes referred to as junk bonds and have predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

For the six months ended June 30, 2017, our debt investment portfolio had a dollar-weighted annualized yield of 15.1% (excluding any yield from warrants), and our investment portfolio (including non-income producing investments) had an overall total return of 14.1%. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. We calculate the yield on dollar-weighted average investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of all investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the

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portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors. As of June 30, 2017, our debt investments had a dollar-weighted average term of 47 months from inception and a dollar-weighted average remaining term of 32 months. As of June 30, 2017, substantially all of our debt investments had an original committed principal amount of between $3 million and $20 million, repayment terms of between 23 and 60 months and bore current pay interest at annual interest rates of between 8% and 13%.

For the six months ended June 30, 2017, our total return based on market value was 13.3%. Total return based on market value is calculated as (x) the sum of (i) the closing sales price of our common stock on the last day of the period plus (ii) the aggregated amount of distributions paid per share during the period, less (iii) the closing sales price of our common stock on the first day of the period, divided by (y) the closing sales price of our common stock on the first day of the period.

In addition to our debt investments, as of June 30, 2017, we held warrants to purchase stock, predominantly preferred stock, in 72 portfolio companies, equity positions in five portfolio companies and success fee arrangements in 10 portfolio companies.

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.horizontechfinance.com*. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Recent developments

From June 30, 2017 through the date of this prospectus supplement, the Company repurchased 5,923 shares of its common stock pursuant to its stock repurchase program at an average price of $9.97 on the open market at a total cost of approximately $59,000.

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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 accompanying 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

% Notes due 2022

Initial aggregate principal amount being offered

$

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.

Issue price

Variable Price Re-offer. The underwriters propose to offer the Notes for sale, from time to time, in one or more negotiated transactions, at prices that may be different than par. These sales may occur at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Listing

We intend to list the Notes on the NYSE within 30 days of the original issue date.

Interest rate

% per year

Stated maturity date

September 15, 2022, unless redeemed prior to maturity.

Interest payment dates

Each March 15, June 15, September 15, and December 15, commencing December 15, 2017. 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 current and future unsecured, unsubordinated indebtedness, including the 2019 Notes (which we intend to redeem with the proceeds from this offering);

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

effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness; and

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

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), after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds from the sale of the Notes to redeem the 2019 Notes. 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 September 15, 2019, 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 covenants

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 1940 Act or any successor provisions.

We agree that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act, the definitional provisions of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and (ii) the two other exceptions set forth below. These statutory provisions of the 1940 Act are not currently applicable to us and will not be applicable to us as a result of this offering. However, if Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined for purposes of Section 18(a)(1)(B) in the 1940 Act, were below 200% at the time of the

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declaration of the dividend or distribution or purchase and after deducting the amount of such dividend, distribution, or purchase. Under the covenant, we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, but only up to such amount as is necessary for us to maintain our status as a RIC under Subchapter M of the Code. Furthermore, the covenant will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act (after giving effect to any exemptive relief granted to us by the SEC) for more than six consecutive months.

See the Description of the Notes section of this prospectus supplement for certain other covenants applicable to the Notes.

Risk factors

See Risk Factors beginning on page S-9 of this prospectus supplement and beginning on page 17 of the accompanying prospectus for a discussion of risks you should carefully consider before deciding to invest in the Notes.

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 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 currently incurred or 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.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

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. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including the holders of the Notes.

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 have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims are 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 structurally subordinated 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.

In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture under which the Notes will be issued contains limited protection for holders of the Notes.

The indenture under which the Notes will be issued 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 a material adverse impact on investments 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

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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 as modified by Section 61(a)(l) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, (these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings);

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, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(l) and the definitional provisions of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock unless our asset coverage, as defined for purposes of Section 18(a)(1)(B) the 1940 Act, equals at least 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase), unless the payment of such dividend is necessary to maintain our status as a RIC under subchapter M of the code;

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 does not require us to offer 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.

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 holders 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 the covenants or restrictions in the Key Facility or make payments when due thereunder, 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.

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An active trading market for the Notes may not exist, which could limit a holder s ability to sell the Notes or affect the market price of the Notes. 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, prospects and other factors. The Notes are not currently expected to be rated, which we expect will 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. Certain of the underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. Such 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.

The optional redemption provision may materially adversely affect your return on the Notes.

The Notes are redeemable in whole or in part at any time or from time to time on or after September 15, 2019 at our sole option at the redemption price set forth under the caption Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. We may choose to redeem the Notes at times when prevailing interest rates are lower than the interest rate paid on the Notes. 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 the Notes being redeemed.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

Any default under the agreements governing our indebtedness, including a default under the Key Facility or other indebtedness to which we may be a party that is not waived by the required lenders or holders thereunder, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Key Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Key Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Key Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under

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the Key Facility, could proceed against the collateral securing the debt. Because the Key Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

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 shares 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.

FATCA withholding may apply to payments to certain foreign entities.

Payments made under the Notes to a foreign financial institution, or FFI, or non-financial foreign entity, or NFFE (including such an institution or entity acting as an intermediary), may be subject to a U.S. withholding tax of 30% under U.S. Foreign Account Tax Compliance Act provisions of the Code (commonly referred to as FATCA). This withholding tax may apply to payments of interest on the Notes as well as, after December 31, 2018, to payments made upon maturity, redemption, or sale of the Notes, unless the FFI or NFFE complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Depending upon the status of a holder and the status of an intermediary through which any Notes are held, the holder could be subject to this 30% withholding tax in respect of any interest paid on the Notes as well as any proceeds from the sale or other disposition of the Notes. You should consult your own tax advisors regarding FATCA and how it may affect your investment in the Notes. See ***United States Federal Income Tax Consequences Taxation of Note Holders FATCA Withholding on Payments to Certain Foreign Entities*** in this prospectus supplement for more information.

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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 debt investments 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 impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- our regulatory structure and tax status;
- our ability to qualify and maintain qualification as a RIC and as a BDC;
- 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;
- 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, assume, plan, potential, pr continue, remain, maintain, sustain, seek, achieve and similar expressions, or future or conditional verbs such would, should, could, may or similar expressions.

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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, or the Securities Act, or Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Actual results could differ materially from those 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.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial data of Horizon Technology Finance Corporation as of December 31, 2016, 2015, 2014, 2013, and 2012, and for the years ended December 31, 2016, 2015, 2014, 2013, and 2012 are derived from the consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. Interim financial information as of and for the six months ended June 30, 2017 and 2016 is derived from our unaudited consolidated financial statements, and in the opinion of management, reflects all adjustments (consisting of only normal recurring adjustments) that are necessary to present fairly the results of such interim periods. These 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.

	As of and for the Six Months Ended June 30,		As of and for the Years Ended December 31,				
(In thousands, except per share data)	2017	2016	2016	2015	2014	2013	2012
Statement of Operations Data:							
Total investment income	$12,841	$18,389	$32,984	$31,110	$31,254	$33,643	$26,664
Base management fee	1,862	2,531	4,727	4,747	4,648	5,353	4,208
Performance based incentive fee	836	2,126	2,126	3,501	2,112	3,318	2,847
All other expenses	4,022	4,908	9,119	9,212	13,962	11,605	7,382
Base management and performance based incentive fees waived				(346)	(345)	(144)	
Net investment income before excise tax	6,121	8,824	17,012	13,996	10,877	13,511	12,227
(Credit) provision for excise tax		(85)	(87)		160	240	231
Net investment income	6,121	8,909	17,099	13,996	10,717	13,271	11,996
Net realized (loss) gain on investments	(10,670)	(2,862)	(7,776)	(1,650)	(3,576)	(7,509)	108
Net unrealized appreciation (depreciation) on investments	8,934	(4,728)	(14,236)	(490)	8,289	(2,254)	(8,113)
Net increase (decrease) in net assets resulting from operations	4,385	1,319	(4,913)	11,856	15,430	3,508	3,991
Dollar amount of distributions declared	$6,911	$7,966	$15,403	$15,793	$13,282	$13,236	$18,777
Per Share Data:							
Net asset value	$11.87	$13.27	$12.09	$13.85	$14.36	$14.14	$15.15
Net investment income	0.53	0.77	1.48	1.25	1.11	1.38	1.41
Net realized (loss) gain on investments	(0.93)	(0.25)	(0.67)	(0.15)	(0.37)	(0.78)	0.01

Net change in unrealized appreciation (depreciation) on investments	0.78	(0.41)	(1.24)	(0.04)	0.86	(0.23)	(0.95)
Net increase (decrease) in net assets resulting from operations	0.38	0.11	(0.43)	1.06	1.60	0.37	0.47
Per share distributions declared	0.60	0.69	1.335	$1.38	$1.38	$1.38	$2.15
Statement of Assets and Liabilities Data at Period End:							
Investments, at fair value	$179,084	$233,266	$194,003	$250,267	$205,101	$221,284	$228,613
Other assets	18,033	26,653	45,249	30,629	20,095	42,453	11,045
Total assets	197,117	259,919	239,252	280,896	225,196	263,737	239,658
Borrowings	55,691	100,502	95,597	114,954	81,753	122,343	89,020
Total liabilities	60,355	106,689	100,060	121,145	86,948	127,902	94,686
Total net assets	$136,762	$153,230	$139,192	$159,751	$138,248	$135,835	$144,972

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(In thousands, except per share data)	As of and for the Six Months Ended June 30, 2017	2016	As of and for the Years Ended December 31, 2016	2015	2014	2013	2012
Other data:							
Weighted annualized yield on income producing investments at fair value	15.1%	15.5%	14.9%	14.2%	15.3%	14.4%	14.2%
Weighted annualized yield on all portfolio investments at fair value	14.1%	15.1%	14.4%	13.7%	14.8%	14.1%	13.9%
Number of portfolio companies at period end:							
Debt investments	37	49	44	52	50	49	45
Warrants investments	72	80	78	83	75	73	62
Equity investments	5	5	5	6	4	4	2

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USE OF PROCEEDS

We estimate that net proceeds we will receive from the sale of the Notes in this offering will be approximately $ (or approximately $ if the underwriters fully exercise their overallotment option), based on the underwriters purchasing the Notes from us at % of the aggregate principal amount and after deducting 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 along with cash on hand or additional borrowing under the Key Facility to redeem the outstanding 2019 Notes which are redeemable upon 30 days notice. The 2019 Notes bear interest at a rate of 7.375% per year and would otherwise mature on March 15, 2019. Pending such use, we may use the net proceeds to temporarily repay borrowings under the Key Facility or may invest the 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. The Key Facility bears interest at a rate of the one-month London Interbank Offered Rate (LIBOR) plus 3.25% per annum (or 4.30% as of June 30, 2017) and matures on August 12, 2020. The temporary investments described above 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.

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RATIO OF EARNINGS TO FIXED CHARGES

For the six months ended June 30, 2017 and the years ended December 31, 2016, 2015, 2014, 2013 and 2012, our ratios of earnings to fixed charges, computed as set forth below, were as follows:

	For the Six Months Ended June 30, 2017	For the Year Ended December 31,				
		2016	2015	2014	2013	2012
Earnings to Fixed Charges[1]	2.8	0.1	3.1	2.8	1.5	2.0

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 and fixed charges. Fixed charges include interest expense, which includes amortization of debt issuance costs and non-use fees.

(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 (0.9) for the six months ended June 30, 2017, 2.6 for the year ended December 31, 2016, 3.1 for the year ended December 31, 2015, 1.8 for the year ended December 31, 2014, 1.7 for the year ended December 31, 2013 and 3.9 for the year ended December 31, 2012.

Excluding the net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 3.5 for the six months ended June 30, 2017, 3.9 for the year ended December 31, 2016, 3.4 for the year ended December 31, 2015, 2.2 for the year ended December 31, 2014, 2.7 for the year ended December 31, 2013, and 3.9 for the year ended December 31, 2012.

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CAPITALIZATION

The following table sets forth:

- our actual capitalization as of June 30, 2017; and
- our capitalization on an as-adjusted basis giving effect to the sale of $ aggregate principal amount of Notes in this offering purchased from us by the underwriters at % of such aggregate principal amount and after deducting estimated offering expenses of approximately $250,000 payable by us and the redemption of our 2019 Notes.

This table should be read in conjunction with Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

	As of June 30, 2017	
	Actual	As-Adjusted
	(dollars in thousands)	
Cash and investment in money market funds	$12,273	$
Total assets	$197,117	$
Borrowings	23,000	23,000
2019 Notes	33,000	
Notes		
Other liabilities	4,355	
Total liabilities	$60,355	$
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, 11,680,722 shares issued and 11,519,180 shares outstanding	12	12
Paid-in capital in excess of par	179,647	179,647
Distributions in excess of net investment income	(1,187)	(1,187)
Net unrealized depreciation on investments	(10,529)	(10,529)
Net realized loss on investments	(31,181)	(31,181)
Total net assets	$136,762	$163,762

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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. 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 our Target Industries. Our investment objective is to maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making Venture Loans to venture capital backed companies in our Target Industries. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically Senior Term Loans. As of June 30, 2017, 99.0%, or $163.2 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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, (2) 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, (3) the relatively rapid amortization of the Venture Loan and (4) 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. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. 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. As a RIC, we generally are not subject to corporate-level income taxes on our investment company taxable income, determined without regard to any deductions for dividends paid, and our net capital gain that we distribute as distributions for U.S. federal income tax purposes to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

Compass Horizon Funding Company LLC, or 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.

Our investment activities, and our day-to-day operations, are managed by our Advisor and supervised by our Board, of which a majority of the members are independent of us. Under the Investment Management Agreement, we have agreed to pay our Advisor a base management fee and an incentive fee for its advisory services to us. We have also entered the Administration Agreement, with our Advisor under which we have agreed to reimburse our Advisor for our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement.

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Portfolio composition and investment activity

The following table shows our portfolio by type of investment as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)					
Term loans	37	$ 164,895	92.1 %	44	$ 186,186	96.0 %
Warrants	72	7,341	4.1	78	6,362	3.3
Other investments	3	5,900	3.3	2	600	0.3
Equity	5	948	0.5	5	855	0.4
Total		$ 179,084	100.0 %		$ 194,033	100.0 %

The following table shows total portfolio investment activity as of and for the three and six months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Beginning portfolio	$180,114	$245,035	$194,003	$250,267
New debt investments	22,074	15,187	47,990	31,687
Principal payments received on investments	(8,441)	(13,800)	(20,332)	(23,786)
Early pay-offs	(12,308)	(8,632)	(39,517)	(16,729)
Accretion of debt investment fees	433	379	938	741
New debt investment fees	(420)	(230)	(690)	(519)
New equity		11		56
Proceeds from sale of investments	(346)	(99)	(1,572)	(935)
Net realized gain (loss) on investments	175	(871)	(10,670)	(2,788)
Net unrealized (depreciation) appreciation on investments	(2,197)	(3,714)	8,934	(4,728)
Ending portfolio	$179,084	$233,266	$179,084	$233,266

We receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments 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 June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Debt Investments at Fair Value	Percentage of Total Portfolio	Debt Investments at Fair Value	Percentage of Total Portfolio

(Dollars in thousands)

Life Science						
Biotechnology	$ 26,752	16.2	%	$ 40,612	21.8	%
Medical Device	8,703	5.3		13,003	7.0	
Technology						
Communications	7,788	4.7		76	0.1	
Consumer-Related	18,620	11.3		20,631	11.1	
Internet and Media	30,941	18.8		7,933	4.2	
Materials	9,898	6.0		9,874	5.3	

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	June 30, 2017		December 31, 2016	
	Debt Investments at Fair Value	Percentage of Total Portfolio	Debt Investments at Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)			
Networking			3,306	1.8
Power Management	1,727	1.1	2,220	1.2
Semiconductors	1,880	1.1	7,528	4.0
Software	41,222	25.0	53,349	28.7
Cleantech				
Energy Efficiency			1,942	1.0
Waste Recycling	5,984	3.6	5,964	3.2
Healthcare Information and Services				
Diagnostics	3,000	1.8	4,081	2.2
Other	3,606	2.2	5,770	3.1
Software	4,774	2.9	9,897	5.3
Total	$ 164,895	100.0 %	$ 186,186	100.0 %

The largest debt investments in our portfolio may vary from year to year as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 29% and 24% of total debt investments outstanding as of June 30, 2017 and December 31, 2016, respectively. No single debt investment represented more than 10% of our total debt investments as of June 30, 2017 and December 31, 2016.

Debt investment asset quality

We use an internal credit rating system which rates each debt investment 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 represents an increased level of risk and, while no loss is currently anticipated for a 2-rated debt investment, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and a high degree of risk of loss of principal. Our internal credit rating system is not a national credit rating system. As of June 30, 2017 and December 31, 2016, our debt investments had a weighted average credit rating of 3.0. The following table shows the classification of our debt investment portfolio by credit rating as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments
	(Dollars in thousands)					
Credit Rating						
4	8	$ 26,132	15.8 %	6	$ 29,721	16.0 %
3	23	124,123	75.3	28	131,605	70.6
2	3	7,040	4.3	6	13,360	7.2
1	3	7,600	4.6	4	11,500	6.2
Total	37	$ 164,895	100.0 %	44	$ 186,186	100.0 %

As of June 30, 2017, there were three debt investments with an internal credit rating of 1, with an aggregate cost of $16.0 million and an aggregate fair value of $7.6 million. As of December 31, 2016, there were four debt investments with an internal credit rating of 1, with an aggregate cost of $26.2 million and an aggregate fair value of $11.5 million.

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Consolidated results of operations

As a BDC and a RIC, we are subject to certain constraints on our operations, including limitations imposed by the 1940 Act and the Code. The consolidated results of operations described below may not be indicative of the results we report in future periods.

Comparison of the three months ended June 30, 2017 and 2016

The following table shows consolidated results of operations for the three months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30,	
	2017	2016
	(In thousands)	
Total investment income	$ 5,878	$ 9,092
Total expenses	3,124	4,665
Net investment income before excise tax	2,754	4,427
Credit for excise tax		(85)
Net investment income	2,754	4,512
Net realized gain (loss) on investments	176	(876)
Net unrealized depreciation on investments	(2,197)	(3,714)
Net increase (decrease) in net assets resulting from operations	$ 733	$ (78)
Average debt investments, at fair value	$ 159,879	$ 234,186
Average borrowings outstanding	$ 56,989	$ 107,067

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation on investments. As a result, quarterly comparisons of net increase in net assets resulting from operations may not be meaningful.

Investment income

Total investment income decreased by $3.2 million, or 35.3%, to $5.9 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. For the three months ended June 30, 2017, total investment income consisted primarily of $5.4 million in interest income from investments, which included $1.2 million in income from the accretion of origination fees and ETPs, and $0.5 million in fee income. Interest income on investments decreased by $3.4 million, or 38.3%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Interest income on investments decreased primarily due to a decrease of $74.3 million, or 31.7%, in the average size of our investment portfolio for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Fee income, which includes success fee and prepayment fee income on debt investments, increased by $0.2 million, or 51.3%, to $0.5 million primarily due to prepayment fees earned on higher principal prepayments and fees charged for waivers or amendments received during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

For the three months ended June 30, 2017 and 2016, our dollar-weighted annualized yield on average debt investments was 14.7% and 15.5%, respectively, and our investment portfolio (including non-income producing investments) had an overall total return of 13.5% and 15.1%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 28% and 17%, respectively, of investment income for the three months ended June 30, 2017 and 2016.

Expenses

Total expenses decreased by $1.5 million, or 33.0%, to $3.1 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense decreased by $0.4 million, or 28.3%, to $1.1 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Interest expense, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in average borrowings of $50.1 million, or 46.8%, which was partially offset by an increase in our effective cost of debt for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Base management fee expense decreased by $0.4 million, or 28.8%, to $0.9 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Base management fee decreased primarily due to a decrease of $74.3 million, or 31.7%, in the average size of our investment portfolio for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Performance based incentive fee expense decreased by $0.6 million, or 60.6%, to $0.4 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Performance based incentive fee expense decreased due to lower pre-incentive fee net investment income for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, as well as the fact that the incentive fee expense for the three months ended June 30, 2017 was limited by the cap and deferral mechanism, or the Incentive Fee Cap and Deferral Mechanism, under our Investment Management Agreement. This resulted in $0.2 million of reduced expense and additional net investment income for the three months ended June 30, 2017. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap and Deferral Mechanism due to the cumulative incentive fees paid since July 1, 2014 exceeding the cumulative pre-incentive fee net return since July 1, 2015.

Administrative fee expense decreased by $0.1 million, or 32.0%, to $0.2 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Administrative fee expense decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses remained flat at $0.6 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Net realized gains and losses 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. Realized gains or losses on investments include 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 three months ended June 30, 2017, we realized net gains totaling $0.2 million primarily due to the realized gains on the sale of equity received upon the exercise of warrants. During the three months ended June 30, 2016, we realized net losses totaling $0.9 million primarily due to the resolution of one debt investment.

During the three months ended June 30, 2017, net unrealized depreciation on investments totaled $2.2 million which was primarily due to the unrealized depreciation on two debt investments. During the three months ended June 30, 2016, net unrealized depreciation on investments totaled $3.7 million which was

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primarily due to the unrealized depreciation on one debt investment offset by the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period.

Comparison of the six months ended June 30, 2017 and 2016

The following table shows consolidated results of operations for the six months ended June 30, 2017 and 2016:

	For the Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Total investment income	$ 12,841	$ 18,389
Total expenses	6,720	9,565
Net investment income before excise tax	6,121	8,824
Credit for excise tax		(85)
Net investment income	6,121	8,909
Net realized loss on investments	(10,670)	(2,862)
Net unrealized appreciation (depreciation) on investments	8,934	(4,728)
Net increase in net assets resulting from operations	$ 4,385	$ 1,319
Average debt investments, at fair value	$ 170,225	$ 237,174
Average borrowings outstanding	$ 71,442	$ 109,551

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation on investments. As a result, quarterly comparisons of net increase in net assets resulting from operations may not be meaningful.

Investment income

Total investment income decreased by $5.5 million, or 30.2%, to $12.8 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. For the six months ended June 30, 2017, total investment income consisted primarily of $11.7 million in interest income from investments, which included $2.9 million in income from the accretion of origination fees and ETPs, and $1.1 million in fee income. Interest income on investments decreased by $6.1 million, or 34.2%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Interest income on investments decreased primarily due to a decrease of $66.9 million, or 28.2%, in the average size of our investment portfolio for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Fee income, which includes success fee and prepayment fee income on debt investments, increased by $0.5 million, or 91.0%, to $1.1 million primarily due to fees earned on higher principal prepayments received during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

For the six months ended June 30, 2017 and 2016, our dollar-weighted annualized yield on average debt investments was 15.1% and 15.5%, respectively, and our investment portfolio (including non-income producing investments) had an overall total return of 14.1% and 15.1%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 21% and 18%, respectively, of investment income for the six months ended June 30, 2017 and 2016.

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Expenses

Total expenses decreased by $2.8 million, or 29.7%, to $6.7 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense decreased by $0.6 million, or 21.2%, to $2.4 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Interest expense, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in average borrowings of $38.1 million, or 34.8%, which was partially offset by an increase in our effective cost of debt for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Base management fee expense decreased by $0.7 million, or 26.4%, to $1.9 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Base management fee expense decreased primarily due to a decrease of $66.9 million, or 28.2%, in the average size of our investment portfolio for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Performance based incentive fee expense decreased by $1.3 million, or 60.7%, to $0.8 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Performance based incentive fee expense decreased due to lower pre-incentive fee net investment income for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, as well as the fact that the incentive fee expense for the six months ended June 30, 2017 was limited by the Incentive Fee Cap and Deferral Mechanism under our Investment Management Agreement. This resulted in $0.6 million of reduced expense and additional net investment income for the six months ended June 30, 2017. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap and Deferral Mechanism due to the cumulative incentive fees paid since July 1, 2014 exceeding the cumulative pre-incentive fee net return since July 1, 2015.

Administrative fee expense decreased by $0.2 million, or 31.5%, to $0.4 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. Administrative fee expense decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses were $1.2 million and $1.3 million for the six months ended June 30, 2017 and 2016, respectively.

Net realized gains and losses 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. Realized gains or losses on investments include 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 six months ended June 30, 2017, we realized net losses totaling $10.7 million primarily due to the resolution of two debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants. During the six months ended June 30, 2016, we realized net losses totaling $2.9 million primarily due to the resolution of two debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants.

During the six months ended June 30, 2017, net unrealized appreciation on investments totaled $8.9 million which was primarily due to reversal of previously recorded unrealized depreciation on two debt investments that were settled during the period, partially offset by the unrealized depreciation on two debt investments. During the six months ended June 30, 2016, net unrealized depreciation on investments totaled $4.7 million which was primarily due to the unrealized depreciation on one debt investment.

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Liquidity and capital resources

As of June 30, 2017 and December 31, 2016, we had cash of $12.3 million and $37.1 million, respectively. Cash is available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities and issuance of the 2019 Notes, and our fixed-rate asset-backed notes, or the Asset-Backed Notes.

On April 27, 2017, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to $5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to, repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Exchange Act and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2018 or the repurchase of $5.0 million of our common stock. During the three and six months ended June 30, 2017 and 2016, we did not complete any repurchases of our common stock. From the inception of the stock repurchase program through June 30, 2017, we repurchased 161,542 shares of our common stock at an average price of $11.27 on the open market at a total cost of $1.8 million.

At June 30, 2017 and December 31, 2016, the outstanding principal balance under the Key Facility was $23.0 million and $63.0 million, respectively. As of June 30, 2017 and December 31, 2016, we had borrowing capacity under the Key Facility of $72.0 million and $32.0 million, respectively. At June 30, 2017 and December 31, 2016, $37.4 million and $4.6 million, respectively, was available, subject to existing terms and advance rates.

Our operating activities provided cash of $22.0 million for the six months ended June 30, 2017, and our financing activities used cash of $46.8 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to repay the Key Facility and pay distributions to our stockholders.

Our operating activities provided cash of $18.1 million for the six months ended June 30, 2016, and our financing activities used cash of $22.6 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments partially offset by investments made in portfolio companies. Our financing activities used cash primarily to fully pay off our Asset-Backed Notes and pay distributions to our stockholders.

Our primary use of available funds is to make debt investments in portfolio companies and for general corporate purposes. We expect to raise additional equity and debt capital opportunistically as needed and, subject to market conditions, to support our future growth to the extent permitted by the 1940 Act.

In order to be subject to taxation as a RIC, we intend to distribute to our stockholders all or substantially all of our investment company taxable income. In addition, as a BDC, we are required to maintain asset coverage of at least 200%. This requirement limits the amount that we may borrow.

We believe that our current cash, cash generated from operations, and funds available from our Key Facility will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

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Current borrowings

The following table shows our borrowings as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$95,000	$23,000	$72,000	$95,000	$63,000	$32,000
2019 Notes	33,000	33,000		33,000	33,000	
Total before debt issuance costs	128,000	56,000	72,000	128,000	96,000	32,000
Unamortized debt issuance costs attributable to term borrowings		(309)			(403)	
Total borrowings outstanding, net	$128,000	$55,691	$72,000	$128,000	$95,597	$32,000

We entered into the Key Facility with Key effective November 4, 2013. The interest rate on the Key Facility is based upon the one-month LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 1.22% and 0.77% on June 30, 2017 and December 31, 2016, respectively. The interest rate in effect was 4.30% and 4.00%, respectively, as of June 30, 2017 and December 31, 2016. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million. The Key Facility is collateralized by debt investments held by Horizon Credit II LLC, or Credit II, and permits an advance rate of up to fifty percent (50%) of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and to comply with portfolio company concentration limits as defined in the related loan agreement. We may request advances under the Key Facility through August 12, 2018, or the Revolving Period. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Key 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 Key Facility, particularly the condition that the principal balance of the Key Facility not exceed fifty percent (50%) of the aggregate principal balance of our eligible debt investments to our portfolio companies. All outstanding advances under the Key Facility are due and payable on August 12, 2020.

On March 23, 2012, we issued and sold an aggregate principal amount of $30 million 2019 Notes, and on April 18, 2012, pursuant to the underwriters 30-day option to purchase additional notes, we sold an additional $3 million of the 2019 Notes. The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at our option at any time or from time to time at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of June 30, 2017, we were in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol HTF .

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On June 28, 2013, we completed the 2013-1 Securitization. In connection with the 2013-1 Securitization, 2013-1 Trust, a wholly owned subsidiary of ours, issued $90 million in the Asset-Backed Notes, which were rated A1(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by 2013-1 Trust and were backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of such portfolio companies. The Asset-Backed Notes were secured obligations of 2013-1 Trust and non-recourse to us. In connection with the issuance and sale of the Asset-Backed Notes, we made customary representations, warranties and covenants. The Asset-Backed Notes bore interest at a fixed rate of 3.00% per annum and had a stated maturity of May 15, 2018. As of June 13, 2016, the Asset-Backed Notes were repaid in full.

Under the terms of the Asset-Backed Notes, we were required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which could have been used to make monthly interest and principal payments on the Asset-Backed Notes.

Other Assets

As of June 30, 2017 and December 31, 2016, other assets were $1.7 million and $2.1 million, respectively, which were primarily comprised of debt issuance costs and prepaid expenses.

Contractual obligations and off-balance sheet arrangements

The following table shows our significant contractual payment obligations and off-balance sheet arrangements as of June 30, 2017:

	Payments due by period				
	Total	Less than 1 year	1 3 Years	3 5 Years	After 5 years
	(In thousands)				
Borrowings	$ 56,000	$	$ 47,079	$ 8,921	$
Unfunded commitments	30,000	22,500	7,500		
Total	$ 86,000	$ 22,500	$ 54,579	$ 8,921	$

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 June 30, 2017, we had unfunded commitments of $30.0 million. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of June 30, 2017, we reasonably believed that our assets would provide adequate financial resources to satisfy all of our unfunded commitments.

In addition to the Key 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 (1) a base management fee equal to a percentage of the value of our gross assets less cash or cash equivalents, 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 obligations 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 for additional information regarding our Investment Management Agreement and our Administration Agreement.

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Distributions

In order to qualify and be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income for each taxable year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each taxable year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

In addition, in order to be subject to tax as a RIC and to avoid the imposition of corporate-level tax on the income and gains we distribute to our stockholders in respect of any taxable year, we are required under the Code to distribute as dividends to our stockholders out of assets legally available for distribution each taxable year an amount generally at least equal to 90% of the sum of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any. Additionally, in order to avoid the imposition of a U.S. federal excise tax, we are required to distribute, in respect of each calendar year, dividends to our stockholders of an amount at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income and capital gain net income for preceding calendar years that were not distributed during such calendar years and on which we previously did not incur any U.S. federal income tax. If we fail to qualify as a RIC for any reason and become subject to corporate tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings for a fiscal year 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 review any written disclosure accompanying a distribution 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, or DRIP, 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 DRIP. 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, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional shares of our common stock will be treated as receiving a distribution of an amount equal to the fair market value of such shares of our common stock. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

Related party transactions

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Advisers Act. Our investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment Management Agreement, we have agreed to pay the Advisor a base management fee as well as an incentive fee. During the three months ended June 30, 2017 and 2016, we paid the Advisor $1.3 million and $2.3 million, respectively,

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pursuant to the Investment Management Agreement. During the six months ended June 30, 2017 and 2016, we paid the Advisor $2.7 million and $4.7 million, respectively, pursuant to the Investment Management Agreement.

Our Advisor is 60% owned by HTF Holdings LLC, which is 100% owned by Horizon Technology Finance, LLC. By virtue of their ownership interest in Horizon Technology Finance, LLC, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud, may be deemed to control our Advisor.

We have also entered into the Administration Agreement with the Advisor. Under the Administration Agreement, we have agreed to reimburse the Advisor for our allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Advisor provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the three months ended June 30, 2017 and 2016, we paid the Advisor $0.2 million and $0.3 million, respectively, pursuant to the Administration Agreement. During the six months ended June 30, 2017 and 2016, we paid the Advisor $0.4 million and $0.6 million, respectively, pursuant to the Administration Agreement.

The predecessor of the Advisor has granted the Company a non-exclusive, royalty-free license to use the name Horizon Technology Finance.

We believe that we derive substantial benefits from our relationship with our Advisor. Our Advisor may manage other investment vehicles, or Advisor Funds, with the same investment strategy as us. The Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates are precluded from co-investing in such investments. On January 23, 2017, we filed an application for exemptive relief with the SEC which, if granted, would permit us more flexibility to co-invest with the Advisor funds, subject to certain conditions.

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. 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 our portfolio investments. We apply fair value to substantially all of our investments in accordance with Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board s Accounting Standards Codification as amended, or ASC, 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

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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.

Our Board determines the fair value of investments in good faith, based on the input of management, the audit committee and independent valuation firms that have been engaged at the direction of our Board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing twelve-month period under our valuation policy and a consistently applied valuation process. The Board conducts this valuation process at the end of each fiscal quarter, with at least 25% (based on fair value) of our valuation of portfolio companies that do not have a readily available market quotations subject to review by an independent valuation firm.

Income recognition

Interest on debt 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. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management s judgment at the time the debt investment is placed on non-accrual status. For the three and six months ended June 30, 2017 and 2016, we did not recognize any interest income from debt investments on non-accrual status.

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, success 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. Debt investment 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 debt investment. All other income is recorded into income when earned. Fees for counterparty debt investment commitments with multiple debt investments are allocated to each debt investment based upon each debt investment s relative fair value. When a debt investment is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the debt investment is returned to accrual status.

Certain debt investment agreements also require the borrower to make an ETP that is accrued into income over the life of the debt investment 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. We record the warrants as assets at estimated fair value on the grant date using the Black-Scholes valuation model. We consider the warrants as loan fees and record them as unearned income on the grant date. The unearned income is recognized as interest income over the contractual life of the related debt investment in accordance with our income recognition policy. Subsequent to origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded

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through earnings as net unrealized gain or loss on investments. Gains and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

Realized gains or losses on the sale of investments, or upon the determination that an investment balance, or portion thereof, is not recoverable, are calculated using the specific identification method. We measure realized gains or losses by calculating the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Income taxes

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid corporate-level U.S. federal income tax on the income distributed to stockholders, among other things, we are required to meet certain source of income and asset diversification requirements, and we must timely distribute dividends to our stockholders out of assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid, for each taxable 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 taxable year, we may choose to carry forward taxable income in excess of current year distributions into the next taxable year and incur 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 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 in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946, *Financial Services Investment Companies*. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, are 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. We had no material uncertain tax positions at June 30, 2017 and December 31, 2016.

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 debt investments within our portfolio were primarily at floating rates. We expect that our debt investments in the future will primarily have floating interest rates. As of June 30, 2017 and December 31, 2016, 99% and 96%, respectively, of the outstanding principal amount of our debt investments bore interest at floating rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index.

Based on our June 30, 2017 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income), the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

Change in basis points	Interest Income	Interest Expense	Change in Net Assets[(1)]
	(In thousands)		
Up 300 basis points	$ 4,468	$ 700	$ 3,768
Up 200 basis points	$ 3,048	$ 466	$ 2,582
Up 100 basis points	$ 1,574	$ 233	$ 1,341

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Change in basis points	Interest Income	Interest Expense	Change in Net Assets[1]
	(In thousands)		
Down 300 basis points	$ (1,539)	$ (70)	$ (1,469)
Down 200 basis points	$ (1,219)	$ (70)	$ (1,149)
Down 100 basis points	$ (899)	$ (70)	$ (829)

(1) Excludes the impact of incentive fees based on pre-incentive fee net investment income.

While our 2019 Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision, subject to a floor of 0.75% per annum, based on a LIBOR index which resets monthly, and 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 caps, 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 expect to 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 could increase, which would reduce our net investment income.

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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 dated March 23, 2012, entered into between us and U.S. Bank National Association, as trustee, as supplemented by the second 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 second 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 $ ($ if the underwriters option to purchase Notes to cover overallotments, if any, is exercised in full);
will mature on September 15, 2022, 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 September 15, 2019, 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 NYSE within 30 days of the original issue date.

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

pari passu with current and future unsecured unsubordinated indebtedness, including the 2019 Notes (which we intend to redeem with the proceeds of this offering);
senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;
effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness; 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 the Key Facility.

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

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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 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 1940 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 accompanying 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 December 15, 2017. 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 December 1, 2017.

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 and Chicago 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.

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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 September 15, 2019, 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.

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 1940 Act, to the extent applicable.

If we redeem only a portion of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed in compliance with the requirements of the NYSE (or such other principal national securities exchange on which the Notes are then listed), or, if the Notes are not then listed on any national securities exchange, on a pro rata basis, by lot, or by such method as the trustee deems fair and appropriate, in accordance with the 1940 Act to the extent applicable and in accordance with any applicable depositary procedures. 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 NYSE under the symbol HTFA . 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

In addition to standard covenants relating to payment of principal and interest, maintaining an office where payments may be made or securities surrendered for payment, payment of taxes and related matters, the following covenants apply to the Notes.

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 Exchange Act 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.

1940 Act Compliance

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 1940 Act or any successor provisions.

We agree that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act, the definitional provisions of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and

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(ii) the two other exceptions set forth below. These statutory provisions of the 1940 Act are not currently applicable to us and will not be applicable to us as a result of this offering. However, if Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined for purposes of Section 18(a)(1)(B) in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or purchase and after deducting the amount of such dividend, distribution, or purchase. Under the covenant, we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act, but only up to such amount as is necessary for us to maintain our status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. Furthermore, the covenant will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act (after giving effect to any exemptive relief granted to us by the SEC) for more than six consecutive months.

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, if such default is known to a responsible officer of the trustee or a responsible officer of the trustee has received written notice of such default, or holders of at least 25% of the principal amount of the Notes.

The acceleration of our or our subsidiaries indebtedness for money borrowed in aggregate principal amount of $10 million or more so that it becomes due and payable before the date on which it would otherwise have become due and payable, if 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 and in the case of certain orders or decrees entered against us under bankruptcy law, such order or decree remains undischarged or unstayed for a period of 60 days.

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

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ours), has occurred and has not been cured, the trustee, if such event of default is known to a responsible officer of the trustee or a responsible officer of the trustee has received written notice of such event of default, 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.

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.

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- 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 accompanying 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.

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.

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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 1940 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.

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 and for payment of amounts due to the trustee. 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 a ruling issued by the Internal Revenue Service, or IRS, 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 1940 Act and a legal opinion and officers certificate stating that all conditions precedent

to defeasance have been complied with.

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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, including amounts payable to the trustee, relating to the satisfaction and discharge of the Indenture and the Notes have been complied with.

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.

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Book-Entry Debt Securities

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 issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments 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).

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 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 affect 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 be 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.

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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.

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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, the Treasury Regulations promulgated thereunder, 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 (as defined in Section 985 of the Code) 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. 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

Except as discussed below, 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. In addition, if the issue price of the Notes (*i.e.*, the first price at which a substantial amount of the Notes is sold to investors) is less than their stated redemption price at maturity (*i.e.*, the sum of all payments to be made on the Notes, other than payments of qualified stated interest) by more than a specified *de minimis* amount, the Notes will be

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considered as having been issued for U.S. federal income tax purposes with original issue discount, or OID. In the case of the Notes, the term qualified stated interest generally means that interest that is unconditionally payable at least annually and at a single fixed rate.

If the Notes are issued with OID, a U.S. holder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such U.S. holder s regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which a Note is held by a U.S. holder using a constant yield method that reflects the compounding of interest. This means that a U.S. holder will be required to include increasingly greater amounts of OID over time. If the Notes are issued with *de minimis* OID (*i.e.*, discount that is not OID), the U.S. holder generally will be required to include the *de minimis* OID in income at the time a principal payment on the Note is made in proportion to the amount paid. Any amount of *de minimis* OID on a Note that is recognized by a U.S. holder will be characterized as capital gain. Notice will be given if we determine that any of the Notes will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the Notes held by persons of record, other than certain U.S. tax-exempt holders.

If you acquire a Note for an amount that is less than its adjusted issue price, the amount of the difference generally will be treated as market discount for U.S. federal income tax purposes, unless that difference is less than a specified *de minimis* amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Note at the time of any principal payment received on the Note.

In such case, you also may be required to defer, until the maturity of a Note or its earlier sale or other disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Note.

You may make an election to include market discount from a Note in income currently as it accrues in which case the rule described above regarding deferral of interest deductions will not apply. If a U.S. holder makes this election, the U.S. holder will be required to increase the tax basis in the Note by the amount of market discount on the Note included in the U.S. holder s income. If you make this election, it will apply to all debt instruments with market discount (including, if applicable, the Note) that you acquire on or after the first day of the first taxable year to which the election applies, and such election is irrevocable without the consent of the IRS. You should consult your own tax advisor before making this election.

Any market discount you recognize on a Note will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless you make a separate election to accrue such market discount on a constant yield method. If you make this election, it will only apply to the Note and any other debt instruments you specify, that you acquire on or after the first day of the first taxable year to which the election applies. You may not revoke this election without the consent of the IRS. You should consult your own tax advisor before making such election.

If you acquire a Note for an amount in excess of its stated principal amount, you will be considered to have purchased the Note at a premium." You generally may elect to amortize such premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in taxable income under your regular accounting method. Any amortized amount of the premium for a taxable year generally will be treated first as an offset to interest on a Note includible in income in such taxable year, then as a deduction allowed in that taxable year to the extent of your prior interest inclusions on the Note, and finally as a carryforward allowable against your future interest inclusions on the Note, in each case, in accordance with your regular accounting method. If you make this election, you will be required to reduce your tax basis in a Note by the amount of the premium amortized. An election to amortize premium will also apply to all other taxable debt instruments you hold or subsequently acquire on or after the first day of the first taxable year for which the election is made. You may not revoke this election without the consent of the IRS. You should consult your own tax advisor before making such election. If you do not elect to amortize premium on the Note, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the Note.

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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, increased by an OID and market discount previously included in income with respect to the Note, and reduced by the amount of any bond premium previously amortized with respect to the Note and any cash payments on the Note other than qualified stated interest. 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.

Medicare Tax on Net Investment Income. A 3.8% tax is imposed under Section 1411 of the Code on the net investment income of certain U.S. citizens and residents and on the undistributed net investment income of certain estates and trusts. Among other items, net investment income generally includes payments of interest on, and net gains recognized from the sale, exchange, redemption, retirement or other taxable disposition of Notes (unless the Notes are held in connection with certain trades or businesses), less certain deductions. 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.

Tax Shelter Reporting Regulations. Under applicable Treasury Regulations, if a U.S. holder recognizes a loss with respect to the Notes or shares of our common stock of $2 million or more for a non-corporate U.S. holder or $10 million or more for a corporate U.S. holder in any single taxable year (or a greater loss over a combination of taxable years), the U.S. holder may be required to file with the IRS a disclosure statement on IRS Form 8886. Direct U.S. holders of portfolio securities are in many cases excepted from this reporting requirement, but, under current guidance, U.S. holders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to U.S. holders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer s treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. U.S. holders of the Notes or our common stock should consult their own tax advisors to determine the applicability of these Treasury Regulations in light of their individual circumstances.

Taxation of Non-U.S. Holders. Except as provided below under Information Reporting and Backup Witholding and FATCA Withholding on Payments to Certain Foreign Entities, a non-U.S. holder generally will not be subject to U.S. federal income or withholding taxes on payments of principal or stated 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 U.S., (ii) the non-U.S. holder is not a controlled foreign corporation, or CFC, 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) (A) the non-U.S. holder provides a statement on an IRS Form W-8BEN, Form W-8BEN-E or other applicable U.S. nonresident withholding tax certification form signed under penalties of perjury that includes its name and address and certifies that it is not a United States person for U.S. federal income tax purposes in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder, or (B) a securities clearing organization, bank, or other financial institution that holds customer securities in the ordinary course of its trade or business (i.e., a financial institution) and holds a Note certifies to us under penalties of perjury that either it or another financial institution has received the required statement from the non-U.S. holder certifying that it is a non-U.S. person and furnishes us with a copy of the statement.

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 U.S. trade or business, in which case the interest will be subject to

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U.S. 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 classified as a corporation and that receives income that is effectively connected with the conduct of a U.S. 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 U.S. of earnings and profits attributable to a U.S. 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 U.S. 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 U.S. trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS U.S. nonresident withholding tax certification form signed under penalties of perjury to the applicable withholding agent. 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 U.S. 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 U.S. 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 U.S. (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. 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 U.S. 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% 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.

If you are a non-U.S. holder, generally, the applicable withholding agent must report to the IRS and to you payments of interest on a Note and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of a treaty or agreement. In general, backup withholding will not apply to payments of interest on your Note if you have provided to the applicable withholding agent the required certification that you are not a U.S. person and the applicable withholding agent does not have actual knowledge or reason to know that you are a U.S. person. Information reporting and, depending on the circumstances, backup withholding will apply to payment to you of the proceeds of a sale or other disposition (including a retirement or redemption) of your Notes within the U.S. or conducted through certain U.S.-related financial intermediaries, unless you certify under penalties of perjury that you are not a U.S. person or you otherwise establish an exemption, and the applicable withholding agent does not have actual knowledge or reason to know that you are a U.S. person.

In addition, payments of the proceeds from the sale of a Note to or through a non-U.S. office of a broker or the non-U.S. office of a custodian, nominee, or other dealer acting on behalf of a holder generally will not be subject to information reporting or backup withholding. However, if the broker, custodian, nominee, or

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other dealer is a U.S. person, the government of the United States or the government of any state or political subdivision of any state, or any agency or instrumentality of any of these governmental units, a CFC, a foreign partnership that is either engaged in a trade or business within the U.S. or whose U.S. resident partners in the aggregate hold more than 50% of the income or capital interest in the partnership, a non-U.S. person 50% or more of whose gross income for a certain period is effectively connected with a trade or business within the U.S., or a U.S. branch of a foreign bank or insurance company, information reporting (but not backup withholding) generally will be required with respect to payments made to a holder unless the broker, custodian, nominee, or other dealer has documentation of the holder s non-U.S. status and the broker, custodian, nominee, or other dealer has no actual knowledge or reason to know to the contrary.

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.

FATCA Withholding on Payments to Certain Foreign Entities. The FATCA provisions of the Code as well as Treasury Regulations and other IRS administrative guidance promulgated thereunder, when applicable, generally impose a U.S. federal withholding tax of 30% on (i) interest earned in respect of a debt instrument, and (ii) the gross proceeds from the disposition of a debt instrument that pays U.S. source interest income paid after December 31, 2018 (collectively, withholdable payments), which, in each case, would include the Notes, to certain non-U.S. entities (including, in some circumstances, where such an entity is acting as an intermediary) that fail to comply or is not deemed compliant with certain certification and information reporting requirements that are in addition to the requirement to provide an applicable U.S. nonresident withholding tax certification form, as discussed above. FATCA withholding taxes generally apply to all withholdable payments without regard to whether the beneficial owner of the payment would otherwise be entitled to an exemption from withholding taxes pursuant to an applicable tax treaty with the U.S. or under U.S. domestic law. If FATCA withholding taxes are imposed with respect to any payments of interest or proceeds made under the Notes, holders that are otherwise eligible for an exemption from, or reduction of, U.S. federal withholding taxes with respect to such interest or proceeds will be required to seek a credit or refund from the IRS in order to obtain the benefit of such exemption or reduction, if any. Holders of or prospective holders of the Notes may be required to provide additional information as specified in the Second Supplemental Indenture to enable the applicable withholding agent to determine whether withholding is required. Prospective holders of the Notes should consult their own tax advisors regarding the effect, if any, of the FATCA rules for them based on their particular circumstances.

The preceding discussion of material U.S. federal income tax considerations is for general information only and is not tax advice. We urge you to 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.

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UNDERWRITING

We are offering the Notes described in this prospectus supplement and the accompanying prospectus through a number of underwriters. Keefe, Bruyette & Woods, Inc. 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
Keefe, Bruyette & Woods, Inc.	$
BB&T Capital Markets, a division of BB&T Securities, LLC	
William Blair & Company, L.L.C.	
Janney Montgomery Scott LLC	
Oppenheimer & Co. Inc.	
Total	$

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 , 2017,

The underwriters have agreed to purchase the Notes from us at % of the aggregate principal amount of the Notes, which will result in aggregate proceeds to us of $, assuming no exercise of the underwriters overallotment option, and before deducting expenses payable by us, and $, assuming full exercise of the underwriters overallotment option.

The underwriters propose to offer the Notes for sale, from time to time, in one or more negotiated transactions, at prices that may be different than par. These sales may occur at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The underwriters may effect such transactions by selling the Notes to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or purchasers of Notes for whom they may act as agents or to whom they may sell as principal.

We estimate expenses payable by us in connection with this offering will be approximately $250,000. We will pay the filing fees and reasonable fees and disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the offering of the Notes by FINRA.

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 NYSE to begin within 30 days after the original issue date. Currently there is no public market for the Notes.

We have been advised by certain underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. Such 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 such 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 $ 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 Keefe, Bruyette & Woods, Inc. 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.

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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 Keefe, Bruyette & Woods, Inc. is 787 7th Avenue, 4th Floor, New York, New York 10019.

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LEGAL MATTERS

Certain legal matters regarding the Notes offered by this prospectus supplement will be passed upon for us by Dechert LLP, Boston, Massachusetts. Certain legal matters in connection with the Notes offered hereby will be passed upon for the underwriters by Freshfields Bruckhaus Deringer US LLP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our consolidated financial statements as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016 appearing in the accompanying prospectus and elsewhere in the registration statement have been audited by RSM US 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.

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities (Unaudited)
(Dollars in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets		
Non-affiliate investments at fair value (cost of $189,613 and $211,627, respectively) (Note 4)	$ 179,084	$ 194,003
Cash	12,273	37,135
Interest receivable	4,095	6,036
Other assets	1,665	2,078
Total assets	197,117	$ 239,252
Liabilities		
Borrowings (Note 6)	$ 55,691	$ 95,597
Distributions payable	3,456	3,453
Base management fee payable (Note 3)	308	337
Incentive fee payable (Note 3)	405	
Other accrued expenses	495	673
Total liabilities	60,355	100,060
Commitments and Contingencies (Note 7)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2017 and December 31, 2016		
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 11,680,722 and 11,671,966 shares issued and 11,519,180 and 11,510,424 shares outstanding as of June 30, 2017 and December 31, 2016, respectively	12	12
Paid-in capital in excess of par	179,647	179,551
Distributions in excess of net investment income	(1,187)	(397)
Net unrealized depreciation on investments	(10,529)	(19,463)
Net realized loss on investments	(31,181)	(20,511)
Total net assets	136,762	139,192
Total liabilities and net assets	$ 197,117	$ 239,252
Net asset value per common share	$ 11.87	$ 12.09

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited) (Dollars in thousands, except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Investment income				
Interest income on non-affiliate investments	$5,418	$8,788	$11,697	$17,790
Prepayment fee income on non-affiliate investments	327	263	788	429
Fee income on non-affiliate investments	133	41	356	170
Total investment income	5,878	9,092	12,841	18,389
Expenses				
Interest expense	1,084	1,512	2,401	3,046
Base management fee (Note 3)	888	1,247	1,862	2,531
Performance based incentive fee (Note 3)	405	1,027	836	2,126
Administrative fee (Note 3)	187	275	381	556
Professional fees	324	343	830	844
General and administrative	236	261	410	462
Total expenses	3,124	4,665	6,720	9,565
Net investment income before excise tax	2,754	4,427	6,121	8,824
Credit for excise tax		(85)		(85)
Net investment income	2,754	4,512	6,121	8,909
Net realized and unrealized loss on investments				
Net realized gain (loss) on investments	176	(876)	(10,670)	(2,862)
Net unrealized (depreciation) appreciation on investments	(2,197)	(3,714)	8,934	(4,728)
Net realized and unrealized loss on investments	(2,021)	(4,590)	(1,736)	(7,590)
Net increase (decrease) in net assets resulting from operations	$733	$(78)	$4,385	$1,319
Net investment income per common share	$0.24	$0.39	$0.53	$0.77
Net increase (decrease) in net assets per common share	$0.06	$(0.01)	$0.38	$0.11
Distributions declared per share	$0.30	$0.345	$0.60	$0.69
Weighted average shares outstanding	11,517,271	11,544,412	11,515,074	11,541,208

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (Unaudited)
(Dollars in thousands, except share data)

	Common Stock		Paid-In Capital in Excess of Par	Distributions in Excess of Net Investment Income	Net Unrealized Depreciation on Investments	Net Realized Loss on Investments	Total Net Assets
	Shares	Amount					
Balance at December 31, 2015	11,535,212	$12	$179,707	$(2,006)	$(5,227)	$(12,735)	$159,751
Net increase in net assets resulting from operations, net of excise tax				8,909	(4,728)	(2,862)	1,319
Issuance of common stock under dividend reinvestment plan	12,937		142				142
Repurchases of common stock			(16)				(16)
Distributions declared				(7,966)			(7,966)
Balance at June 30, 2016	11,548,149	$12	$179,833	$(1,063)	$(9,955)	$(15,597)	$153,230
Balance at December 31, 2016	11,510,424	$12	$179,551	$(397)	$(19,463)	$(20,511)	$139,192
Net increase in net assets resulting from operations, net of excise tax				6,121	8,934	(10,670)	4,385
Issuance of common stock under dividend reinvestment plan	8,756		96				96
Distributions declared				(6,911)			(6,911)
Balance at June 30, 2017	11,519,180	$12	$179,647	$(1,187)	$(10,529)	$(31,181)	$136,762

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited) (Dollars in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$4,385	$1,319
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization of debt issuance costs	255	306
Net realized loss on investments	10,670	2,862
Net unrealized (appreciation) depreciation on investments	(8,934)	4,728
Purchase of investments	(47,990)	(31,687)
Principal payments received on investments	60,260	40,466
Proceeds from sale of investments	1,572	935
Changes in assets and liabilities:		
Net decrease in investments in money market funds		285
Net decrease in restricted investments in money market funds		1,091
Decrease (increase) in interest receivable	517	(372)
Decrease (increase) in end-of-term payments	1,013	(1,510)
Decrease in unearned income	(248)	(278)
Decrease (increase) in other assets	252	(19)
Decrease in other accrued expenses	(178)	(28)
(Decrease) increase in base management fee payable	(29)	21
Increase (decrease) in incentive fee payable	405	(1)
Net cash provided by operating activities	21,950	18,118
Cash flows from financing activities:		
Repayment of Asset-Backed Notes		(14,546)
Advances on credit facility	15,000	
Repayment of credit facility	(55,000)	
Distributions paid	(6,812)	(7,820)
Repurchase of common stock		(16)
Debt issuance costs		(221)
Net cash used in financing activities	(46,812)	(22,603)
Net decrease in cash	(24,862)	(4,485)
Cash:		
Beginning of period	37,135	20,765
End of period	$12,273	$16,280
Supplemental disclosure of cash flow information:		

Cash paid for interest	$2,260	$2,722
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$1,087	$149
Distributions payable	$3,456	$3,984
End-of-term payments receivable	$3,651	$6,570

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) June 30, 2017 (Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Debt Investments — 120.6%[8]					
Debt Investments — Life Science — 25.9%[8]					
Palatin Technologies, Inc.[2][5]	Biotechnology	Term Loan (9.58% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	$ 3,000	$ 2,970	$ 2,970
		Term Loan (9.58% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	4,167	4,130	4,130
Sample6, Inc.[2]	Biotechnology	Term Loan (10.08% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.50% ETP, Due 8/1/18)	648	644	644
		Term Loan (10.08% cash (Libor + 9.00%; Floor9.50%; Ceiling 11.00%), 4.50% ETP, Due 8/1/18)	394	391	391
		Term Loan (10.08% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.50% ETP, Due 8/1/18)	1,389	1,377	1,377
Strongbridge U.S. Inc.[5]	Biotechnology	Term Loan (9.28% cash (Libor + 8.22%; Floor 8.75%), 8.00% ETP,	7,500	7,364	7,364

		Due 12/1/20)			
vTv Therapeutics Inc.[2][5]	Biotechnology	Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	6,250	6,185	6,185
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,691	3,691
Lantos Technologies, Inc.[2]	Medical Device	Term Loan (11.58% cash (Libor + 10.50%; Floor 11.50%), 8.60% ETP, Due 5/1/19)	2,479	2,463	2,378
Mederi Therapeutics, Inc.[2]	Medical Device	Term Loan (12.72% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	566	562	562
		Term Loan (12.72% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	566	562	562
NinePoint Medical, Inc.[2]	Medical Device	Term Loan (9.83% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	3,500	3,470	3,470
		Term Loan (9.83% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	1,750	1,731	1,731
Total Debt Investments — Life Science				35,540	35,455
Debt Investments — Technology 82.0%[8]					
PebblePost, Inc.[2]	Communications	Term Loan (10.48% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,865	3,865
		Term Loan (10.48% cash (Libor + 9.26%; Floor 10.25%),	4,000	3,923	3,923

		4.00% ETP, Due 7/1/21)			
Gwynnie Bee, Inc.[(2)]	Consumer-related Technologies	Term Loan (11.56% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 11/1/17)	267	263	263
		Term Loan (11.56% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 2/1/18)	233	228	228
		Term Loan (11.56% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 4/1/18)	300	295	295

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) (continued)
June 30, 2017
(Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Le Tote, Inc.[2]	Consumer-related Technologies	Term Loan (10.73% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	$4,000	$ 3,951	$3,951
		Term Loan (10.73% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	3,000	2,962	2,962
Rhapsody International, Inc.[2]	Consumer-related Technologies	Term Loan (11.58% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 10/1/19)	6,750	6,616	6,616
SavingStar, Inc.[2]	Consumer-related Technologies	Term Loan (11.48% cash (Libor + 10.40%; Floor 10.90%), 4.25% ETP, Due 6/1/20)	2,367	2,334	2,334
		Term Loan (11.48% cash (Libor + 10.40%; Floor 10.90%), 3.80% ETP, Due 11/1/20)	2,000	1,971	1,971
IgnitionOne, Inc.[2]	Internet and Media		3,000	2,812	2,812

		Term Loan (11.31% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)			
		Term Loan (11.31% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,812	2,812
		Term Loan (11.31% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,812	2,812
		Term Loan (11.31% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,812	2,812
Jump Ramp Games, Inc.(2)	Internet and Media	Term Loan (10.81% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,933	3,933
MediaBrix, Inc.(2)	Internet and Media	Term Loan (12.08% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,971	3,971
Rocket Lawyer Incorporated(2)	Internet and Media	Term Loan (10.62% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,894	3,894
		Term Loan (10.62% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,923	3,923
Zinio Holdings, LLC(2)	Internet and Media	Term Loan (12.33% cash (Libor + 11.25%; Floor 11.75%), 5.00% ETP,	4,000	3,972	3,972

		Due 2/1/20)			
The NanoSteel Company, Inc.(2)	Materials	Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	5,000	4,952	4,952
		Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,476	2,476
		Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 1/1/20)	2,500	2,470	2,470
Powerhouse Dynamics, Inc.(2)	Power Management	Term Loan (11.78% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	1,750	1,727	1,727
Luxtera, Inc.	Semiconductors	Term Loan (11.00% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,880	1,880
Bridge2 Solutions, Inc.(2)	Software	Term Loan (12.08% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 7/1/19)	3,200	3,181	3,181
		Term Loan 12.08% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 1/1/20)	1,000	997	997

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued)
June 30, 2017
(Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Decisyon, Inc.	Software	Term Loan (13.338% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	$ 1,523	$ 1,521	$ 1,440
		Term Loan (13.338% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	833	756	715
		Term Loan (12.02% PIK, Due 4/15/19)[15]	250	250	237
		Term Loan (12.03% PIK, Due 4/15/19)[15]	250	250	237
Digital Signal Corporation[11][13]	Software	Term Loan (11.33% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,285	1,252	895
		Term Loan (11.33% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,285	1,252	895
		Term Loan (10.00% cash, Due 6/30/17)	295	295	210
Education Elements, Inc.[2]	Software	Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	1,200	1,184	1,184
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	1,250	1,233	1,233
Netuitive, Inc.	Software		252	252	252

		Term Loan (13.33% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/18)			
ScoreBig, Inc.[(2)(11)(12)]	Software	Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,332	945
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,360	953
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 3/1/20)	2,000	1,950	553
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 10/31/16)	203	203	58
		Term Loan (11.08% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 11/11/19)	324	324	91
ShopKeep.com, Inc.[(2)]	Software	Term Loan (11.03% cash (Libor + 9.95%; Floor 10.45%), 3.00% ETP, Due 4/1/20)	6,000	5,907	5,907
		Term Loan (11.03% cash (Libor + 9.95%; Floor 10.45%), 3.00% ETP, Due 9/1/20)	4,000	3,928	3,928
SIGNiX, Inc.	Software	Term Loan (12.08% cash (Libor + 11.00%; Floor 11.50%), 3.5% ETP, Due 4/1/19)	2,200	2,077	2,033
SilkRoad Technology, Inc.[(2)]	Software	Term Loan (11.43% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 4.00% ETP, Due 12/1/19)	7,000	6,899	6,899
Skyword, Inc.	Software	Term Loan (12.03% cash (Libor + 10.95%; Floor 11.45%), 3.00% ETP, Due 8/1/19)	3,600	3,555	3,555
Sys-Tech Solutions, Inc.[(2)]	Software	Term Loan (12.23% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 9.00% ETP, Due 5/1/18)	1,833	1,821	1,821
VBrick Systems, Inc.[(2)]	Software	Term Loan (12.08% cash (Libor + 11.00%; Floor	100	100	100

11.50%; Ceiling
13.50%), 5.00% ETP, Due
7/1/17)

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued)
June 30, 2017
(Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
xTech Holdings, Inc.[2]	Software	Term Loan (11.58% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 4/1/19)	$ 1,167	$ 1,150	$ 1,150
		Term Loan (11.58% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 3/1/20)	1,778	1,753	1,753
Total Debt Investments	Technology			119,636	112,076
Debt Investments	**Cleantech**	**4.4%[8]**			
Lehigh Technologies, Inc.[2]	Waste Recycling	Term Loan (10.80% cash (Libor + 9.72%), 1.67% ETP, Due 8/1/19)	3,000	2,992	2,992
		Term Loan (10.80% cash (Libor + 9.72%), 1.67% ETP, Due 8/1/19)	3,000	2,992	2,992
Total Debt Investments	Cleantech			5,984	5,984
Debt Investments	**Healthcare information and services**	**8.3%[8]**			
Interleukin Genetics, Inc.[2][5][11]	Diagnostics	Term Loan (11.58% cash (Libor + 10.50%; Floor 11.00%), 6.50% ETP, Due 10/1/18)	3,649	3,539	2,629
		Term Loan (8.00% PIK, Due 1/1/22)[15]	500	500	371
Watermark Medical, Inc.[2]			1,458	1,456	1,456

	Other Healthcare	Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)			
		Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	1,458	1,456	1,456
		Term Loan (10.58% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	694	694	694
HealthEdge Software, Inc.(2)	Software	Term Loan (9.47% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,774	4,774
Total Debt Investments	Healthcare information and services			12,419	11,380
Total Debt Investments				173,579	164,895
Warrant Investments 5.4%(8)					
Warrants Life Science 1.1%(8)					
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants		83	
Argos Therapeutics, Inc.(2)(5)	Biotechnology	73,112 Common Stock Warrants		33	
Celsion Corporation(5)	Biotechnology	408 Common Stock Warrants		15	
Inotek Pharmaceuticals Corporation(5)	Biotechnology	28,204 Common Stock Warrants		17	
Nivalis Therapeutics, Inc.(5)	Biotechnology	18,534 Common Stock Warrants		122	
Ocera Therapeutics, Inc.(2)(5)	Biotechnology	6,491 Common Stock Warrants		6	
Palatin Technologies, Inc.(2)(5)	Biotechnology	608,058 Common Stock Warrants		51	1
Revance Therapeutics, Inc.(5)	Biotechnology	34,113 Common Stock Warrants		68	418
Sample6, Inc.(2)	Biotechnology	661,956 Preferred Stock Warrants		53	25
Strongbridge U.S. Inc.(5)	Biotechnology	160,714 Common Stock Warrants		72	782
Sunesis Pharmaceuticals, Inc.(5)	Biotechnology	2,050 Common Stock Warrants		5	
vTv Therapeutics Inc.(2)(5)	Biotechnology	93,896 Common Stock Warrants		44	34

AccuVein Inc.(2)	Medical Device	75,769 Preferred Stock Warrants	24	27
EnteroMedics, Inc.(5)	Medical Device	134 Common Stock Warrants	347	
IntegenX, Inc.(2)	Medical Device	170,646 Preferred Stock Warrants	35	32
Lantos Technologies, Inc.(2)	Medical Device	66,665,256 Preferred Stock Warrants	38	42
Mederi Therapeutics, Inc.(2)	Medical Device	248,736 Preferred Stock Warrants	26	40
Mitralign, Inc.(2)	Medical Device	641,909 Preferred Stock Warrants	52	44
NinePoint Medical, Inc.(2)	Medical Device	566,038 Preferred Stock Warrants	33	40

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Consolidated Schedule of Investments (Unaudited) - (continued) June 30, 2017 (Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
OraMetrix, Inc.[2]	Medical Device	812,348 Preferred Stock Warrants	$	$ 78	$
Tryton Medical, Inc.[2]	Medical Device	122,362 Preferred Stock Warrants		15	13
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants		13	
Total Warrants Life Science				1,230	1,498
Warrants Technology 3.8%[8]					
Ekahau, Inc.[2]	Communications	978,261 Preferred Stock Warrants		33	23
PebblePost, Inc.[2]	Communications	119,770 Preferred Stock Warrants		92	92
Additech, Inc.[2]	Consumer-related Technologies	150,000 Preferred Stock Warrants		33	31
Gwynnie Bee, Inc.[2]	Consumer-related Technologies	268,591 Preferred Stock Warrants		68	819
Le Tote, Inc.[2]	Consumer-related Technologies	202,974 Preferred Stock Warrants		63	359
Rhapsody International Inc.[2]	Consumer-related Technologies	852,273 Common Stock Warrants		164	
SavingStar, Inc.[2]	Consumer-related Technologies	98,860 Preferred Stock Warrants		60	

XIOtech, Inc.	Data Storage	96 Preferred Stock Warrants	22	
IgnitionOne, Inc.(2)	Internet and Media	262,910 Preferred Stock Warrants	672	668
Jump Ramp Games, Inc.(2)	Internet and Media	159,766 Preferred Stock Warrants	32	32
Rocket Lawyer Incorporated(2)	Internet and Media	235,549 Preferred Stock Warrants	83	83
The NanoSteel Company, Inc.(2)	Materials	299,211 Preferred Stock Warrants	93	349
IntelePeer, Inc.	Networking	141,549 Common Stock Warrants	39	
Nanocomp Technologies, Inc.(2)	Networking	1,414,921 Preferred Stock Warrants	67	47
Powerhouse Dynamics, Inc.(2)	Power Management	290,698 Preferred Stock Warrants	28	26
Avalanche Technology, Inc.(2)	Semiconductors	202,602 Preferred Stock Warrants	101	40
eASIC Corporation(2)	Semiconductors	40,445 Preferred Stock Warrants	25	28
InVisage Technologies, Inc.(2)	Semiconductors	395,009 Preferred Stock Warrants	48	
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	45
Luxtera, Inc.(2)	Semiconductors	3,212,948 Preferred Stock Warrants	160	305
Soraa, Inc.(2)	Semiconductors	203,616 Preferred Stock Warrants	80	433
Bolt Solutions Inc.(2)	Software	202,892 Preferred Stock Warrants	113	118
Bridge2 Solutions, Inc.(2)	Software	75,458 Common Stock Warrants	18	341
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	14	82
Decisyon, Inc.	Software	82,967 Common Stock Warrants	46	
Digital Signal Corporation	Software	125,116 Common Stock	32	

		Warrants		
Education Elements, Inc.(2)	Software	238,121 Preferred Stock Warrants	28	28
Lotame Solutions, Inc.(2)	Software	288,115 Preferred Stock Warrants	22	277
Netuitive, Inc.	Software	41,569 Common Stock Warrants	48	
Riv Data Corp.(2)	Software	321,428 Preferred Stock Warrants	12	31
ShopKeep.com, Inc.(2)	Software	165,779 Preferred Stock Warrants	98	119
SIGNiX, Inc.	Software	114,767 Preferred Stock Warrants	210	41
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	56
SpringCM, Inc.(2)	Software	2,385,686 Preferred Stock Warrants	55	131
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	242	442
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	19	
xTech Holdings, Inc.(2)	Software	158,730 Preferred Stock Warrants	43	43
Total Warrants Technology			3,070	5,089

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Consolidated Schedule of Investments (Unaudited) - (continued)
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Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Warrants — Cleantech — 0.1%[8]					
Renmatix, Inc.	Alternative Energy	53,022 Preferred Stock Warrants	$	$ 68	$
Rypos, Inc.[2]	Energy Efficiency	5,627 Preferred Stock Warrants		44	47
Tigo Energy, Inc.[2]	Energy Efficiency	804,604 Preferred Stock Warrants		100	115
Total Warrants — Cleantech				212	162
Warrants — Healthcare information and services — 0.4%[8]					
Candescent Health, Inc.[2]	Diagnostics	519,991 Preferred Stock Warrants		378	
Interleukin Genetics, Inc.[2][5]	Diagnostics	7,973,864 Common Stock Warrants		168	
LifePrint Group, Inc.[2]	Diagnostics	49,000 Preferred Stock Warrants		29	2
ProterixBio, Inc.[2]	Diagnostics	3,156 Common Stock Warrants		54	
Singulex, Inc.	Other Healthcare	294,231 Preferred Stock Warrants		44	51
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants		100	43
Watermark Medical, Inc.[2]	Other Healthcare	27,373 Preferred Stock Warrants		74	58
HealthEdge Software, Inc.[2]	Software	63,225 Preferred Stock Warrants		26	26
Medsphere Systems Corporation[2]	Software	7,097,792 Preferred Stock Warrants		60	206
Recondo Technology, Inc.[2]	Software	556,796 Preferred Stock Warrants		95	206

Total Warrants	Healthcare information and services		1,028	592
Total Warrants			5,540	7,341
Other Investments 4.3%(8)				
Espero Pharmaceuticals, Inc.(14)	Biotechnology	Royalty Agreement	5,300	5,300
ZetrOZ, Inc.	Medical Device	Royalty Agreement	328	500
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,278	100
Total Other Investments			9,906	5,900
Equity 0.7%(8)				
Insmed Incorporated(5)	Biotechnology	33,208 Common Stock	238	570
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	135
Sunesis Pharmaceuticals, Inc.(5)	Biotechnology	13,082 Common Stock	83	35
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock	9	83
Decisyon, Inc.	Software	4,200,934 Common Stock	185	125
Total Equity			588	948
Total Portfolio Investment Assets 131.0%(8)			$ 189,613	$ 179,084

(1) All investments of the Company are in entities which are organized under the laws of the United States and have a principal place of business in the United States.

(2) Has been pledged as collateral under the Key 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. Interest rate is the annual interest rate on the debt investment and does not include end-of-term payments (ETPs) and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at fixed rates for the term of the debt investment, unless otherwise indicated. All debt investments based on LIBOR are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of June 30, 2017 is provided.

(5) Portfolio company is a public company.

(6) For debt investments, represents principal balance less unearned income.

(7) Warrants, Equity and Other Investments are non-income producing.

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued) June 30, 2017 (Dollars in thousands)

(8) Value as a percent of net assets.

(9) The Company did not have any non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended (the 1940 Act), as of June 30, 2017. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company s total assets.

(10) ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable debt investment, including upon any prepayment, and are a fixed percentage of the original principal balance of the debt investments unless otherwise noted. Interest will accrue during the life of the debt investment on each ETP and will be recognized as non-cash income until it is actually paid. Therefore, a portion of the incentive fee the Company may pay its Advisor will be based on income that the Company has not yet received in cash.

(11) Debt investment is on non-accrual status at June 30, 2017.

(12) ScoreBig, Inc., a Delaware corporation (ScoreBig), made an assignment for the benefit of its creditors whereby ScoreBig assigned all of its assets to SB (assignment for the benefit of creditors), LLC, a California limited liability company (SBABC), established under California law to effectuate the Assignment for the Benefit of Creditors of ScoreBig. SBABC subsequently entered into a License Agreement with a third party (Licensee), whereby SBABC granted a license of certain of SBABC s intellectual property and general intangibles to Licensee in exchange for certain royalty payments on the future net profits, if any, of Licensee. SBABC, in consideration for the Company s consent to the License Agreement, agreed to pay all payments due under the License Agreement, if any, to the Company until the payment in full in cash of the Company s debt investments in ScoreBig.

(13) Digital Signal Corporation, a Delaware corporation (DSC), made an assignment for the benefit of its creditors whereby DSC assigned all of its assets to DSC (assignment for the benefit of creditors), LLC, a Delaware limited liability company, established under Delaware law to effectuate the Assignment for the Benefit of Creditors of DSC.

(14) Royalty Agreement received in partial satisfaction of obligations of New Haven Pharmaceuticals, Inc. (NHP) to the Company in connection with the sale of substantially all of the assets of NHP to Espero Pharmaceuticals, Inc.

(15) Debt investment has a payment-in-kind (PIK) feature.

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Horizon Technology Finance Corporation and Subsidiaries

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Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Debt Investments — 133.8%[8]					
Debt Investments — Life Science — 38.5%[8]					
Argos Therapeutics, Inc.[2][5]	Biotechnology	Term Loan (9.38% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 10/1/18)	$ 4,375	$ 4,339	$4,339
		Term Loan (9.38% cash (Libor + 8.75%; Floor 9.25%; Ceiling 10.75%), 5.00% ETP, Due 3/1/19)	5,000	4,969	4,969
New Haven Pharmaceuticals, Inc.[11]	Biotechnology	Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	1,282	1,274	651
		Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%), 11.42% ETP, Due 3/1/19)	427	424	217
		Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 6.10% ETP, Due 3/1/19)	1,973	1,960	1,002
		Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%), 4.00% ETP, Due 4/1/19)	6,185	6,118	3,127
		Term Loan (10.13% cash (Libor + 9.50%;	593	593	303

		Floor 10.00%), Due 1/31/17)			
Palatin Technologies, Inc.(2)(5)	Biotechnology	Term Loan (9.13% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	4,000	3,960	3,960
		Term Loan (9.13% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	5,000	4,955	4,955
Sample6, Inc.(2)	Biotechnology	Term Loan (9.63% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	972	969	969
		Term Loan (9.63% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	591	588	588
		Term Loan (9.63% cash (Libor + 9.00%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	2,083	2,073	2,073
Strongbridge U.S. Inc.(5)	Biotechnology	Term Loan (8.84% cash (Libor + 8.22%; Floor 8.75%), 8.00% ETP, Due 12/1/20)	7,500	7,353	7,353
vTv Therapeutics Inc.(2)(5)	Biotechnology	Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	6,250	6,106	6,106
Lantos Technologies, Inc.(2)	Medical Device	Term Loan (11.50% cash (Libor + 10.50%; Floor 11.50%), 5.00% ETP, Due 2/1/18)	2,479	2,455	2,320
Mederi Therapeutics, Inc.(2)	Medical Device	Term Loan (12.27% cash (Libor + 11.82%; Floor 12.00%), 4.00% ETP, Due 7/1/17)	1,352	1,344	1,344
		Term Loan (12.27% cash (Libor + 11.82%; Floor 12.00%), 4.00% ETP, Due 7/1/17)	1,352	1,344	1,344
NinePoint Medical, Inc.(2)	Medical Device	Term Loan (9.38% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	4,500	4,461	4,461
		Term Loan (9.38% cash (Libor + 8.75%;	2,250	2,225	2,225

		Floor 9.25%), 4.50% ETP, Due 3/1/19)			
Tryton Medical, Inc.(2)	Medical Device	Term Loan (10.66% cash (Prime + 7.16%), 2.50% ETP, Due 3/1/17)	1,313	1,309	1,309
Total Debt Investments	Life Science			58,819	53,615

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Consolidated Schedule of Investments (Unaudited) (continued) December 31, 2016 (Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Debt Investments — Technology — 75.4%[8]					
Ekahau, Inc.[2]	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	$57	$ 57	$57
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	19	19	19
Gwynnie Bee, Inc.[2]	Consumer-related Technologies	Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 11/1/17)	667	657	657
		Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 2/1/18)	433	424	424
		Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.00% ETP, Due 4/1/18)	500	492	492
Le Tote, Inc.[2]	Consumer-related Technologies	Term Loan (10.28% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	4,000	3,942	3,942
			3,000	2,955	2,955

		Term Loan (10.28% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)			
Rhapsody International, Inc.(2)	Consumer-related Technologies	Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 10/1/19)	7,500	7,336	7,336
SavingStar, Inc.(2)	Consumer-related Technologies	Term Loan (11.03% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 6/1/19)	2,900	2,860	2,860
		Term Loan (11.03% cash (Libor + 10.40%; Floor 10.90%), 3.00% ETP, Due 3/1/20)	2,000	1,965	1,965
MediaBrix, Inc.(2)	Internet and Media	Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,966	3,966
Zinio Holdings, LLC(2)	Internet and Media	Term Loan (11.88% cash (Libor + 11.25%; Floor 11.75%), 4.00% ETP, Due 2/1/20)	4,000	3,967	3,967
The NanoSteel Company, Inc.(2)	Materials	Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	5,000	4,940	4,940
		Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 7/1/19)	2,500	2,470	2,470
		Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%), 5.00% ETP, Due 1/1/20)	2,500	2,464	2,464
Nanocomp Technologies, Inc.(2)	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	369	367	367
		Term Loan (11.63% cash (Libor + 11.00%; Floor	3,000	2,939	2,939

		11.50%), 3.00% ETP, Due 4/1/20)			
Powerhouse Dynamics, Inc.(2)	Power Management	Term Loan (11.33% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	2,250	2,220	2,220
Avalanche Technology, Inc.(2)	Semiconductors	Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 4/1/17)	417	416	416
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.40% ETP, Due 10/1/18)	1,335	1,331	1,331
		Term Loan (10.00% cash (Libor + 9.25%; Floor 10.00%; Ceiling 11.75%), 2.00% ETP, Due 2/1/19)	1,548	1,517	1,517

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Consolidated Schedule of Investments (Unaudited) - (continued)
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Portfolio Company[(1)]	Sector	Type of Investment[(3)(4)(7)(9)(10)]	Principal Amount	Cost of Investments[(6)]	Fair Value
Luxtera, Inc.[(2)]	Semiconductors	Term Loan (10.38% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	$ 614	$ 607	$ 607
		Term Loan (10.38% cash (Libor + 9.75%; Floor 10.25%; Ceiling 12.25%), 13.00% ETP, Due 7/1/17)	343	341	341
		Term Loan (9.13% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	667	663	663
		Term Loan (9.13% cash (Libor + 8.50%; Floor 9.00%), 4.50% ETP, Due 12/1/18)	667	663	663
		Term Loan (9.63% cash (Libor + 9.00%; Floor 9.50%), 4.50% ETP, Due 11/1/19)	2,000	1,990	1,990
Xtera Communications, Inc.[(5)(11)]	Semiconductors	Term Loan (12.50% cash, 22.92% ETP, Due 11/1/16)	3,056	3,047	
		Term Loan (12.50% cash, 22.92% ETP, Due 11/1/16)	936	933	
Bridge2 Solutions, Inc.	Software	Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%; Ceiling	4,000	3,976	3,976

		14.50%), 2.00% ETP, Due 7/1/19)			
		Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%; Ceiling 14.50%), 2.00% ETP, Due 1/1/20)	1,000	996	996
ControlScan, Inc.(2)	Software	Term Loan (10.88% cash (Libor + 10.25%), 3.00% ETP, Due 7/1/20)	4,500	4,413	4,413
Decisyon, Inc.	Software	Term Loan (12.94% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	1,523	1,521	1,519
		Term Loan (12.94% cash (Libor + 12.308%; Floor 12.50%), 6.50% ETP, Due 6/1/18)	833	715	713
Digital Signal Corporation(11)(13)	Software	Term Loan (10.88% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,280	1,246	928
		Term Loan (10.88% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,280	1,246	928
		Term Loan (10.00% cash, Due 6/30/17)	194	194	144
Education Elements, Inc.(2)	Software	Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	1,600	1,578	1,578
		Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	1,500	1,479	1,479
Netuitive, Inc.	Software	Term Loan (12.88% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/17)	461	460	460
ScoreBig, Inc.(2)(11)(12)	Software	Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,332	1,526
		Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 4/1/19)	3,403	3,360	1,539
		Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00%	2,000	1,950	894

	ETP, Due 3/1/20)			
	Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 10/31/16)	203	203	93

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Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
		Term Loan (10.63% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 11/11/19)	$ 324	$ 324	$ 148
ShopKeep.com, Inc.[2]	Software	Term Loan (10.47% cash (Libor + 9.95%; Floor 10.45%), 3.00% ETP, Due 4/1/20)	6,000	5,811	5,811
SIGNiX, Inc.	Software	Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%), Due 10/1/18)	2,250	2,124	2,012
SilkRoad Technology, Inc.[2]	Software	Term Loan (10.98% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 3.00% ETP, Due 6/1/19)	7,500	7,455	7,455
Skyword, Inc.	Software	Term Loan (11.58% cash (Libor + 10.95%; Floor 11.45%), 3.00% ETP, Due 8/1/19)	4,000	3,944	3,870
Social Intelligence Corp.[2]	Software	Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%; Ceiling 13.00%), 3.50% ETP, Due 12/1/17)	323	316	315
Sys-Tech Solutions, Inc.[2]	Software	Term Loan (11.78% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 4.50% ETP, Due 3/1/18)	3,000	2,983	2,983

		Term Loan (11.78% cash (Libor + 11.15%; Floor 11.65%; Ceiling 12.65%), 9.00% ETP, Due 5/1/18)	2,833	2,814	2,814
VBrick Systems, Inc.(2)	Software	Term Loan (11.63% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)	700	696	696
Vidsys, Inc.(2)	Software	Term Loan (13.00% cash, 12.58% ETP, Due 12/1/17)	2,610	2,610	2,610
xTech Holdings, Inc.(2)	Software	Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 4/1/19)	1,500	1,479	1,479
		Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%), 3.00% ETP, Due 3/1/20)	2,000	1,970	1,970
Total Debt Investments Technology				114,743	104,917
Debt Investments Cleantech 5.7%(8)					
Rypos, Inc.(2)	Energy Efficiency	Term Loan (11.93% cash (Libor + 11.55%; Floor 11.80%), 4.25% ETP, Due 6/1/17)	1,260	1,252	1,252
		Term Loan (11.93% cash (Libor + 11.55%; Floor 11.80%), 4.25% ETP, Due 1/1/18)	697	690	690
Lehigh Technologies, Inc.(2)	Waste Recycling	Term Loan (10.35% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,982	2,982
		Term Loan (10.35% cash (Libor + 9.72%), 6.75% ETP, Due 8/1/19)	3,000	2,982	2,982
Total Debt Investments Cleantech				7,906	7,906
Debt Investments Healthcare information and services 14.2%(8)					
Interleukin Genetics, Inc.(2)(5)	Diagnostics	Term Loan (11.13% cash (Libor + 10.50%; Floor 11.00%), 6.50% ETP, Due 10/1/18)	4,225	4,081	4,081
Watermark Medical, Inc.(2)	Other Healthcare	Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	2,333	2,330	2,330
			2,333	2,330	2,330

Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)				
Term Loan (10.13% cash (Libor + 9.50%; Floor 10.00%; Ceiling 11.00%); 4.00% ETP, Due 4/1/18)	1,111	1,110		1,110

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued)
December 31, 2016
(Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
MedAvante, Inc.[2]	Software	Term Loan (9.88% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	$3,000	$2,972	$2,972
		Term Loan (9.88% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 1/1/19)	3,000	2,972	2,972
		Term Loan (9.88% cash (Libor + 9.25%; Floor 9.75%), 4.00% ETP, Due 7/1/19)	4,000	3,953	3,953
Total Debt Investments	Healthcare information and services			19,748	19,748
Total Debt Investments				201,216	186,186
Warrant Investments	**4.6%[8]**				
Warrants	**Life Science**	**0.5%[8]**			

ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock	83	
Argos Therapeutics, Inc.(2)(5)	Biotechnology	Warrants 33,112 Common Stock	33	2
Celsion Corporation(5)	Biotechnology	Warrants 5,708 Common Stock	15	
Inotek Pharmaceuticals Corporation(5)	Biotechnology	Warrants 28,204 Common Stock	17	21
New Haven Pharmaceuticals, Inc.	Biotechnology	Warrants 103,982 Preferred Stock	88	
Nivalis Therapeutics, Inc.(5)	Biotechnology	Warrants 18,534 Common Stock	122	
Ocera Therapeutics, Inc.(2)(5)	Biotechnology	Warrants 6,491 Common Stock	6	
Palatin Technologies, Inc.(2)(5)	Biotechnology	Warrants 608,058 Common Stock	51	4
Revance Therapeutics, Inc.(5)	Biotechnology	Warrants 34,377 Common Stock	68	241
Sample6, Inc.(2)	Biotechnology	Warrants 494,988 Preferred Stock	45	16
Strongbridge U.S. Inc.(5)	Biotechnology	Warrants 160,714 Common Stock	72	72
vTv Therapeutics Inc.(2)(5)	Biotechnology	Warrants 76,290 Common Stock	23	23
Sunesis Pharmaceuticals, Inc.(5)	Biotechnology	Warrants 2,050 Common Stock	5	

		Warrants		
AccuVein Inc.(2)	Medical Device	75,769 Preferred Stock Warrants	24	27
EnteroMedics, Inc.(5)	Medical Device	134 Common Stock Warrants	347	
IntegenX, Inc.(2)	Medical Device	170,646 Preferred Stock Warrants	35	31
Lantos Technologies, Inc.(2)	Medical Device	66,665,256 Preferred Stock Warrants	38	41
Mederi Therapeutics, Inc.(2)	Medical Device	248,736 Preferred Stock Warrants	26	39
Mitralign, Inc.(2)	Medical Device	641,909 Preferred Stock Warrants	52	44
NinePoint Medical, Inc.(2)	Medical Device	566,038 Preferred Stock Warrants	33	39
OraMetrix, Inc.(2)	Medical Device	812,348 Preferred Stock Warrants	78	
Tryton Medical, Inc.(2)	Medical Device	122,362 Preferred Stock Warrants	15	12
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	
Total Warrants Life Science			1,289	612
Warrants Technology 3.3%(8)				
Ekahau, Inc.(2)	Communications	978,261 Preferred Stock Warrants	32	23
Additech, Inc.(2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	31

Gwynnie Bee, Inc.[(2)]	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	698
If(we), Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	27	47
Le Tote, Inc.[(2)]	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	411
Rhapsody International Inc.[(2)]	Consumer-related Technologies	852,273 Common Stock Warrants	164	150
SavingStar, Inc.[(2)]	Consumer-related Technologies	98,860 Preferred Stock Warrants	60	70
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	22	
The NanoSteel Company, Inc.[(2)]	Materials	299,211 Preferred Stock Warrants	92	348
IntelePeer, Inc.	Networking	141,549 Common Stock Warrants	39	31

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued)
December 31, 2016
(Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Nanocomp Technologies, Inc.[2]	Networking	707,387 Preferred Stock Warrants	$	$ 67	$ 72
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants		7	72
Powerhouse Dynamics, Inc.[2]	Power Management	290,698 Preferred Stock Warrants		28	26
Avalanche Technology, Inc.[2]	Semiconductors	202,602 Preferred Stock Warrants		101	40
eASIC Corporation[2]	Semiconductors	40,445 Preferred Stock Warrants		25	28
InVisage Technologies, Inc.[2]	Semiconductors	395,009 Preferred Stock Warrants		48	45
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants		59	45
Luxtera, Inc.[2]	Semiconductors	2,508,671 Preferred Stock Warrants		49	193
Soraa, Inc.[2]	Semiconductors	203,616 Preferred Stock Warrants		80	432
Xtera Communications, Inc.[5]	Semiconductors	37,831 Common Stock Warrants		206	
Bolt Solutions Inc.[2]	Software	202,892 Preferred Stock Warrants		113	135
Bridge2 Solutions, Inc.	Software	75,458 Common Stock Warrants		18	341
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants		14	81
ControlScan, Inc.[2]	Software	2,295,918 Preferred Stock Warrants		19	30
Decisyon, Inc.	Software	82,967 Common Stock Warrants		46	
Digital Signal Corporation	Software			32	

		125,116 Common Stock Warrants		
Education Elements, Inc.(2)	Software	238,122 Preferred Stock Warrants	28	28
Lotame Solutions, Inc.(2)	Software	288,115 Preferred Stock Warrants	22	276
Netuitive, Inc.	Software	41,569 Common Stock Warrants	48	
Riv Data Corp.(2)	Software	237,361 Preferred Stock Warrants	12	12
ScoreBig, Inc.(2)	Software	879,014 Preferred Stock Warrants	88	
ShopKeep.com, Inc.(2)	Software	165,779 Preferred Stock Warrants	98	118
SIGNiX, Inc.	Software	89,767 Preferred Stock Warrants	168	167
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	56
SpringCM, Inc.(2)	Software	2,385,686 Preferred Stock Warrants	55	131
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	242	389
Vidsys, Inc.	Software	85,399 Preferred Stock Warrants	23	12
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	19	
xTech Holdings, Inc.(2)	Software	158,730 Preferred Stock Warrants	43	52
Total Warrants Technology			2,406	4,590
Warrants Cleantech 0.1%(8)				
Renmatix, Inc.	Alternative Energy	53,022 Preferred Stock Warrants	68	
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	25	
Rypos, Inc.(2)	Energy Efficiency	5,627 Preferred Stock Warrants	44	25
Tigo Energy, Inc.(2)	Energy Efficiency	804,604 Preferred Stock Warrants	100	115
Lehigh Technologies, Inc.(2)	Waste Recycling	272,727 Preferred Stock Warrants	33	39
Total Warrants Cleantech			270	179
Warrants Healthcare information and services 0.7%(8)				
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	107	180
Candescent Health, Inc.(2)	Diagnostics	519,991 Preferred Stock Warrants	378	
Interleukin Genetics, Inc.(2)(5)	Diagnostics	7,662,100 Common Stock Warrants	168	142
LifePrint Group, Inc.(2)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc.(2)	Diagnostics		54	

		3,156 Common Stock Warrants		
Singulex, Inc.	Other Healthcare	294,231 Preferred Stock Warrants	44	51
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	42
Watermark Medical, Inc.(2)	Other Healthcare	27,373 Preferred Stock Warrants	74	76
MedAvante, Inc.(2)	Software	114,285 Preferred Stock Warrants	66	79
Medsphere Systems Corporation(2)	Software	7,097,791 Preferred Stock Warrants	60	205
Recondo Technology, Inc.(2)	Software	556,796 Preferred Stock Warrants	95	204
Total Warrants Healthcare information and services			1,175	981
Total Warrants			5,140	6,362

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited) - (continued) December 31, 2016 (Dollars in thousands)

Portfolio Company[1]	Sector	Type of Investment[3][4][7][9][10]	Principal Amount	Cost of Investments[6]	Fair Value
Other Investments 0.4%[8]					
ZetrOZ, Inc.	Medical Device	Royalty Agreement	$	$ 365	$ 500
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019		4,318	100
Total Other Investments				4,683	600
Equity 0.6%[8]					
Insmed Incorporated[5]	Biotechnology	33,208 Common Stock		238	439
Revance Therapeutics, Inc.[5]	Biotechnology	4,861 Common Stock		73	101
Sunesis Pharmaceuticals, Inc.[5]	Biotechnology	13,082 Common Stock		83	47
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock		9	83
Decisyon, Inc.	Software	4,200,934 Common Stock		185	185
Total Equity				588	855
Total Portfolio Investment Assets 139.4%[8]				$ 211,627	$ 194,003

(1) All investments of the Company are in entities which are organized under the laws of the United States and have a principal place of business in the United States.

(2) Has been pledged as collateral under the Key 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. Interest rate is the annual interest rate on the debt investment and does not include ETPs and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at fixed rates for the term of the debt investment, unless otherwise indicated. All debt investments based on LIBOR are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of December 31, 2016 is provided.

(5) Portfolio company is a public company.

(6) For debt investments, represents principal balance less unearned income.

(7) Warrants, Equity and Other Investments are non-income producing.

(8) Value as a percent of net assets.

(9) The Company did not have any non-qualifying assets under Section 55(a) of the 1940 Act as of December 31, 2016. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company s total assets.

(10) ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable debt investment, including upon any prepayment, and are a fixed percentage of the original principal balance of the debt investments unless otherwise noted. Interest will accrue during the life of the debt investment on each ETP and will be recognized as non-cash income until it is actually paid. Therefore, a portion of the incentive fee the Company may pay its Advisor will be based on income that the Company has not yet received in cash.

(11) Debt investment is on non-accrual status at December 31, 2016.

(12) ScoreBig made an assignment for the benefit of its creditors whereby ScoreBig assigned all of its assets to SBABC, established under California law to effectuate the Assignment for the Benefit of Creditors of ScoreBig. SBABC subsequently entered into a License Agreement with a Licensee, whereby SBABC granted a license of certain of SBABC s intellectual property and general intangibles to Licensee in exchange for certain royalty payments on the future net profits, if any, of Licensee. SBABC, in consideration for the Company s consent to the License Agreement, agreed to pay all payments due under the License Agreement, if any, to the Company until the payment in full in cash of the Company s debt investments in ScoreBig.

(13) DSC made an assignment for the benefit of its creditors whereby DSC assigned all of its assets to DSC (assignment for the benefit of creditors), LLC, a Delaware limited liability company, established under Delaware law to effectuate the Assignment for the Benefit of Creditors of DSC.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 1940 Act. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company (RIC) as defined under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). As a RIC, the Company generally is not subject to corporate-level federal income tax on the portion of its taxable income (including net capital gains) the Company distributes to its stockholders. The Company primarily makes secured debt investments to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. All of the Company s debt investments consist of loans secured by all of, or a portion of, the applicable debtor company s tangible and intangible assets.

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, a Delaware limited liability company, which commenced operations in March 2008 and became the Company s wholly owned subsidiary upon the completion of the Company s IPO.

Horizon Credit II LLC (Credit II) was formed as a Delaware limited liability company on June 28, 2011, with the Company as its 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.

The Company formed Horizon Funding 2013-1 LLC (2013-1 LLC) as a Delaware limited liability company on June 7, 2013 and Horizon Funding Trust 2013-1 (2013-1 Trust and, together with the 2013-1 LLC, the 2013-1 Entities) as a Delaware trust on June 18, 2013. The 2013-1 Entities were special purpose bankruptcy remote entities and were separate legal entities from the Company. The Company formed the 2013-1 Entities for purposes of securitizing $189.3 million of secured loans (the 2013-1 Securitization) and issuing fixed-rate asset-backed notes in an aggregate principal amount of $90 million (the Asset-Backed Notes). The 2013-1 Entities were dissolved as of September 30, 2016.

The Company has also established an additional wholly owned subsidiary, which is structured as a Delaware limited liability company, to hold the assets of a portfolio company acquired in connection with foreclosure or bankruptcy, which is a separate legal entity from the Company.

The Company s investment strategy is to maximize the investment portfolio s return by generating current income from the debt investments the Company makes and capital appreciation from the warrants the Company receives when making such debt investments. The Company has entered into an investment management agreement, (the Investment

Management Agreement) with Horizon Technology Finance Management LLC (the Advisor) under which the Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company.

Note 2. Basis of presentation and significant accounting policies

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-Q and Articles 6 and 10 of Regulation S-X (Regulation S-X) under the Securities Act of 1933, as amended (the Securities Act). 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. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2016.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Basis of presentation and significant accounting policies - (continued)

Principles of consolidation

As required under GAAP and Regulation S-X, the Company will generally consolidate its investment in a company that is 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 wholly-owned 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 investments.

Fair value

The Company records all of its investments at fair value 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.

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 debt investments 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 of directors (the Board) determines the fair value of the Company s portfolio investments. The Company has the intent to hold its debt investments for the foreseeable future or until maturity or payoff.

Interest on debt 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. Generally, when a debt investment becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Basis of presentation and significant accounting policies - (continued)

Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management s judgment at the time the debt investment is placed on non-accrual status. As of June 30, 2017, there were three debt investments on non-accrual status with a cost of $16.0 million and a fair value of $7.6 million. As of December 31, 2016, there were four investments on non-accrual status with a cost of $26.2 million and a fair value of $11.5 million. For the three and six months ended June 30, 2017 and 2016, the Company did not recognize any interest income from debt investments on non-accrual status.

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, success fees and prepayment fees. In a limited number of cases, the Company may also receive a non-refundable deposit earned upon the termination of a transaction. Debt investment 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 debt investment. All other income is recognized when earned. Fees for counterparty debt investment commitments with multiple debt investments are allocated to each debt investment based upon each debt investment s relative fair value. When a debt investment is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the debt investment is returned to accrual status.

Certain debt investment agreements also require the borrower to make an ETP, that is accrued into interest receivable and taken into income over the life of the debt investment 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 the ETP when due. The percentage of the Company s total investment income that resulted from the portion of ETPs not received in cash for the three months ended June 30, 2017 and 2016 was 7.5% and 7.7%, respectively. The percentage of the Company s total investment income that resulted from the portion of ETPs not received in cash for the six months ended June 30, 2017 and 2016 was 7.5% and 14.2%, respectively.

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

Realized gains or losses on the sale of investments, or upon the determination that an investment balance, or portion thereof, is not recoverable, are calculated using the specific identification method. The Company measures realized gains or losses by calculating the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Net change in unrealized appreciation or depreciation reflects the change in the fair values of the Company s portfolio investments during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

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 issuing debt securities. The unamortized balance of debt issuance costs as of June 30, 2017 and December 31, 2016 was $1.3 million and $1.6 million, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the life of the borrowings. The accumulated amortization balances as of June 30, 2017 and December 31, 2016 were $4.7 million and $4.4 million, respectively. The amortization expense for the three months ended June 30,

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Notes to Consolidated Financial Statements

Note 2. Basis of presentation and significant accounting policies - (continued)

2017 and 2016 was $0.1 million and $0.2 million, respectively. The amortization expense for each of the six months ended June 30, 2017 and 2016 was $0.3 million.

Income taxes

As a BDC, the Company has 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 and to avoid the imposition of corporate-level income tax on the portion of its taxable income distributed to stockholders, among other things, the Company is required to meet certain source of income and asset diversification requirements and to timely distribute dividends out of assets legally available for distribution to its stockholders of an amount generally at least equal to 90% of its investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid, for each tax year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which generally relieves the Company from corporate-level U.S. federal income taxes. Accordingly, no provision for federal income tax has been recorded in the financial statements. Differences between taxable income and net increase in net assets resulting from operations either can be temporary, meaning they will reverse in the future, or permanent. In accordance with Topic 946, *Financial Services Investment Companies*, of the Financial Accounting Standards Board s, Accounting Standards Codification, as amended (ASC), permanent tax differences, such as non-deductible excise taxes paid, are reclassified from distributions in excess of net investment income and net realized loss on investments to paid-in-capital at the end of each year. These permanent book-to-tax differences are reclassified on the consolidated statements of changes in net assets to reflect their tax character but have no impact on total net assets. For the year ended December 31, 2016, the Company reclassified $0.1 million to paid-in capital from distributions in excess of net investment income, which related to excise taxes refunded in 2016.

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 distributions into the next tax year and incur a 4% U.S. federal 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 distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the six months ended June 30, 2017 and 2016, there was no U.S. federal excise tax accrual recorded.

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 in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946. 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. The Company had no material uncertain tax positions at June 30, 2017 and December 31, 2016. The Company s income tax returns for the 2015, 2014 and 2013 tax years remain subject to examination by U.S. federal and state tax authorities.

Distributions

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

The Company has adopted a dividend reinvestment plan that provides for reinvestment of cash distributions on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board declares a cash distribution, then stockholders who have not opted out of the dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of the Company s common stock, rather than receiving the cash distribution. The Company may use newly issued shares to implement the plan or the Company may purchase shares in the open market to fulfill its obligations under the plan.

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Notes to Consolidated Financial Statements

Note 2. Basis of presentation and significant accounting policies - (continued)

Stock Repurchase Program

On April 27, 2017, the Board extended a previously authorized stock repurchase program which allows the Company to repurchase up to $5.0 million of its common stock at prices below the Company s net asset value per share as reported in its most recent consolidated financial statements. Under the repurchase program, the Company may, but is not obligated to, repurchase shares of its outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by the Company will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and any applicable requirements of the 1940 Act. Unless extended by the Board, the repurchase program will terminate on the earlier of June 30, 2018 or the repurchase of $5.0 million of the Company s common stock. During the three and six months ended June 30, 2017 and 2016, the Company did not complete any repurchases of its common stock. From the inception of the stock repurchase program through June 30, 2017, the Company repurchased 161,542 shares of its common stock at an average price of $11.27 on the open market at a total cost of $1.8 million.

Transfers of financial assets

Assets related to transactions that do not meet the requirements under ASC Topic 860, *Transfers and Servicing* for accounting sale treatment are reflected in the Company s consolidated statements of assets and liabilities as investments. Those assets are owned by special purpose entities that are consolidated in the Company s financial statements. The creditors of the special purpose entities have received security interests in such assets and such assets are not intended to be available to the creditors of the Company (or any other affiliate of the Company).

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.

Note 3. Related party transactions

Investment Management Agreement

The Investment Management Agreement was reapproved by the Board on July 28, 2017. 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 U.S. Securities and Exchange Commission. The Advisor receives fees for providing services to the Company under the Investment Management Agreement, consisting of two components, a base management fee and an incentive fee.

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Note 3. Related party transactions - (continued)

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of (i) the Company s gross assets, less (ii) assets consisting of cash and cash equivalents, and is 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 payable at June 30, 2017 and December 31, 2016 was $0.3 million. The base management fee expense was $0.9 million and $1.2 million, respectively, for the three months ended June 30, 2017 and 2016. The base management fee expense was $1.9 million and $2.5 million, respectively, for the six months ended June 30, 2017 and 2016.

The incentive fee has two parts, as follows:

The first part, which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, 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 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 the Company has not yet received in cash. The incentive fee with respect to the Pre-Incentive Fee Net Investment 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 hurdle rate of 1.75% (which is 7.00% annualized) of the Company s net assets at the end of the immediately preceding calendar quarter, subject to 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 Pre-Incentive Fee 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% quarterly (which is 8.75% annualized). The effect of this catch-up 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 the 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 up to the Incentive Fee Cap, defined below, 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.

Commencing with the calendar quarter beginning July 1, 2014, the incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income (the Incentive Fee Look-back Period) commenced on July 1, 2014 and increases by one quarter in length at the end of each calendar quarter until June 30, 2017, after which time, the Incentive Fee Look-back Period will include the relevant

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Notes to Consolidated Financial Statements

Note 3. Related party transactions - (continued)

calendar quarter and the 11 preceding full calendar quarters. Each quarterly incentive fee payable on Pre-Incentive Fee Net Investment Income is subject to a cap (the Incentive Fee Cap) and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees (collectively, the Incentive Fee Cap and Deferral Mechanism). The Incentive Fee Cap is equal to (a) 20.00% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on Pre-Incentive Fee Net Investment Income to the Advisor in that quarter. To the extent that the payment of incentive fees on Pre-Incentive Fee Net Investment Income is limited by the Incentive Fee Cap, the payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. The Company only pays incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. Cumulative Pre-Incentive Fee Net Return during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

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 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 on a cumulative basis through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee. However, in accordance with GAAP, the Company is required to include the aggregate unrealized capital appreciation on investments in the calculation and accrue a capital gain incentive fee on a quarterly basis, as if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement.

The performance based incentive fee expense was $0.4 million and $1.0 million for the three months ended June 30, 2017 and 2016, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended June 30, 2017, which resulted in $0.2 million of reduced expense and additional net investment income. The performance based incentive fee expense was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended June 30, 2016, which resulted in $0.1 million of reduced expense and additional net investment income. The performance based incentive fee expense was $0.8 million and $2.1 million for the six months ended June 30, 2017 and 2016, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the six months ended June 30, 2017, which resulted in $0.6 million of reduced expense and additional net investment income. The performance based incentive fee payable as of June 30, 2017 was $0.4 million. The entire incentive fee payable as of June 30, 2017 was composed of the incentive fee based on Pre-Incentive Fee Net Investment Income. There was no performance based incentive fee payable as of December 31, 2016.

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Notes to Consolidated Financial Statements

Note 3. Related party transactions - (continued)

Administration Agreement

The Company entered into an administration agreement (the Administration Agreement) with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses 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 Financial Officer and Chief Compliance Officer and their respective staffs. The administrative fee expense was $0.2 million and $0.3 million for the three months ended June 30, 2017 and 2016, respectively. The administrative fee expense was $0.4 million and $0.6 million for the six months ended June 30, 2017 and 2016, respectively.

Note 4. Investments

The following table shows the Company s investments as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Non-affiliate investments				
Debt	$ 173,579	$ 164,895	$ 201,216	$ 186,186
Warrants	5,540	7,341	5,140	6,362
Other	9,906	5,900	4,683	600
Equity	588	948	588	855
Total non-affiliate investments	$ 189,613	$ 179,084	$ 211,627	$ 194,003

The following table shows the Company s non-affiliate investments by industry sector as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	$ 33,015	$ 34,052	$ 46,703	$ 41,578
Medical Device	9,777	9,441	14,164	13,736

Technology				
Communications	7,913	7,903	108	99
Consumer-Related	19,017	19,912	21,055	22,121
Data Storage	4,300	100	4,340	100
Internet and Media	31,728	31,724	7,933	7,933
Materials	9,991	10,247	9,966	10,222
Networking	106	47	3,412	3,409
Power Management	1,755	1,753	2,255	2,318
Semiconductors	2,353	2,731	12,076	8,311
Software	50,015	43,056	60,516	55,362
Cleantech				
Alternative Energy	68		93	
Energy Efficiency	144	162	2,086	2,082
Waste Recycling	5,984	5,984	5,997	6,003
Healthcare Information and Services				
Diagnostics	4,668	3,002	4,817	4,405
Other	3,824	3,758	5,988	5,939
Software	4,955	5,212	10,118	10,385
Total non-affiliate investments	$ 189,613	$ 179,084	$ 211,627	$ 194,003

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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.

The Company s fair value measurements are classified into a fair value hierarchy in accordance with ASC Topic 820, *Fair Value Measurement*, 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.

Investments are valued at fair value as determined in good faith by the Board, based on input of management, the audit committee and independent valuation firms which are engaged at the direction of the Board to assist in the valuation of each portfolio investment lacking a readily available market quotation at least once during a trailing twelve-month period under a valuation policy and a consistently applied valuation process. This valuation process is conducted at the end of each fiscal quarter, with at least 25% (based on fair value) of the Company s valuation of portfolio companies lacking readily available market quotations subject to review by an independent valuation firm.

Because there is not a readily available market value for most of the investments in its portfolio, the Company values substantially all of its portfolio investments at fair value as determined in good faith by the Board, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments may fluctuate from period to period. Additionally, the fair value of the Company s investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, the Company could realize significantly less than the value at which the Company has recorded such portfolio investment.

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Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

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 and are categorized as Level 1 within the fair value hierarchy described above.

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: The fair value of debt investments is estimated by discounting the expected future cash flows using the period end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At June 30, 2017 and December 31, 2016, the hypothetical market yields used ranged from 11% to 25%. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement. These assets are recorded at fair value on a recurring basis and are categorized as Level 3 within the fair value hierarchy described above.

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.

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. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.
Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on indices of publicly traded companies similar in nature to the underlying company issuing the warrant. A total of seven such indices are used. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.
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.
Other adjustments, including a marketability discount on private company warrants, are estimated based on management s judgment about the general industry environment.
Historical portfolio experience on cancellations and exercises of the Company s warrants are utilized as the basis for determining the estimated time to exit of the warrants in each financial reporting period. Warrants may be exercised in the event of acquisitions, mergers or IPOs, and cancelled due to events such as bankruptcies, restructuring activities or

additional financings. These events cause the expected remaining life assumption to be shorter than the contractual term of the warrants. Significant increases (decreases) in this unobservable input would result in significantly higher (lower) fair value measurement.

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.

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Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

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 above. 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. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement. The Company has categorized these equity investments as Level 3 within the fair value hierarchy described above. 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. Therefore, the Company has categorized these equity investments as Level 1 within the fair value hierarchy described above. These assets are recorded at fair value on a recurring basis.

Other investments: Other investments are valued based on the facts and circumstances of the underlying contractual agreement. The Company currently values these contractual agreements using a multiple probability weighted cash flow model as the contractual future cash flows contain elements of variability. Significant changes in the estimated cash flows and probability weightings would result in a significantly higher or lower fair value measurement. The Company has categorized these other investments as Level 3 within the fair value hierarchy described above. These other investments are recorded at fair value on a recurring basis.

The following tables provide a summary of quantitative information about the Company s Level 3 fair value measurements of its investments as of June 30, 2017 and December 31, 2016. In addition to the techniques and inputs noted in the table below, according to the Company s valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

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Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements as of June 30, 2017:

June 30, 2017

Investment Type	Fair Value	Valuation Techniques/Methodologies	Unobservable Input	Range		Weighted Average
(Dollars in thousands, except per share data)						
Debt investments	$157,295	Discounted Expected Future Cash Flows	Hypothetical Market Yield	11%	25%	13%
	7,600	Liquidation Scenario	Probability Weighting	10%	50%	33%
Warrant investments	6,107	Black-Scholes Valuation Model	Price Per Share	$0.00	$63.98	$4.15
			Average Industry Volatility	21%		21%
			Marketability Discount	20%		20%
			Estimated Time to Exit	1 to 5 years		3 years
Other investments	5,900	Multiple Probability Weighted Cash Flow Model	Discount Rate	18%	25%	19%
			Probability Weighting	25%	100%	40%
Equity investments	208	Last Equity Financing	Price Per Share	$0.00	$1.00	$0.40
Total Level 3 investments	$177,110					

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements as of December 31, 2016:

December 31, 2016

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range		Weighted Average
(Dollars in thousands, except per share data)						
Debt investments	$174,686			11%	25%	13%

		Discounted Expected Future Cash Flows	Hypothetical Market Yield			
	11,500	Liquidation Scenario	Probability Weighting	25%	100%	40%
Warrant investments	5,677	Black-Scholes Valuation Model	Price Per Share	$0.00	$63.98	$4.02
			Average Industry Volatility	21%		21%
			Marketability Discount	20%		20%
			Estimated Time to Exit	1 to 5 years		3 years
	180	Expected Settlement	Price Per Share	$1.78		$1.78
Other investments	600	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%		25%
			Probability Weighting	25%	100%	43%
Equity investments	268	Last Equity Financing	Price Per Share	$0.04	$1.00	$0.34
Total Level 3 investments	$192,911					

Borrowings: The carrying amount of borrowings under the Company s revolving credit facility (the Key Facility) with KeyBank National Association (Key) approximates fair value due to the variable interest rate of the Key Facility and is categorized as Level 2 within the fair value hierarchy described above. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. The fair value of the fixed rate 2019 Notes (as defined in Note 6) is based on the closing public share price on the date of measurement. On June 30, 2017, the closing price of the 2019 Notes on the New York Stock Exchange was $25.64 per note, or $33.8 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

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Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

and the counterparties credit standings. Therefore, the Company has categorized these instruments as Level 3 within the fair value hierarchy described above.

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt investments	$ 164,895	$	$	$ 164,895
Warrant investments	$ 7,341	$	$ 1,234	$ 6,107
Other investments	$ 5,900	$	$	$ 5,900
Equity investments	$ 948	$ 740	$	$ 208

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt investments	$ 186,186	$	$	$ 186,186
Warrant investments	$ 6,362	$	$ 505	$ 5,857
Other investments	$ 600	$	$	$ 600
Equity investments	$ 855	$ 587	$	$ 268

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2017:

	Three Months Ended June 30, 2017				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$ 166,066	$ 6,250	$ 268	$ 5,900	$ 178,484
Purchase of investments	22,074				22,074
Warrants and equity received and classified as Level 3		211			211

Principal payments received on investments	(20,693)			(56)	(20,749)
Proceeds from sale of investments		(323)			(323)
Net realized (loss) gain on investments	(140)	277			137
Unrealized (depreciation) appreciation included in earnings	(2,229)	(308)	(60)	56	(2,541)
Other	(183)				(183)
Level 3 assets, end of period	$ 164,895	$ 6,107	$ 208	$ 5,900	$ 177,110

The Company s transfers between levels are recognized at the end of each reporting period. During the three months ended June 30, 2017, there were no transfers between levels.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2016:

	Three Months Ended June 30, 2016				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$238,426	$4,897	$229	$700	$244,252
Purchase of investments	15,187				15,187
Warrants and equity received and classified as Level 3		68	11		79
Principal payments received on investments	(22,400)			(32)	(22,432)
Proceeds from sale of investments		(97)	(2)		(99)
Net realized (loss) gain on investments	(936)	64	2		(870)
Unrealized depreciation included in earnings	(3,395)	(97)		(68)	(3,560)
Other	81				81
Level 3 assets, end of period	$226,963	$4,835	$240	$600	$232,638

The Company s transfers between levels are recognized at the end of each reporting period. During the three months ended June 30, 2016, there were no transfers between levels.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$186,186	$5,857	$268	$600	$192,911
Purchase of investments	47,990				47,990
Warrants and equity received and classified as Level 3		1,067			1,067
Principal payments received on investments	(60,183)			(77)	(60,260)
Proceeds from sale of investments		(1,538)			(1,538)
Net realized (loss) gain on investments	(11,159)	1,057			(10,102)
	8,185	(336)	(60)	77	7,866

Unrealized appreciation (depreciation) included in earnings					
Transfer from debt investments to other investments	(5,300)			5,300	
Other	(824)				(824)
Level 3 assets, end of period	$164,895	$6,107	$208	$5,900	$177,110

The Company s transfers between levels are recognized at the end of each reporting period. During the six months ended June 30, 2017, there were no transfers between levels.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at June 30, 2017 includes $2.6 million in unrealized depreciation on debt and other investments, $0.4 million in unrealized depreciation on warrant investments and $0.01 million in unrealized appreciation on equity investments.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair value - (continued)

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2016:

	Six Months Ended June 30, 2016				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
	(In thousands)				
Level 3 assets, beginning of period	$242,167	$5,793	$316	$300	$248,576
Purchase of investments	31,687				31,687
Warrants and equity received and classified as Level 3		149	56		205
Principal payments received on investments	(40,460)			(55)	(40,515)
Proceeds from sale of investments		(806)	(129)		(935)
Net realized (loss) gain on investments	(3,093)	672	(367)		(2,788)
Unrealized (depreciation) appreciation included in earnings	(3,029)	(973)	364	(28)	(3,666)
Transfer from debt investments to other investments	(383)			383	
Other	74				74
Level 3 assets, end of period	$226,963	$4,835	$240	$600	$232,638

The Company s transfers between levels are recognized at the end of each reporting period. During the six months ended June 30, 2016, there were no transfers between levels.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at June 30, 2016 includes $5.2 million in unrealized depreciation on debt and other investments, $0.6 million in unrealized depreciation on warrant investments and $0.1 million in unrealized appreciation on equity investments.

The Company discloses fair value information about financial instruments, whether or not recognized in the consolidated 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 2017 and 2016 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.

As of June 30, 2017 and December 31, 2016, the recorded balances equaled fair values of all the Company s financial instruments, except for the Company s 2019 Notes, as previously described.

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 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 debt investments and by investing in securities with terms that mitigate the Company s overall interest rate risk.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Borrowings

The following table shows the Company s borrowings as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$ 95,000	$ 23,000	$ 72,000	$ 95,000	$ 63,000	$ 32,000
2019 Notes	33,000	33,000		33,000	33,000	
Total before debt issuance costs	128,000	56,000	72,000	128,000	96,000	32,000
Unamortized debt issuance costs attributable to term borrowings		(309)			(403)	
Total borrowings outstanding, net	$ 128,000	$ 55,691	$ 72,000	$ 128,000	$ 95,597	$ 32,000

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the Company s asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of June 30, 2017, the asset coverage for borrowed amounts was 344%.

The Company entered into the Key Facility with Key effective November 4, 2013. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the current $95 million commitment. The Key Facility is collateralized by all debt investments and warrants held by Credit II and permits an advance rate of up to 50% of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility has a three-year revolving period followed by a two-year amortization period and matures on August 12, 2020. The interest rate is based upon the one-month London Interbank Offered Rate (LIBOR), plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 1.22% and 0.77% on June 30, 2017 and December 31, 2016, respectively. The average interest rate for the three months ended June 30, 2017 and 2016 was 4.26% and 4.00%, respectively. The average interest rate for the six months ended June 30, 2017 and 2016 was 4.14% and 4.00%, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually. As of June 30, 2017 and December 31, 2016, the Company had borrowing capacity of $72.0 million and $32.0 million, respectively. At June 30, 2017 and December 31, 2016, $37.4 million and $4.6 million, respectively, was available, subject to existing terms and advance rates.

On March 23, 2012, the Company issued and sold an aggregate principal amount of $30 million of 7.375% senior unsecured notes due in 2019 and on April 18, 2012, pursuant to the underwriters 30 day option to purchase additional notes, the Company sold an additional $3 million of such notes (collectively, the 2019 Notes). The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are the Company s direct unsecured obligations and (i) rank equally in right of payment with the Company s future unsecured indebtedness; (ii) are senior in right of payment to any of the Company s future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) are effectively subordinated to all of the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, and (iv) are structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Borrowings - (continued)

subsidiaries. As of June 30, 2017, the Company was in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol HTF .

On June 28, 2013, the Company completed the 2013-1 Securitization. In connection with the 2013-1 Securitization, 2013-1 Trust, a wholly owned subsidiary of the Company, issued $90 million in the Asset-Backed Notes, which were rated A1(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by 2013-1 Trust and were backed by a pool of loans made to certain portfolio companies of the Company and secured by certain assets of such portfolio companies. The Asset-Backed Notes were secured obligations of 2013-1 Trust and non-recourse to the Company. In connection with the issuance and sale of the Asset-Backed Notes, the Company made customary representations, warranties and covenants. The Asset-Backed Notes bore interest at a fixed rate of 3.00% per annum and had a stated maturity of May 15, 2018. As of December 31, 2016, the Asset-Backed Notes were repaid in full.

Note 7. 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 $30.0 million and $20.8 million as of June 30, 2017 and December 31, 2016, 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. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the 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.

The following table provides the Company s unfunded commitments by portfolio company as of June 30, 2017:

	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	

HealthEdge Software, Inc.	$ 15,000	$ 150
Luxtera, Inc.	1,500	
PebblePost, Inc.	4,000	59
Rocket Lawyer Incorporated	2,000	29
Strongbridge U.S. Inc.	7,500	61
Total	$ 30,000	$ 299

The table above also provides the fair value of the Company s unfunded commitment liability as of June 30, 2017 which totaled $0.3 million. The fair value at inception of the delay draw credit agreements is equal to the fees and/or warrants received to enter into these agreements, taking into account the remaining terms of the agreements and the counterparties credit profile. The unfunded commitment liability reflects the fair value of these future funding commitments and is included in the Company s consolidated statement of assets and liabilities.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Concentrations of credit risk

The Company s debt investments consist 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 Company s largest debt investments may vary from period to period as new debt investments are recorded and existing debt investments are repaid. The Company s five largest debt investments, at cost, represented 29% and 24% of total debt investments outstanding as of June 30, 2017 and December 31, 2016, respectively. No single debt investment represented more than 10% of the total debt investments as of June 30, 2017 and December 31, 2016. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments accounted for 28% and 17%, respectively, of total interest and fee income on investments for the three months ended June 30, 2017 and 2016. Interest income from the five largest debt investments accounted for 21% and 18%, respectively, of total interest and fee income on investments for the six months ended June 30, 2017 and 2016.

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Distributions

The Company s distributions are recorded on the declaration date. The following table summarizes the Company s distribution activity for the six months ended June 30, 2017 and for the years ended December 31, 2016 and 2015:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
			(In thousands, except share and per share data)			
Six Months Ended June 30, 2017						
4/27/17	8/18/17	9/15/17	$0.10	$		$
4/27/17	7/20/17	8/15/17	0.10			
4/27/17	6/20/17	7/14/17	0.10	1,138	1,164	13
3/3/17	5/19/17	6/15/17	0.10	1,137	1,202	14
3/3/17	4/21/17	5/16/17	0.10	1,137	1,287	15
3/3/17	3/20/17	4/18/17	0.10	1,134	1,510	18
			$0.60	$ 4,546	5,163	$ 60
Year Ended December 31, 2016						
10/28/16	2/22/17	3/15/17	$0.10	$ 1,134	1,665	$ 16
10/28/16	1/19/17	2/15/17	0.10	1,133	1,542	17
10/28/16	12/20/16	1/13/17	0.10	1,137	1,550	16
7/29/16	11/18/16	12/15/16	0.115	1,308	1,712	19
7/29/16	10/20/16	11/15/16	0.115	1,308	1,896	21
7/29/16	9/20/16	10/17/16	0.115	1,305	1,716	22
4/28/16	8/19/16	9/15/16	0.115	1,307	1,535	21
4/28/16	7/20/16	8/15/16	0.115	1,302	1,842	25
4/28/16	6/20/16	7/15/16	0.115	1,305	1,734	23
3/3/16	5/19/16	6/15/16	0.115	1,305	1,898	23
3/3/16	4/20/16	5/16/16	0.115	1,283	3,821	44
3/3/16	3/18/16	4/15/16	0.115	1,306	1,840	21
			$1.335	$ 15,133	22,751	$ 268
Year Ended December 31, 2015						
10/30/15	2/22/16	3/15/16	$0.115	$ 1,309	1,606	$ 18
10/30/15	1/21/16	2/17/16	0.115	1,308	1,931	18
10/30/15	12/18/15	1/15/16	0.115	1,311	1,841	18
7/29/15	11/19/15	12/15/15	0.115	1,317	1,687	20
7/29/15	10/20/15	11/16/15	0.115	1,317	1,967	22

7/29/15	9/18/15	10/15/15	0.115	1,315	2,418	24
5/1/15	8/19/15	9/15/15	0.115	1,312	2,577	26
5/1/15	7/20/15	8/14/15	0.115	1,312	2,420	27
5/1/15	6/18/15	7/15/15	0.115	1,312	2,045	26
3/6/15	5/20/15	6/15/15	0.115	1,311	2,036	28
3/6/15	4/20/15	5/15/15	0.115	1,311	1,950	28
3/6/15	3/20/15	4/15/15	0.115	1,095	877	12
			$ 1.380	$ 15,530	23,355	$ 267

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Distributions - (continued)

On July 28, 2017, the Board declared monthly distributions per share, payable as set forth in the following table:

Ex-Dividend Date	Record Date	Payment Date	Distributions Declared
November 16, 2017	November 20, 2017	December 15, 2017	$ 0.10
October 17, 2017	October 19, 2017	November 15, 2017	$ 0.10
September 18, 2017	September 20, 2017	October 16, 2017	$ 0.10

After paying distributions of $0.30 per share and earning $0.24 per share for the quarter, the Company s undistributed spillover income as of June 30, 2017 was $0.08 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Note 10. Financial highlights

The following table shows financial highlights for the Company:

	Six Months Ended June 30, 2017	2016
	(In thousands, except share and per share data)	
Per share data:		
Net asset value at beginning of period	$ 12.09	$ 13.85
Net investment income	0.53	0.77
Realized loss on investments	(0.93)	(0.25)
Unrealized appreciation (depreciation) on investments	0.78	(0.41)
Net increase in net assets resulting from operations	0.38	0.11
Distributions declared[1]	(0.60)	(0.69)
From net investment income	(0.60)	(0.69)
From net realized gain on investments		
Return of capital		
Net asset value at end of period	$ 11.87	$ 13.27
Per share market value, beginning of period	$ 10.53	$ 11.73
Per share market value, end of period	$ 11.33	$ 12.20
Total return based on a market value[2]	10.4 %	9.9 %
Shares outstanding at end of period	11,519,180	11,548,149

Ratios to average net assets:				
Expenses without incentive fees	8.5	%[3]	9.5%[3]	
Incentive fees	1.2	%[3]	2.7	%[3]
Net expenses	9.7	%[3]	12.2	%[3]
Net investment income with incentive fees	8.8	%[3]	11.4	%[3]
Net assets at the end of the period	$ 136,762		$ 153,230	
Average net asset value	$ 138,464		$ 156,733	
Average debt per share	$ 6.20		$ 9.49	
Portfolio turnover ratio	28.2	%	13.4	%

(1) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP due to (i) changes in unrealized appreciation and depreciation, (ii) temporary and permanent differences in income and expense

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Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Financial highlights - (continued)

recognition, and (iii) the amount of spillover income carried over from a given tax year for distribution in the following tax year. The final determination of taxable income for each tax year, as well as the tax attributes for distributions in such tax year, will be made after the close of the tax year.

(2) The total return equals the change in the ending market value over the beginning of period price per share plus distributions paid per share during the period, divided by the beginning price.

(3) Annualized.

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$250,000,000

Horizon Technology Finance Corporation

Common Stock
Preferred Stock
Subscription Rights
Debt Securities
Warrants
and
891,414 Shares of Common Stock Offered by the Selling Stockholder

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, as amended (the 1940 Act). We are externally managed by Horizon Technology Finance Management LLC, a registered investment adviser under the Investment Advisers Act of 1940, as amended (the Advisers Act). Our investment objective is to maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We make secured debt investments 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, the selling stockholder identified under Selling Stockholder may offer for resale, from time to time, up to an aggregate of 891,414 shares of our common stock under this prospectus. We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder. We have agreed to bear specific expenses in connection with the registration and sale of the common stock being offered by the selling stockholder.

We and/or the selling stockholder 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 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). The selling stockholder will not be restricted from selling its shares when the market price is below net asset value.

Our common stock is listed on The NASDAQ Global Select Market (NASDAQ) under the symbol HRZN. In addition, our 7.375% Senior Notes due 2019 trade on the New York Stock Exchange under the ticker symbol HTF. On July 21, 2017, the last reported sale price of a share of our common stock on NASDAQ was $11.68. The net asset value per share of our common stock at March 31, 2017 (the last date prior to the date of this prospectus on which we determined net asset value) was $12.11. Shares of our common stock sold by the selling stockholder will be freely tradable. Sales of substantial amounts of our common stock, including by the selling stockholder, 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 our offering under this prospectus Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, which is separate and distinct from the risk that our net asset value per share may decline on page 43 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.horizontechfinance.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 collect 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 17. 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 August 1, 2017

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You should rely only on the information contained in this prospectus or any accompanying supplement to this prospectus. We have not, and the selling stockholder has 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 stockholder is 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.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or 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 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, and the selling stockholder may offer for resale up to 891,414 shares of our common stock. This prospectus provides you with a general description of the securities that we and/or the selling stockholder may offer. Each time we and/or the selling stockholder 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.

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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. 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.

Except where the context suggests otherwise, the terms we, us, our and Company refer to our predecessor Compass Horizon Funding Company, LLC and its consolidated subsidiary prior to our IPO and to Horizon Technology Finance Corporation and its consolidated subsidiaries after the IPO. The terms our Advisor and our Administrator refer to Horizon Technology Finance Management, LLC, a Delaware limited liability company, and, where the context requires, Horizon Technology Finance, LLC, our Advisor s predecessor.

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, which we refer to collectively as our Target Industries. Our investment objective is to maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments, which we refer to as Venture Loans, to venture capital backed companies in our Target Industries, which we refer to as Venture Lending. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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, (2) 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, (3) the relatively rapid amortization of the Venture Loan and (4) 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. In addition, for U.S. federal income tax purposes, we have elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. 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 a portion of 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. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute to our stockholders as long as 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 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 of our Advisor, 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

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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 Robert D. Pomeroy, Jr., our Chief Executive Officer, Gerald A. Michaud, our President, Daniel R. Trolio, 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 Investment Officer.

Our strategy

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

Structured investments in the venture capital and private and public equity markets. We make loans to development-stage companies within our Target Industries typically in the form of secured loans. The secured debt structure provides a lower risk strategy, as compared to equity or unsecured debt 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 principal and have a senior position to equity and unsecured debt in the borrower s capital structure 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 debt investments primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.

Enterprise value lending. We and our Advisor take an enterprise value approach to structuring and underwriting loans. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the applicable portfolio company s particular technology, service or customer base. We secure our lien position against the enterprise value of each 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 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, end-of-term payments, or ETPs, pre-payment fees, success fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies financing requirements while mitigating risk and maximizing returns on our investments.

Opportunity for enhanced returns. To enhance our debt investment portfolio returns, in addition to interest and fees, we frequently obtain warrants to purchase the equity of our portfolio companies as additional consideration for making debt investments. 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 andprivate 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.

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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 by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. 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. For public companies, our Advisor typically relies on publicly reported quarterly financials.

Use of leverage. We use leverage to increase returns on equity through our credit facility, or the Key Facility, provided by KeyBank National Association, or Key, and our 7.375% senior notes due 2019, or the 2019 Notes. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources for additional information about our use of leverage. In addition, we may issue additional debt securities or 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. 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, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug discovery, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, electronic 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, power management, energy efficiency, green building materials and waste recycling. We refer to all of these companies as technology-related companies because the companies are developing or offering goods and services to businesses and consumers which utilize scientific knowledge, including techniques, skills, methods, devices and processes, to solve problems. We intend, under normal market conditions, to invest at least 80% of the value of our total assets in such companies.

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 debt investment support provided by cash proceeds from equity capital invested by venture capital and private equity firms or access to public equity markets to access capital;

relatively rapid amortization of principal;

senior ranking to equity and collateralization of debt investments to minimize potential loss of capital; and

potential equity appreciation through warrants.

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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, 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 managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed Venture Loans with an aggregate original principal amount over $1.3 billion to more than 210 companies since operations commenced in 2004.
- *Robust direct origination capabilities*. Our Advisor has significant experience originating Venture Loans in our Target Industries. This experience has given our Advisor a deep knowledge of our Target Industries and an extensive base of transaction sources and references.
- *Highly experienced and cohesive management team*. Our Advisor s senior management team of experienced professionals has been together since our 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.
- *Well-known brand name*. Our Advisor has originated Venture Loans to more than 210 companies in our Target Industries under the Horizon Technology Finance brand.

Our portfolio

From the commencement of operations of our predecessor on March 4, 2008 through March 31, 2017, we funded 148 portfolio companies and invested $865.4 million in debt investments. As of March 31, 2017, our debt investment portfolio consisted of 37 debt investments with an aggregate fair value of $166.1 million. As of March 31, 2017, 98.8%, or $164.1 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. As of March 31, 2017, our net assets were $139.4 million, and all of our debt investments were secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The debt investments in our portfolio are generally not rated by any rating agency. If the individual debt investments in our portfolio were rated, they would be rated below investment grade . Debt investments that are unrated or rated below investment grade are sometimes referred to as junk bonds and have predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

For the three months ended March 31, 2017, our debt investment portfolio had a dollar-weighted annualized yield of 15.5% (excluding any yield from warrants), and our investment portfolio (including non-income producing investments) had an overall total return of 14.6%. The warrants we receive from time to time when making loans to portfolio companies are excluded from the calculation of our dollar-weighted annualized yield because such warrants do not generate any yield since we do not receive dividends or other payments in respect of our outstanding warrants. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors. As of March 31, 2017, our debt investments had a dollar-weighted average term of 46 months from inception and a

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dollar-weighted average remaining term of 31 months. As of March 31, 2017, substantially all of our debt investments had an original committed principal amount of between $3 million and $15 million, repayment terms of between 28 and 60 months and bore current pay interest at annual interest rates of between 9% and 13%.

For the three months ended March 31, 2017, our total return based on market value was 8.5%. Total return based on market value is calculated as (x) the sum of (i) the closing sales price of our common stock on the last day of the period plus (ii) the aggregated amount of distributions paid per share during the period, less (iii) the closing sales price of our common stock on the first day of the period, divided by (y) the closing sales price of our common stock on the first day of the period.

In addition to our debt investments, as of March 31, 2017, we held warrants to purchase stock, predominantly preferred stock, in 71 portfolio companies, equity positions in five portfolio companies and success fee arrangements in 11 portfolio companies.

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:

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 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;
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 stockholder 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 invest the net proceeds from an offering in ways with which you may not agree including, without limitation, to reduce debt, to pay Company expenses or to make distributions to stockholders;

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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 distributions or that our distributions may not grow over time;

A portion of distributions paid to you may represent a return of capital (which is the return of your original investment in us, after subtracting sales load, fees and expenses directly or indirectly paid by you) rather than a distribution from earnings or profits, reducing your basis in our stock for U.S. federal income tax purposes, which may result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value;

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, which is separate and distinct from the risk that our net asset value per share may decline;

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;

Our investments in securities with deferred payment features may represent a higher credit risk than debt investments requiring payments of all principal and accrued interest at regular intervals over the life of the debt investments, as such features increase the risk that we will not receive a portion of the amount due at maturity and may make it difficult for us to identify and address developing problems with borrowers in terms of their ability to repay us;

Terms relating to redemption may materially adversely affect return on any debt securities that we may issue;

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; and

If we are unable to comply with the covenants or restrictions in the Key Facility, make payments when due thereunder or make payments pursuant to our 2019 Notes, our business could be materially adversely affected.

See Risk Factors beginning on page 17 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.horizontechfinance.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.

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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 stockholder may offer, from time to time, up to 891,414 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 the selling stockholder 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 stockholder 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 shares of common stock sold by the selling stockholder.

Listing

Our common stock is traded on NASDAQ under the symbol HRZN. Our 2019 Notes trade on the New York Stock Exchange, or NYSE, under the ticker symbol HTF.

Distributions

We intend to continue to pay monthly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board. Our ability to declare distributions 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 distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

Taxation

We have elected to be treated as a RIC. Accordingly, we generally will not incur corporate-level income taxes on any investment company taxable income determined without regard to any deductions for dividends paid and net capital gains that we distribute as dividends for U.S. federal income tax purposes to our stockholders. To maintain

RIC tax treatment, we must

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meet specified source-of-income and asset diversification requirements and distribute annually an amount generally equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

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, including BDCs, 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 adopted a dividend reinvestment plan, or DRIP, for our stockholders. The dividend reinvestment plan is an opt out DRIP. As a result, distributions to our stockholders are automatically reinvested in additional shares of our common stock, unless a stockholder specifically opts out of the DRIP so as to receive cash distributions. Stockholders who receive distributions in the form of stock will generally 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 stockholders holding a majority of our outstanding securities 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 our outstanding voting securities are present or represented by proxy; or (ii) 50% of our outstanding voting securities, whichever is less. Restrictions on selling below net asset value are not applicable to the selling stockholder.

Selling stockholder

The selling stockholder is Compass Horizon Partners, LP.

The selling stockholder is not subject to the restrictions on sales below current net asset value per share that are imposed on us by

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the 1940 Act. See Determination of Net Asset Value Determinations in connection with offerings.

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.

Investment Management Agreement

Under an amended and restated investment agreement, or the Investment Management Agreement, subject to the overall supervision of our Board, our Advisor 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 2.00% of (i) our gross assets, including any assets acquired with the proceeds of leverage less (ii) assets consisting of cash and cash equivalents.

The Investment Management Agreement also provides that our Advisor 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, subject to a Fee Cap and Deferral Mechanism , we pay our Advisor quarterly in arrears 20.00% of Pre-Incentive Fee Net Investment Income which exceed 1.75% (7.00% annualized) of our net assets at the end of the immediately preceding calendar quarter, subject to a catch-up feature.

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).

The incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income, or the Incentive Fee Look-back Period, commenced on July 1, 2014 and increases by one quarter in length at the end of each calendar quarter until June 30, 2017, after which time, the Incentive Fee Look-back Period will include the relevant calendar quarter and the 11 preceding full calendar quarters. Each quarterly incentive fee payable on

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Pre-Incentive Fee Net Investment Income is subject to a cap, or the Incentive Fee Cap, and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees, or collectively, the Incentive Fee Cap and Deferral Mechanism. The Incentive Fee Cap is equal to (a) 20.00% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on Pre-Incentive Fee Net Investment Income to the Advisor in that quarter. To the extent that the payment of incentive fees on Pre-Incentive Fee Net Investment Income is limited by the Incentive Fee Cap, the payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. We only pay incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. Cumulative Pre-Incentive Fee Net Return during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

Under the second part of the incentive fee, we pay our Advisor at the end of each calendar year 20.00% of our realized capital gains, if any, from October 28, 2010 through the end of that calendar year, computed net of all realized capital losses and all unrealized capital depreciation on a cumulative basis through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee. 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, or 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 Financial Officer and Chief Compliance Officer and their respective staffs. See Investment Management and Administration Agreements Administration Agreement.

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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.horizontechfinance.com*. Information contained on our website is not part of this prospectus or any prospectus supplement and should not be relied upon as such.

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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	3.17	%(5)
Incentive Fee Payable Under the Investment Management Agreement	1.86	%(6)
Interest Payments on Borrowed Funds	3.64	%(7)
Other Expenses (estimated for the current fiscal year)	2.26	%(8)
Acquired Fund Fees and Expenses		%(9)
Total Annual Expenses (estimated)	10.93	%(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 stockholders.

(3) The expenses of the DRIP are included in Other Expenses in the table. For instance, if a participant directs the plan administrator to sell part or all of the shares held by the plan administrator in the participant s account and to remit the proceeds of such sale to the participant, then the plan administrator is authorized to deduct a $15.00 transaction fee plus a $0.10 per share trading fee from such proceeds. 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 March 31, 2017.

(5) Our base management fee under the Investment Management Agreement is based on our gross assets, less cash and cash equivalents, which includes assets acquired using leverage, including any leverage incurred under this prospectus, and is payable monthly in arrears. The management fee referenced in the table above is based on our gross assets, less cash and cash equivalents, of $186 million as of March 31, 2017, including assets to be or will be acquired using leverage during fiscal year 2017, which management estimates will be in the amount of $50 million. 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, subject to a Fee Cap and Deferral Mechanism, equals 20.00% of the excess, if any, of our Pre-Incentive Fee Net Investment Income over a 1.75% quarterly (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, 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% quarterly (8.75% annualized). The effect of this catch-up provision is that, if Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, our Advisor will receive 20.00% 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.

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The second part of the incentive fee equals 20.00% of our Incentive Fee Capital Gains, if any. Incentive Fee Capital Gains are our realized capital gains on a cumulative basis from the date of our election to be a BDC 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 payable to our Advisor represents our estimated annual expense incurred under the first part of the incentive fee payable under the Investment Management Agreement over the next twelve months. As of March 31, 2017, our cumulative realized capital gains and unrealized capital appreciation did not exceed our cumulative realized capital losses and unrealized capital depreciation. Given our strategy of investing primarily in Venture Loans, which are fixed-income assets, we believe it is unlikely that our cumulative realized capital gains and unrealized capital appreciation will exceed our cumulative realized capital losses and unrealized capital depreciation in the next twelve months. Consequently, we do not expect to incur any Incentive Fee Capital Gains during the next twelve months. As we cannot predict the occurrence of any capital gains from the portfolio, we have assumed no Incentive Fee Capital Gains.

(7) Interest payments on borrowed funds represent our estimated annual interest payments on borrowed funds based on current debt levels as adjusted for projected increases in debt levels over the next twelve months.

(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 during the current fiscal year.

(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.

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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. 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 (assumes no return from net realized capital gains or net unrealized capital appreciation)	$ 106	$ 300	$ 471	$ 818

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. This illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. 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.

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 assuming a 5% annual return derived entirely from capital gains.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee)	$ 98	$ 280	$ 443	$ 785

See Investment Management and Administration Agreements Investment Management Agreement Examples of Incentive Fee Calculation for additional information regarding the calculation of incentive fees. In addition, while the examples assume reinvestment of all dividends and other distributions at net asset value, participants in our DRIP 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 DRIP.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data of Horizon Technology Finance Corporation as of December 31, 2016, 2015, 2014, 2013, and 2012, and for the years ended December 31, 2016, 2015, 2014, 2013, and 2012 are derived from the consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. Interim financial information for the three months ended March 31, 2017 and 2016 is derived from our unaudited consolidated financial statements, and in the opinion of management, reflects all adjustments (consisting of only normal recurring adjustments) that are necessary to present fairly the results of such interim periods. These 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.

	As of and for the three months ended March 31,		As of and for the years ended December 31,				
(In thousands, except per share data)	2017	2016	2016	2015	2014	2013	2012
Statement of Operations Data:							
Total investment income	$6,962	$9,297	$32,984	$31,110	$31,254	$33,643	$26,664
Base management fee	974	1,284	4,727	4,747	4,648	5,353	4,208
Performance based incentive fee	430	1,099	2,126	3,501	2,112	3,318	2,847
All other expenses	2,191	2,517	9,119	9,212	13,962	11,605	7,382
Base management and performance based incentive fees waived				(346)	(345)	(144)	
Net investment income before excise tax	3,367	4,397	17,012	13,996	10,877	13,511	12,227
(Credit) provision for excise tax			(87)		160	240	231
Net investment income	3,367	4,397	17,099	13,996	10,717	13,271	11,996
Net realized (loss) gain on investments	(10,845)	(1,986)	(7,776)	(1,650)	(3,576)	(7,509)	108
Net unrealized appreciation (depreciation) on investments	11,131	(1,014)	(14,236)	(490)	8,289	(2,254)	(8,113)
Net increase (decrease) in net assets resulting from operations	3,653	1,397	(4,913)	11,856	15,430	3,508	3,991
Dollar amount of distributions declared	$3,455	$3,982	$15,403	$15,793	$13,282	$13,236	$18,777
Per Share Data:							

Net asset value	$12.11	$13.62	$12.09	$13.85	$14.36	$14.14	$15.15
Net investment income	0.29	0.38	1.48	1.25	1.11	1.38	1.41
Net realized (loss) gain on investments	(0.94)	(0.17)	(0.67)	(0.15)	(0.37)	(0.78)	0.01
Net change in unrealized appreciation (depreciation) on investments	0.97	(0.09)	(1.24)	(0.04)	0.86	(0.23)	(0.95)
Net increase (decrease) in net assets resulting from operations	0.32	0.12	(0.43)	1.06	1.60	0.37	0.47
Per share distributions declared	0.30	0.345	1.335	$1.38	$1.38	$1.38	$2.15
Statement of Assets and Liabilities Data at Period End:							
Investments, at fair value	$180,114	$245,035	$194,003	$250,267	$205,101	$221,284	$228,613
Other assets	49,843	27,800	45,249	31,221	20,095	42,453	11,045
Total assets	229,957	272,835	239,252	281,488	225,196	263,737	239,658
Borrowings	85,644	109,151	95,597	115,546	81,753	122,343	89,020
Total liabilities	90,518	115,615	100,060	121,737	86,948	127,902	94,686
Total net assets	$139,439	$157,220	$139,192	$159,751	$138,248	$135,835	$144,972
Other data:							
Weighted annualized yield on income producing investments at fair value	15.5%	15.5%	14.9%	14.2%	15.3%	14.4%	14.2%
Weighted annualized yield on all portfolio investments at fair value	14.6%	15.0%	14.4%	13.7%	14.8%	14.1%	13.9%
Number of portfolio companies at period end:							
Debt investments	37	50	44	52	50	49	45
Warrants investments	71	81	78	83	75	73	62
Equity investments	5	5	5	6	4	4	2

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SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth certain quarterly financial information for each of the 13 quarters ending with the quarter ended March 31, 2017. 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.

	2017 Q1
	(Dollar amounts in thousands, except per share data)
Total investment income	$ 6,962
Net investment income	$ 3,367
Net realized and unrealized gain	$ 286
Net increase in net asset resulting from operations	$ 3,653
Net investment income per share[1]	$ 0.29
Net increase in net assets per share[1]	$ 0.32
Net asset value per share at the end of the quarter[2]	$ 12.11

	2016 Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	$6,987	$7,608	$9,092	$9,297
Net investment income	$3,815	$4,375	$4,512	$4,397
Net realized and unrealized loss	$(4,404)	$(10,018)	$(4,590)	$(3,000)
Net (decrease) increase in net asset resulting from operations	$(589)	$(5,643)	$(78)	$1,397
Net investment income per share[1]	$0.33	$0.38	$0.39	$0.38
Net (decrease) increase in net assets per share[1]	$(0.05)	$(0.49)	$(0.01)	$0.12
Net asset value per share at period end[2]	$12.09	$12.44	$13.27	$13.62

	2015 Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	$ 8,560	$ 8,427	$ 6,857	$ 7,266
Net investment income	$ 4,104	$ 4,061	$ 2,888	$ 2,943

Net realized and unrealized (loss) gain	$ (1,376)	$ (523)	$ (1,143)	$ 902
Net increase in net assets resulting from operations	$ 2,728	$ 3,538	$ 1,745	$ 3,845
Net investment income per share(1)	$ 0.35	$ 0.35	$ 0.25	$ 0.30
Net increase in net assets per share(1)	$ 0.22	$ 0.30	$ 0.15	$ 0.39
Net asset value per share at the end of the quarter(2)	$ 13.85	$ 13.94	$ 13.99	$ 14.19

	2014 Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	$ 7,284	$ 7,739	$ 8,697	$ 7,534
Net investment income	$ 3,196	$ 3,201	$ 1,836	$ 2,484
Net realized and unrealized (loss) gain	$ (91)	$ 1,559	$ 599	$ 2,646
Net increase in net assets resulting from operations	$ 3,105	$ 4,760	$ 2,435	$ 5,130
Net investment income per share (1)	$ 0.33	$ 0.33	$ 0.19	$ 0.26
Net increase in net assets per share (1)	$ 0.32	$ 0.50	$ 0.25	$ 0.53
Net asset value per share at the end of the quarter (2)	$ 14.36	$ 14.38	$ 14.23	$ 14.32

(1) Based on the weighted average shares outstanding for the respective period.

(2) Based on shares outstanding at the end of the respective period.

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Risk Factors

Investing in our securities involves a high degree of risk. In addition to the other information contained in this prospectus, you should consider carefully the following information before making an investment in our securities. The risks set out 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 and adversely affected. In such case, our net asset value, or NAV, per share and the trading price of our common stock could decline, and you may lose part or all of your investment.

Risks related to our business and structure

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

We do not have any employees and are dependent upon the members of our Advisor s senior management, 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 the senior members of our Advisor s management team. If our Advisor were to lose the services of any of the 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, our Chief Executive Officer, or Mr. Michaud, our President, ceases to be actively involved with us or our Advisor, and is not replaced by an individual satisfactory to Key within 90 days, Key could, absent a waiver or cure, demand repayment of any outstanding obligations under the Key Facility. In such an event, if we do not have sufficient cash to repay our outstanding obligations, we may be required to sell investments which, due to their illiquidity, may be difficult to sell on favorable terms or at all. We may also be unable to make new investments, cover our existing obligations to extend credit or meet other obligations as they come due, which could adversely impact our results of operations.

Our future success also depends, in part, on our Advisor s ability to identify, attract and retain sufficient numbers of highly skilled employees. If our Advisor is not successful in identifying, attracting and retaining such employees, we may not be able to operate our business as we expect. In addition, 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.

Our Advisor may change or be restructured.

We cannot assure you that the Advisor will remain our investment adviser or that we will continue to have access to our Advisor s investment professionals or its relationships. We would be required to obtain shareholder approval for a new investment management agreement in the event that (1) the Advisor resigns as our investment adviser or (2) a change of control or deemed change of control of the Advisor occurs. We cannot provide assurance that a new investment management agreement or new investment adviser would provide the same or equivalent services on the same or on as favorable of terms as the Investment Management Agreement or the Advisor.

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

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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 identify and 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. See Management s Discussion and Analysis of Financial Condition and Results of Operation 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 NAV 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 distribution 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 less cash and cash equivalents, 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.

In addition to the leverage described above, in the past, we have securitized a large portion of our debt investments to generate cash for funding new investments and may seek to securitize additional debt investments in the future. To securitize additional debt investments in the future, we may create a wholly-owned subsidiary and sell and/or contribute a pool of debt investments to such subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers, who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools. We would retain all or a portion of the equity in any such securitized pool of loans. An inability to securitize part of our debt investments in the future could limit our ability to grow our business, fully execute our business strategy and increase our earnings. Moreover, certain types of securitization transactions may expose us to greater risk of loss than would other types of financing.

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 in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below:

	Assumed Return on Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%

Corresponding return to common stockholder[1]	-20.20 %	-11.93 %	-3.66 %	4.62 %	12.89 %

(1) Assumes $230 million in total assets, $86 million in outstanding debt, $139 million in net assets, and an average cost of borrowed funds of 5.91% at March 31, 2017.

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

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Based on our outstanding indebtedness of $86 million as of March 31, 2017 and the average cost of borrowed funds of 5.91% as of that date, our investment portfolio would have been required to experience an annual return of at least 2.70% to cover annual interest payments on the outstanding debt. Actual interest payments may be different.

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

Our Key Facility is secured by a lien on the assets of our wholly owned subsidiary, Horizon Credit II LLC, or Credit II. The breach of certain of the covenants or restrictions or our failure to make payments when due under the Key Facility, unless cured within the applicable grace period, would result in a default under the Key Facility that would permit the lender thereunder 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 lender may exercise rights available to them, including to the extent permitted under applicable law, the seizure of such assets without adjudication.

The Key Facility also requires Credit II and our Advisor to comply with various financial covenants, including 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 Key Facility. 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 Key Facility could also cause a cross-default or cross-acceleration of other debt instruments or contractual obligations, which would adversely impact our liquidity. We may not be granted waivers or amendments to the Key Facility, if for any reason we are unable to comply with the terms of the Key Facility and we may not be able to refinance the Key Facility on terms acceptable to us, or at all.

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 Key Facility or 2019 Notes, in order to obtain funds which may be made available for investments. We may borrow under the Key Facility until August 12, 2018. After such date, we must repay the outstanding advances under the Key Facility in accordance with its terms and conditions. All outstanding advances under the Key Facility are due and payable on August 12, 2020, unless such date is extended in accordance with its terms. All outstanding amounts on our 2019 Notes are due and payable on March 15, 2019 unless redeemed prior to that date. If we are unable to increase, renew or replace the Key Facility or enter into other new debt financings on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such debt financings and are declared in default or are unable to renew or refinance these debt financings, 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, an economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

Our 2019 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

Our 2019 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2019 Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and 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

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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 2019 Notes.

Our 2019 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

Our 2019 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 2019 Notes and the 2019 Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2019 Notes.

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 have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2019 Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims are 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 2019 Notes are structurally subordinated 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.

In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2019 Notes.

The indenture under which our 2019 Notes were issued contains limited protection for holders of our 2019 Notes.

The indenture under which the 2019 Notes were issued offers limited protection to holders of the 2019 Notes. The terms of the indenture and the 2019 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 a material adverse impact on investments in the 2019 Notes. In particular, the terms of the indenture and the 2019 Notes do 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 2019 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2019 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 2019 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 2019 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 as modified by Section 61(a)(l) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings);
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 2019 Notes, including subordinated indebtedness, in each case other than dividends,

purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(l) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock unless our asset coverage, as defined in the 1940 Act, equals at least 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);

The indenture under which our 2019 Notes were issued contains limitedprotection for holders of our 2019 Notes.

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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 does not require us to offer to purchase the 2019 Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2019 Notes do not protect holders of the 2019 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.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2019 Notes may have important consequences for holders of the 2019 Notes, including making it more difficult for us to satisfy our obligations with respect to the 2019 Notes or negatively affecting the trading value of the 2019 Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the 2019 Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2019 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 2019 Notes.

An active trading market for our 2019 Notes may not exist, which could limit holders ability to sell our 2019 Notes or affect the market price of the 2019 Notes.

The 2019 Notes are listed on the NYSE under the symbol HTF . However, we cannot provide any assurances that an active trading market for the 2019 Notes will exist in the future or that you will be able to sell your 2019 Notes. Even if an active trading market does exist, the 2019 Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market does not exist, the liquidity and trading price for the 2019 Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the 2019 Notes for an indefinite period of time.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on our 2019 Notes.

Any default under the agreements governing our indebtedness, including a default under the Key Facility or other indebtedness to which we may be a party that is not waived by the required lenders or holders thereunder, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2019 Notes and substantially decrease the market value of the 2019 Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lender under the Key Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lender under the Key Facility or other debt that we may incur in the future to avoid

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being in default. If we breach our covenants under the Key Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lender under the Key Facility, could proceed against the collateral securing the debt. Because the Key Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

Because we distribute all or substantially all of our investment company taxable income to our stockholders, we will need additional capital to finance our growth. 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 incurring excise taxes and to minimize or to avoid incurring corporate-level federal income taxes, we intend to distribute to our stockholders all or substantially all of our investment company taxable income and net capital gains. However, we may retain all or a portion of our net capital gains, incur any applicable income taxes with respect thereto, and elect to treat such retained net capital gains as deemed distributions to our stockholders. As a BDC, we generally are required to maintain coverage 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 debt 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 at a price below the then current NAV per share. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our NAV could decline.

As a BDC, we generally are not able to issue our common stock at a price below the then current NAV per share without first obtaining the approval of our stockholders and our independent directors. If our common stock trades at a price below NAV per share and we do not receive such approval, our business could be materially adversely affected.

As a BDC, we generally are not able to issue our common stock at a price below the then current NAV per share without first obtaining the approval of our stockholders and our independent directors. Stockholder approval to offer our common stock at a price below NAV per share expired in January 2016, but we may seek such approval again in the future. If our common stock trades at a price below NAV per share and we do not receive approval from our stockholders and our independent directors to issue common stock at a price below NAV per share, we cannot raise capital through the issuance of equity securities. This may limit our ability: to grow and make new investments; to attract and retain top investment professionals; to maintain deal flow and relations with top companies in our Target Industries and related entities such as venture capital and private equity sponsors; and to sustain a minimum efficient scale for a public company.

We are subject to risks associated with a rising interest rate environment that may affect our cost of capital and net investment income.

Since the economic downturn that began in mid-2007, interest rates have remained low. Due to several factors, including longer-term inflationary pressure may result from the U.S. government s fiscal policies and other challenges, the end of the Federal Reserve quantitative easing program and increases in the Federal Funds rate in December 2016 and March 2017, we will likely experience rising interest rates, rather than falling rates in the future.

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. To the extent our investments have fixed interest rates or have interest rate floors that are higher than the floor on, or interest rates that reset less frequently than, the Key Facility, increases in interest rates can lead to interest rate compression and have a material adverse effect on our net investment income. In addition to increasing the cost of borrowed funds, which may materially reduce our net investment income,

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rising interest rates may also adversely affect our ability to obtain additional debt financing on terms as favorable as under our current debt financings, or at all. See If we are unable to obtain additional debt financing, our business could be materially adversely affected.

If general interest rates rise, there is a risk that the portfolio companies in which we hold floating rate securities will be unable to pay escalating interest amounts, which could result in a default under their loan documents with us. Rising interests rates could also cause portfolio companies to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults on our investments in such portfolio companies. In addition, increasing payment obligations under floating rate loans may cause borrowers to refinance or otherwise repay our loans earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. In addition, rising interest rates may increase pressure on us to provide fixed rate loans to our portfolio companies, which could adversely affect our net investment income, as increases in our cost of borrowed funds would not be accompanied by increased interest income from such fixed-rate investments.

We may hedge against interest rate fluctuations by using hedging instruments such as caps, swaps, futures, options and forward contracts, subject to applicable legal requirements, including 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.

As a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, an increase in interest rates would make it easier for us to meet or exceed the hurdle rate applicable to the incentive fee and may result in a substantial increase in the amount of incentive fees payable to the Advisor with respect to Pre-Incentive Fee Net Investment Income.

Also, an increase in interest rates on investments available to investors could make investment in our common stock less attractive if we are not able to increase our distributions, which could materially reduce the value of our common stock.

Because many of our investments are not and typically 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 NAV.

Our investments consist, and we expect our future investments to consist, primarily of debt investments or securities issued by privately held companies. As these investments are not publicly traded, their fair value may not be readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated debt investment 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 and consistent with U.S. generally accepted accounting principles, or GAAP. Our Board employs independent third-party valuation firms to assist it 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 firms. 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 NAV 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.

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Global capital markets could enter a period of severe disruption and instability. These conditions have historically affected and could again materially and adversely affect debt and equity capital markets in the United States and around the world and our business.

The U.S. and global capital markets experienced extreme volatility and disruption during the economic downturn that began in mid-2007, and the U.S. economy was in a recession for several consecutive calendar quarters during the same period. This economic decline materially and adversely affected the broader financial and credit markets and has reduced the availability of debt and equity capital for the market as a whole and to financial firms, in particular. At various times, these disruptions resulted in a lack of liquidity in parts of the debt capital markets, significant write-offs in the financial services sector relating to subprime mortgages and the repricing of credit risk in the broadly syndicated market. These disruptions in the capital markets also increased the spread between the yields realized on risk-free and higher risk securities and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While there have been some recent improvements in the condition of the overall capital markets, lending standards (including for extending new credit, refinancing existing credit and granting waivers of de minimis defaults) for smaller companies, including both us and our portfolio companies, remain strict. If these unfavorable economic conditions, including tight capital markets for smaller borrowers, continue or worsen in the future, it could affect our investment valuations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us or our portfolio companies. We may in the future have difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may cause us to reduce the volume of debt investments we originate and/or fund, adversely affect the value of our portfolio investments or otherwise have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 plans contemplate 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.

The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If our asset coverage is not at least 200%, we are not permitted to pay distributions or issue additional senior securities. As a result, we may have difficulty meeting the annual distribution requirement, or the Annual Distribution Requirement, necessary to maintain RIC tax treatment. Moreover, 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.

As a BDC, we generally are not able to issue our common stock at a price below NAV per share without first obtaining the approval of our stockholders and our independent directors. Our stockholder approval expired in January

2016, but we may seek such approval again in the future. If our common stock trades at a price below NAV per share and we do not receive approval from our stockholders and our independent directors to issue common stock at a price below NAV per share, we cannot raise capital through the issuance of equity securities. This may limit our ability: to grow and make new investments; to attract and retain top investment professionals; to maintain deal flow and relations with top companies in our Target Industries and related entities such as venture capital and private equity sponsors; and to sustain a minimum efficient scale for a public company. The stockholder approval 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.

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Pending legislation may allow us to incur additional leverage.

As a BDC, under the 1940 Act we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). Legislation introduced in the U.S. House of Representatives, if eventually passed, would modify this section of the 1940 Act and, subject to stockholder approval, increase the amount of debt that BDCs may incur by decreasing the required asset coverage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future, and therefore the risk of an investment in us may increase.

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

To qualify as a RIC under the Code, we must meet certain source-of-income, asset diversification and distribution requirements contained in Subchapter M of the Code, as well as maintain our election to be regulated as a BDC under the 1940 Act. We must also meet the Annual Distribution Requirement in order to avoid the imposition of corporate-level income tax on all of our taxable income, regardless of whether we make any distributions to our stockholders.

The qualifying income test, or the Qualifying Income Test is satisfied if we derive in each tax 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 interests in qualified publicly traded partnerships. 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.

To qualify as a RIC, we must also meet diversification tests, or the Diversification Tests, at the end of each quarter of our tax year. Failure to meet these tests may result in our having to (1) dispose of certain investments quickly; (2) raise additional capital to prevent the loss of RIC status; or (3) 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 money market funds, 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 debt investments.

The Annual Distribution Requirement is satisfied if we distribute dividends to our stockholders in each tax year of an amount generally equal to at least 90% of our investment company taxable income, determined without regard to any deductions for dividends paid. If we borrow money, we may be subject to certain asset coverage 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 be eligible to be subject to taxation 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 taxes.

If we were to fail to qualify as a RIC for any reason and become subject to a corporate-level income taxes, 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 NAV 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, incur substantial taxes and interest and make substantial distributions before requalifying as a RIC. See Regulation.

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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 tax 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 tax year. We do not have a policy limiting our ability to invest in original issue discount instruments, including payment-in-kind debt investments. Because in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the Annual Distribution Requirement.

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 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 become subject to a corporate-level income taxes on all of our income. The proportion of our income, consisting of interest and fee income that resulted from the portion of original issue discount classified as such in accordance with GAAP not received in cash for the three months ended March 31, 2017 and the years ended December 31, 2016, 2015 and 2014 was 10.2%, 12.6%, 8.9% and 9.5%, respectively.

If we make loans to borrowers or acquire loans that contain deferred payment features, such as loans providing for the payment of portions of principal and/or interest at maturity, this could increase the risk of default by our borrowers.

Our investments with deferred payment features, such as debt investments providing for ETPs, may represent a higher credit risk than debt investments requiring payments of all principal and accrued interest at regular intervals over the life of the debt investment. For example, even if the accounting conditions for income accrual were met during the period when the obligation was outstanding, the borrower could still default when our actual collection is scheduled to occur upon maturity of the obligation. The amount of ETPs due under our investments having such a feature currently represents a small portion of the applicable borrowers total repayment obligations under such investments. However, deferred payment arrangements increase the incremental risk that we will not receive a portion of the amount due at maturity. Additionally, because investments with a deferred payment feature may have the effect of deferring a portion of the borrower s payment obligation until maturity of the debt investment, it may be difficult for us to identify and address developing problems with borrowers in terms of their ability to repay us. Any such developments may increase the risk of default on our debt investments by borrowers.

In addition, debt investments providing for ETPs are subject to the risks associated with debt investments having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants). See We may have difficulty paying our required distributions if we recognize taxable income before or without receiving cash.

The borrowing needs of our portfolio companies are unpredictable, especially during a challenging economic environment. We may not be able to meet our unfunded commitments to extend credit, which could have a material adverse effect on our reputation in the market and our ability to generate incremental lending activity and may subject us to lender liability claims.

A commitment to extend credit is an agreement to lend funds to our portfolio companies as long as there is no violation of any condition established under the agreement. Because of the credit profile of our portfolio companies, we typically have a substantial amount of total unfunded credit commitments, which amount is not reflected on our balance sheet. The actual borrowing needs of our portfolio companies may exceed our expected funding requirements, especially during a challenging economic environment when our portfolio companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, an increasing cost of credit or the limited availability of equity financing from venture capital firms or otherwise. In addition, limited partner investors of some of our portfolio companies may fail to meet their

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underlying investment commitments due to liquidity or other financing issues, which may increase our portfolio companies borrowing needs. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our portfolio companies may have a material adverse effect on our reputation in the market and our ability to generate incremental lending activity and may subject us to lender liability claims.

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 (as defined under the 1940 Act) unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a market capitalization that is less than $250 million at the time of such investment and meets the other specified requirements. In the future, 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. If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

New or modified laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation at the local, state and federal level. We are also subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure proceedings and other trade practices. If these laws, regulations or decisions change, or if we expand our business into additional jurisdictions, we may have to incur significant expenses in order to comply or we might have to restrict our operations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we or our portfolio companies are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In particular, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and any amendments thereto that may be enacted, on us and our portfolio companies is subject to continuing uncertainty. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. We cannot predict the ultimate effect on us or our portfolio companies that changes in the laws and regulations would have as a result of the Dodd-Frank Act, or whether and the extent to which the Dodd-Frank Act may remain in its current form. In addition, uncertainty regarding legislation and regulations affecting the financial services industry or taxation could also adversely impact our business or the business of our portfolio companies. If we do not comply with applicable laws and regulations, we could lose any licenses that we then hold for the conduct of our business and may be subject to civil fines and criminal penalties.

Additionally, changes to or repeal of the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus and may shift our investment focus from the areas of expertise of our Investment Adviser to

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other types of investments in which our Investment Adviser may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

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, obligations to these other entities may cause our executive officers and directors and those of our Advisor to divert their time and attention away from us or otherwise cause them not to dedicate a significant portion of their time to our businesses which could slow our rate of investment.

In addition, our Advisor manages other funds, and may manage additional funds in the future, that 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 allocation policy to address and, if necessary, resolve any conflict of interests. It is also possible that we may not be given the opportunity to participate in these other investment opportunities.

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. In addition, if any of the other funds managed by our Advisor have a different fee structure than we do, our Advisor may, in certain circumstances, have an incentive to devote more time and resources, and/or recommend the allocation of investment opportunities, to such fund. For example, to the extent our Advisor s incentive compensation is not subject to a total return requirement with respect to another fund, it may have an incentive to devote time and resources to such fund.

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 Chief Compliance Officer and their respective staffs. 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 an incentive 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 distributions. Our governing documents do not limit the number of debt investments we may make with deferred interest features or the proportion of our income we derive from such debt investments.

Our ability to enter into transactions with our affiliates is restricted, which may limit the scope of investments available to us.

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, of the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into certain joint transactions (which could include investments in the same portfolio company) with, such affiliates, absent the prior approval of our independent directors or, in certain cases, the SEC.

Our Advisor is considered to be our affiliate under the 1940 Act, as is any person that controls, or is under common control with us or our Advisor. We are generally prohibited from buying or selling any security from or to, or entering into joint transactions with, such affiliates without prior approval of our independent directors and, in some cases, exemptive relief from the SEC.

We may, however, invest alongside other clients of our Advisor in certain circumstances where doing so is consistent with applicable law, SEC staff interpretations and/or exemptive relief issued by the SEC. For example, we may invest alongside such accounts consistent with guidance promulgated by the staff of the SEC permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that our Advisor, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also invest alongside our Advisor s other clients as otherwise permissible under regulatory guidance and applicable regulations. Such investments will be allocated in accordance with our Advisor s allocation policy, and this allocation policy is periodically approved by our Advisor and reviewed by our independent directors. We expect that allocation determinations will be made similarly for other accounts sponsored or managed by our Advisor. If sufficient securities or loan amounts are available to satisfy our and each such account s proposed demand, we expect that the opportunity will be allocated in accordance with our Advisor s pre-transaction determination; however, if insufficient securities or loan amounts are available, the opportunity will generally be allocated pro rata based on each affiliate s initial allocation in the asset class being allocated. We cannot assure you that investment opportunities will be allocated to us fairly or equitably in the short-term or over time.

On January 23, 2017, we submitted an exemptive relief application to the SEC to permit greater flexibility to negotiate the terms of co-investments if our Board determines in advance that it would be advantageous for us to co-invest with other accounts sponsored or managed by our Advisor in a manner consistent with our investment objective, positions, policies, strategies and restrictions, as well as regulatory requirements and other relevant factors. We cannot assure you, however, that we will obtain such exemptive relief on terms favorable to us or at all.

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In situations where co-investment with other accounts managed by our Advisor is not permitted or appropriate, our Advisor will need to decide which client will proceed with the investment. Our Advisor s allocation policy provides, in such circumstances, for investments to be allocated on a random or rotational basis to assure that all clients have fair and equitable access to such investment opportunities over time. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which a fund managed by our Advisor has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions may limit the scope of investment opportunities that would otherwise be available to us.

The valuation process for certain of our portfolio holdings creates a conflict of interest.

The majority of our portfolio investments are expected to be made in the form of securities that are not publicly traded. As a result, the Board will determine the fair value of these securities in good faith as described above in 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 NAV. In connection with that determination, investment professionals from the Advisor may provide the Board with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of the Advisor s investment professionals in our valuation process could result in a conflict of interest as the Advisor s management fee is based, in part, on our gross assets less cash, and our incentive fees will be based, in part, on unrealized appreciation and depreciation on our investments.

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 Management Agreement, our Advisor, its officers, members, personnel and any person controlling or controlled by our Advisor are 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.

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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 objectives, 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 distributions 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 debt investments, 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, 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 depend 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 our Investment Management Agreement and our Administration Agreement, our Advisor has the right to resign at any time, 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 adviser or administrator 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.

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

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Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and other rules implemented by the SEC.

Compliance with Section 404 of the Sarbanes-Oxley Act involves significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act would 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 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 annual re-evaluation, testing and remediation actions or the impact of the same on our operations, and we cannot assure you that our internal control over financial reporting is or will be effective. In the event that we are unable to maintain compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay distributions.

Our business is highly dependent on the Advisor and its affiliates communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics; and
- events arising from local or larger scale political or social matters, including terrorist acts.

Any of these events, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay distributions to our stockholders.

In addition, these communications and information systems are subject to potential attacks, including through adverse events that threaten the confidentiality, integrity or availability of our information resources. These attacks, which may include cyber incidents, may involve a third party gaining unauthorized access to our communications or information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. Any such attack could result in disruption to our business, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships, any of which could have a material adverse effect on our business, financial condition and results of operations.

Risks related to our investments

Our stockholders are not able to evaluate our future investments.

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

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in securities of a single issuer, excluding limitations on stake holdings in investment companies. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be focused on relatively few portfolio companies.

To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a 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. If a significant investment in one or more portfolio companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more portfolio companies. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

Our portfolio may be focused on a limited number of industries, which will subject us to a risk of significant loss if there is a downturn in a particular industry.

Our portfolio may be focused on a limited number of industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize. Our Target Industries are susceptible to changes in government policy and economic assistance, which could adversely affect the returns we receive.

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

We intend to make distributions of income on a monthly 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. 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 each tax year as dividends to stockholders, we will suffer adverse tax consequences, including the possible loss of our ability to be subject to tax as a RIC.

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.

We are a non-diversified investment company within the meaning of the 1940Act, and therefore we generally are no

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 debt investments 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 debt investments 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.

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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.

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 debt investments 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 is 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 debt investment losses. Decreases in the fair values of our investments, which can occur rapidly based upon developments affecting our portfolio companies are recorded as unrealized depreciation. Any unrealized depreciation in our debt investments could be an indication of a portfolio company s inability to meet its repayment obligations to us with respect to the affected debt investments. 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 debt investments 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 debt investments 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. There is a risk that the collateral securing our debt investments 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 an inability of the 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 debt investment.

Consequently, although such debt investment is secured, we may not receive principal and interest payments according to the debt investment 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 debt investment 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 debt investments 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, which may adversely affect our ability to pay distributions in the future.

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 such companies business and 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 debt investments 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.

The disposition of our debt investments may result in contingent liabilities.

In connection with the disposition of a debt investment, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such debt investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

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

We plan to invest primarily in debt investments issued by our portfolio companies. Some of our portfolio companies are permitted to have other debt that ranks equally with, or senior to, our debt investments 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 debt investments. 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 debt investments, 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 debt investments 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 debt investments, 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 or an out-of-court restructuring might enable other lenders to become effectively senior to our claims. 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 that primarily includes investments in privately held companies presents certain challenges, including a 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, 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.

Our Advisor may, from time to time, possess material non-public information regarding our portfolio companies, limiting our investment discretion.

Officers and employees of our Advisor may serve as directors of, or in a similar capacity with, our portfolio companies, the securities of which are purchased or sold on our behalf. If we obtain material non-public information with respect to such portfolio companies, or we become subject to trading restrictions under the internal trading policies of those portfolio companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or disposition of the securities of such portfolio companies, and this prohibition may have an adverse effect on us.

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We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, experience bankruptcy or similar financial distress.

Leveraged companies may experience bankruptcy, receivership or similar financial distress. The debt investments of distressed companies may not produce income, may require us to bear certain expenses or to make additional advances in order to protect our investment and may subject us to uncertainty as to when, in what manner (e.g., through liquidation, reorganization, receivership or bankruptcy) and for what value such distressed debt will eventually be satisfied. Proceeds received from such proceedings may not be income that satisfies the Qualifying Income Test for RICs and may not be in an amount sufficient to repay such expenses or advances. In the event that a plan of reorganization is adopted or a receivership is established, in exchange for the debt investment we currently hold, we may receive non-cash proceeds, including equity securities or license or royalty agreements with contingent payments, which may require significantly more of our management s time and attention.

If a portfolio company enters a bankruptcy process, we will be subject to a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor s return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs of a bankruptcy proceeding are frequently high and would be paid out of the debtor s estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

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 debt investments 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 Advisor may, from time to time, possess material non-public informationregarding our portfolio companies, limit

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.

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Our portfolio companies operating in the technology industry are subject to 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 technology industry. Such portfolio companies face intense competition as their businesses are rapidly evolving and intensely competitive, and are subject to changing technology, shifting user needs, and frequent introductions of new products and services. The growth of certain technology sectors in which we focus (such as communications, networking, data storage, software, cloud computing, and internet and media) into a variety of new fields implicates new regulatory issues and may result in our portfolio companies in such sectors being subject to new regulations.

Portfolio companies in the technology 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. In addition, litigation regarding intellectual property rights is common in the sectors of the technology industry in which we focus. See 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. 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.

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.

Such portfolio companies 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. In addition, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry.

The successful and timely implementation of the business model of life science companies depends on their ability to adapt to changing technologies and introduce new products. The success of new product offerings will depend, in turn, on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors.

Further, the development of products (including medical devices or drug) by life science companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement by insurers in the United States (including Medicare and Medicaid) and abroad, or gain and maintain market approval of products. In addition, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, failure to establish or maintain intellectual property rights, infringement by others of a company s intellectual property rights, or infringement by a company of intellectual property rights of others.

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

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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.

Our portfolio companies operating in the healthcare information and services 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 healthcare information and services industry. Such portfolio companies provide technology to companies that are subject to extensive regulation, including Medicare and Medicaid payment rules and regulation, the False Claims Act and federal and state laws regarding the collection, use and disclosure of patient health information and the storage handling and administration of pharmaceuticals. If any of our portfolio companies or the companies to which they provide such technology 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 in the healthcare information or services industry are also subject to the risk that changes in applicable regulations will render their technology obsolete or less desirable in the marketplace.

Portfolio companies in the healthcare information and services 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.

Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gas. A decrease in prices in these energy products could reduce demand for alternative energy. Cleantech companies face potential litigation, including significant warranty and product liability claims, as well as class action and government claims. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies.

Cleantech companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.

As part of our investment strategy we invest in portfolio companies in cleantech sectors that may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, uncertainty regarding such changes 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. Furthermore, if any of our portfolio companies fail to comply with applicable

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regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Our portfolio companies may be 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 particular, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for cleantech companies. Without such regulatory policies, investments in cleantech companies may not be economical and financing for cleantech companies may become unavailable, which could materially adversely affect the ability of our portfolio companies to repay the debt they owe to us. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay the debt they owe 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 innovate continually 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 a loan could be impaired. Our portfolio companies may be unable to acquire or develop successful 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.

Our portfolio companies may rely upon licenses for all or part of their intellectual property.

A portfolio company may license all or part of its intellectual property from another unrelated party. While the portfolio company may continue development on that licensed intellectual property, it can be difficult to ascertain who has title to the intellectual property. We may also rely upon the portfolio company s management team s representations as to the nature of the licensing agreement. There are implications in workouts and in bankruptcy where intellectual property is not wholly owned by a portfolio company. Further, the licensor may have an actual or contingent claim on the intellectual property (for instance, a payment due upon change in control) that would supersede other claims in that asset in certain situations.

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 debt investments. 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

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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.

In some cases, we collateralize our debt investments with a secured collateral position in a portfolio company's assets, which may include a negative pledge or, to a lesser extent, no security interest on their intellectual property. In the event of a default on a debt investment, the intellectual property of the portfolio company would most likely be liquidated to provide proceeds to pay the creditors of the portfolio company. There can be no assurance that our security interest, if any, in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court or that there will not be others with senior or *pari passu* credit interests.

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.

We may invest in foreign portfolio companies or secure our investments with the assets of our portfolio companies foreign subsidiaries.

We may invest in securities of foreign companies. Additionally, certain debt investments consisting of secured loans to portfolio companies with headquarters and primary operations located within the United States may be secured by the assets of a portfolio company s foreign subsidiary. Investments involving foreign companies may involve greater risks. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. Debt investments secured by the assets of a portfolio company s foreign subsidiary may be subject to various laws enacted in their home countries for the protection of debtors or creditors, which could adversely affect our ability to recover amounts owed. These insolvency considerations will differ depending on the country in which each foreign subsidiary is located and may differ depending on whether the foreign subsidiary is a non-sovereign or a sovereign entity. The economies of individual non-U.S. countries may also differ from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position. Accordingly, debt investments secured by the assets of a portfolio company s foreign subsidiary could face risks which would not pertain to debt investments solely in U.S. portfolio companies.

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.

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Risks related to our offering under this prospectus

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

We intend to make distributions on a monthly 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 distributions might be adversely affected by the impact of one or more risk factors described in this report. 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 ability to be subject to tax as a RIC, 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, the amount available for distribution could be reduced.

On an annual basis, we must determine the extent to which any distributions we made were paid out of current or accumulated earnings, recognized capital gains or capital. Distributions that represent a return of capital (which is the return of your original investment in us, after subtracting sales load, fees and expenses directly or indirectly paid by you) rather than a distribution from earnings or profits, reduce your basis in our stock for U.S. federal income tax purposes, which may result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value.

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:

- actual or anticipated changes in our earnings or fluctuations in our operating results;
- changes in the value of our portfolio of investments;
- 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;
- general economic conditions, trends and other external factors;
- departures of key personnel; or
- loss of a major source of funding.

We and our Advisor could be the target of litigation.

We or our Advisor could become the target of securities class action litigation or other similar claims if our stock price fluctuates significantly or for other reasons. The outcome of any such proceedings could materially adversely affect our business, financial condition, and/or operating results and could continue

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without resolution for long periods of time. Any litigation or other similar claims could consume substantial amounts of our management s time and attention, and that time and attention and the devotion of associated resources could, at times, be disproportionate to the amounts at stake. Litigation and other claims are subject to inherent uncertainties, and a material adverse impact on our financial statements could occur for the period in which the effect of an unfavorable final outcome in litigation or other similar claims becomes probable and reasonably estimable. In addition, we could incur expenses associated with defending ourselves against litigation and other similar claims, and these expenses could be material to our earnings in future periods.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV, which is separate and distinct from the risk that our NAV per share may decline.

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV 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 NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV. In addition, if our common stock trades below its NAV, 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 our capital in cash, cash equivalents, U.S. government securities, money market funds 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.

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 invest 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, although such flexibility does not extend to investing in a manner inconsistent with our investment strategy, and we may invest the net proceeds from an offering in ways with which you may not agree or in investments other than those contemplated at the time of the offering. For example, we may use net proceeds from an offering to reduce debt, pay fund expenses or fund distributions.

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.

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

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 the 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. It is a default under our Key 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 common 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, Key could accelerate our repayment obligations under, and/or terminate, our Key Facility.

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 distributions 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 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 ability to be subject to tax as a RIC.

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 NAV per share, then you will experience an immediate dilution of the aggregate NAV 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, 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 NAV per share, this dilution could be substantial.

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In addition, if the subscription price is less than our NAV per share, our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of such rights offering. The amount of any decrease in NAV is not predictable because it is not known at this time what the subscription price and NAV 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 an 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 offering 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 NAV 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 NAV poses a risk of dilution to our current 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 NAV per share (as well as in the aggregate NAV 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.

Stockholders experience dilution in their ownership percentage if they do not participate in our DRIP.

All distributions payable to stockholders that are participants in the DRIP are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the DRIP will experience dilution in their ownership interest 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 rate of interest higher or lower than the rate 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.

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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.

Sales in the public market of substantial amounts of our common stock 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.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale, whether or not actually sold, 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.

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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 debt investments 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 impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- our regulatory structure and tax status;
- our ability to qualify and maintain qualification as a RIC and as a BDC;
- 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 objective;
- 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, intention, estimate, position, assume, plan, potential, project, outlook, continue, remain, maintai achieve and similar expressions, or future or conditional verbs such as will, would, should, could, may or sim 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, or 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.

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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. We may also use a portion of the net proceeds from the sale of our securities to repay amounts outstanding under the Key Facility, which bore an annual interest rate of 4.03% (*i.e.*, one-month London Interbank Offered Rate, or LIBOR, plus 3.25% per annum, with a LIBOR floor of 0.75%) as of March 31, 2017. We may request advances under the Key Facility until August 12, 2018 and all oustanding advances are due and payable on August 12, 2020. 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 six 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 stockholder.

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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 January 1, 2015, the range of high and low closing sales price of our common stock, the premium or discount of the closing sales price to our NAV and the distributions declared per share by us.

Period	NAV[1]	Closing Sales Price High	Closing Sales Price Low	Premium/ Discount of High Sales Price to NAV[2]	Premium/ Discount of Low Sales Price to NAV[2]	Distributions Declared Per Share[3]
Year ended December 31, 2017						
Third Quarter[4]	*	$ 11.71	$ 11.26	*	*	*
Second Quarter	*	$ 11.72	$ 11.00	*	*	$ 0.30 [5]
First Quarter	$ 12.11	$ 11.67	$ 10.03	(4)%	(17)%	$ 0.30
Year ended December 31, 2016						
Fourth Quarter	$ 12.09	$ 13.74	$ 9.83	14 %	(19)%	$ 0.30
Third Quarter	$ 12.44	$ 13.86	$ 12.43	11 %	%	$ 0.345
Second Quarter	$ 13.27	$ 12.20	$ 11.23	(8)%	(15)%	$ 0.345
First Quarter	$ 13.62	$ 12.02	$ 9.42	(12)%	(31)%	$ 0.345
Year ended December 31, 2015						
Fourth Quarter	$ 13.85	$ 12.41	$ 9.32	(10)%	(33)%	$ 0.345
Third Quarter	$ 13.94	$ 12.67	$ 9.05	(9)%	(35)%	$ 0.345
Second Quarter	$ 13.99	$ 14.36	$ 12.56	3 %	(10)%	$ 0.345
First Quarter	$ 14.19	$ 14.39	$ 13.61	1 %	(4)%	$ 0.345

(1) NAV per share determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

(3) We have adopted an opt out DRIP 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 DRIP so as to receive cash distributions.

(4) Through July 21, 2017.

(5) $0.10 paid on July 14, 2017 and $0.10 of which is payable on each of August 15, 2017 and September 15, 2017.

* Not yet determined at the time of filing.

The last reported price for our common stock on July 21, 2017 was 11.68 per share. Our NAV per share on March 31, 2017 (the last date prior to the date of this prospectus on which we determined NAV) was $12.11. The closing sales price of our shares on NASDAQ on that date was $11.13, which represented a 8% discount to NAV per share. As of July 21, 2017 we had 11 stockholders of record, which did 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 NAV that is attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

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Issuer Purchases of Equity Securities

On April 27, 2017, our Board extended a previously authorized share repurchase plan which allows us to repurchase up to $5.0 million of our outstanding common stock. Unless extended by our Board, the repurchase program will expire on the earlier of June 30, 2018 and the repurchase of $5.0 million of common stock. The following table provides information regarding our purchases of our common stock for each quarter since the announcement of the share repurchase plan through the quarter ended March 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(In thousands, except share and per share data)			
October 1, 2015 through December 31, 2015	113,382	$ 11.53	113,382	$ 3,693
January 1, 2016 through March 31, 2016		$		$ 3,693
April 1, 2016 through June 30, 2016		$		$ 3,693
July 1, 2016 through September 30, 2016	1,319	$ 11.54	1,319	$ 3,678
October 1, 2016 through December 31, 2016	46,841	$ 10.63	46,841	$ 3,180
January 1, 2017 through March 31, 2017		$		$ 3,180
Total	161,542	$ 11.27	161,542	

Any shares repurchased by us may have the effect of maintaining the market price of our common stock or retarding a decline in the market price of the common stock, and, as a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. In addition, as any shares repurchased pursuant to the share repurchase plan will be purchased at a price below the net asset value per share as reported in our most recent financial statements, share repurchases may have the effect of increasing our net asset value per share.

Distributions

We intend to continue making monthly distributions to our stockholders. The timing and amount of our monthly 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 considered a return of capital to our common stockholders for U.S. federal income tax purpose. Thus, the source of 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 distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

In order to qualify to be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income during each tax year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to our business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each tax year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

In addition, in order to be eligible for the special tax treatment accorded to RICs and to avoid the imposition of corporate level tax on the income and gains we distribute to our stockholders, each tax year we are required under the Code to distribute as dividends of an amount generally at least 90% of our investment company taxable income, determined without regard to any deduction for dividends paid to our stockholders. We refer to such amount as the Annual Distribution Requirement. Additionally, we must distribute, in respect of each calendar year, dividends of an amount generally at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income or capital gain net income for preceding years that was not distributed during such years and on which we previously did not incur any U.S. federal income tax in order to avoid the imposition of a 4% U.S. federal excise tax. If we fail to qualify as a RIC for any reason and become subject to corporate income tax, the resulting corporate income taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC. We cannot assure stockholders that they will receive any distributions.

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% U.S. federal excise tax on such undistributed income. Distributions of any such carryover taxable income must be made through a distribution declared as of the earlier of the filing date of the corporate income tax return related to the tax year in which such taxable income was generated or the 15th day of the ninth month following the end of such tax year, in order to count towards the satisfaction of the Annual Distribution Requirement for the tax year in which such taxable income was generated. 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 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.

We have adopted an opt out DRIP for our common stockholders. As a result, if we make a distribution, then stockholders cash distributions are automatically reinvested in additional shares of our common stock, unless they specifically opt out of the DRIP. If a stockholder opts out, that stockholder receives cash distributions. Although distributions paid in the form of additional shares of common stock are generally subject to U.S. federal, state and local taxes, stockholders participating in our DRIP do not receive any corresponding cash distributions with which to pay any such applicable taxes. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

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RATIO OF EARNINGS TO FIXED CHARGES

For the three months ended March 31, 2017 and the years ended December 31, 2016, 2015, 2014, 2013 and 2012, our ratios of earnings to fixed charges, computed as set forth below, were as follows:

	For the Three Months Ended March 31,	For the Year Ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings to Fixed Charges[(1)]	1.9	0.1	3.1	2.8	1.5	2.0

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 and fixed charges. Fixed charges include interest expense, which includes amortization of debt issuance costs and non-use fees.

(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 (5.3) for the three months ended March 31, 2017, 2.6 for the year ended December 31, 2016, 3.1 for the year ended December 31, 2015, 1.8 for the year ended December 31, 2014, 1.7 for the year ended December 31, 2013 and 3.9 for the year ended December 31, 2012.

Excluding the net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 1.7 for the three months ended March 31, 2017, 3.9 for the year ended December 31, 2016, 3.4 for the year ended December 31, 2015, 2.2 for the year ended December 31, 2014, 2.7 for the year ended December 31, 2013, and 3.9 for the year ended December 31, 2012.

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

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. 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 our Target Industries. Our investment objective is to maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making Venture Loans to venture capital backed companies in our Target Industries. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically Senior Term Loans. As of March 31, 2017, 98.8%, or $164.1 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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, (2) 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, (3) the relatively rapid amortization of the Venture Loan and (4) 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. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M the Code. 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. As a RIC, we generally are not subject to corporate-level income taxes on our investment company taxable income and our net capital gain that we distribute as dividends to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

Compass Horizon Funding Company LLC, 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.

Our investment activities, and our day-to-day operations, are managed by our Advisor and supervised by the Board, of which a majority of the members are independent of us. Under the Investment Management Agreement, we have agreed to pay our Advisor a base management fee and an incentive fee for its advisory services to us. We have also entered into the Administration Agreement, with our Advisor under which we have agreed to reimburse our Advisor for our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement.

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Portfolio composition and investment activity

The following table shows our portfolio by type of investment as of March 31, 2017 and December 31, 2016 and 2015:

	March 31, 2017			December 31, 2016			December 31, 2015		
	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)								
Term loans	37	$166,066	92.2 %	44	$186,186	96.0 %	52	$242,167	96.8 %
Warrants	71	7,138	4.0	78	6,362	3.3	83	6,645	2.6
Other investments	3	5,900	3.2	2	600	0.3	1	300	0.1
Equity	5	1,010	0.6	5	855	0.4	6	1,155	0.5
Total		$180,114	100.0 %		$194,003	100.0 %		$250,267	100.0 %

The following table shows total portfolio investment activity as of and for the three months ended March 31, 2017 and the years ended December 31, 2016 and 2015:

	For the Three Months Ended March 31,	December 31,	
	2017	2016	2015
	(In thousands)		
Beginning portfolio	$194,003	$250,267	$205,101
New debt investments	25,916	59,858	123,281
Principal received on investments	(11,891)	(49,403)	(27,016)
Early pay-offs	(27,209)	(46,357)	(47,624)
Accretion of debt investment fees	505	1,562	1,350
New debt investment fees	(270)	(931)	(1,147)
New equity		84	101
Sale of investments	(1,226)	(984)	(1,669)
Net realized loss on investments	(10,845)	(7,696)	(1,620)
Net unrealized appreciation (depreciation) on investments	11,131	(12,397)	(490)
Ending portfolio	$180,114	$194,003	$250,267

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

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The following table shows our debt investments by industry sector as of March 31, 2017 and December 31, 2016 and 2015:

	March 31, 2017		December 31, 2016		December 31, 2015	
	Debt Investments at Fair Value	Percentage of Total Portfolio	Debt Investments at Fair Value	Percentage of Total Portfolio	Debt Investments at Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)					
Life Science						
Biotechnology	$28,194	17.0 %	$40,612	21.8 %	$36,005	14.9 %
Medical Device	10,195	6.1	13,003	7.0	22,472	9.2
Technology						
Communications			76	0.1	19,511	8.1
Consumer-Related	19,968	12.0	20,631	11.1	18,268	7.5
Internet and Media	23,075	13.9	7,933	4.2		
Materials	9,886	6.0	9,874	5.3	9,825	4.1
Networking	3,215	1.9	3,306	1.8	693	0.3
Power Management	1,973	1.2	2,220	1.2	2,456	1.0
Semiconductors	4,465	2.7	7,528	4.0	18,237	7.5
Software	50,972	30.7	53,349	28.7	59,664	24.6
Cleantech						
Alternative Energy					2,849	1.2
Energy Efficiency			1,942	1.0	3,227	1.3
Waste Recycling	5,966	3.6	5,964	3.2	5,936	2.5
Healthcare Information and Services						
Diagnostics	3,469	2.1	4,081	2.2	7,247	3.0
Other	4,688	2.8	5,770	3.1	8,236	3.4
Software			9,897	5.3	27,541	11.4
Total	$166,066	100.0 %	$186,186	100.0 %	$242,167	100.0 %

The largest debt investments in our portfolio may vary from year to year as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 29%, 24% and 21% of total debt investments outstanding as of March 31, 2017 and December 31, 2016 and 2015, respectively. No single debt investment represented more than 10% of our total debt investments as of March 31, 2017 or December 31, 2016 and 2015.

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Debt investment asset quality

We use an internal credit rating system which rates each debt investment 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 represents an increased level of risk and, while no loss is currently anticipated for a 2-rated debt investment, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and a high degree of risk of loss of principal. Our internal credit rating system is not a national credit rating system. As of March 31, 2017 and December 31, 2016 and 2015, our debt investments had a weighted average credit rating of 3.0. The following table shows the classification of our debt investment portfolio by credit rating as of March 31, 2017 and December 31, 2016 and 2015:

	March 31, 2017			December 31, 2016			December 31, 2015		
	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investment	Number of Investments	Debt Investments at Fair Value	Percentage of Debt Investments
	(Dollars in thousands)								
Credit Rating									
4	6	$ 23,134	13.9 %	6	$ 29,721	16.0 %	7	$ 23,603	9.8 %
3	25	127,192	76.7	28	131,605	70.6	37	199,185	82.2
2	4	9,540	5.7	6	13,360	7.2	7	18,879	7.8
1	2	6,200	3.7	4	11,500	6.2	1	500	0.2
Total	31	$ 166,066	100.0 %	44	$ 186,186	100.0 %	52	$ 242,167	100.0 %

As of March 31, 2017, there were two debt investments with an internal credit rating of 1, with an aggregate cost of $11.9 million and an aggregate fair value of $6.2 million. As of December 31, 2016, there were four debt investments with an internal credit rating of 1, with an aggregate cost of $26.2 million and an aggregate fair value of $11.5 million. As of December 31, 2015, there was one debt investment with an internal credit rating of 1, with an aggregate cost of $2.7 million and an aggregate fair value of $0.5 million.

Consolidated results of operations for the three months ended March 31, 2017 and 2016

As a BDC and a RIC, we are subject to certain constraints on our operations, including limitations imposed by the 1940 Act and the Code. The consolidated results of operations described below may not be indicative of the results we report in future periods.

The following table shows consolidated results of operations for the three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Total investment income	$ 6,962	$ 9,297
Total net expenses	3,595	4,900

Net investment income	3,367	4,397
Net realized loss on investments	(10,845)	(1,986)
Net unrealized appreciation (depreciation) on investments	11,131	(1,014)
Net increase in net assets resulting from operations	$ 3,653	$ 1,397
Average debt investments, at fair value	$ 179,530	$ 240,475
Average borrowings outstanding	$ 86,056	$ 112,035

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation on investments. As a result, quarterly comparisons of net increase in net assets resulting from operations may not be meaningful.

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Investment income

Total investment income decreased by $2.3 million, or 25.1%, to $7.0 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. For the three months ended March 31, 2017, total investment income consisted primarily of $6.3 million in interest income from investments, which included $1.7 million in income from the accretion of origination fees and end-of-term payments, or ETPs, and $0.7 million in fee income. Interest income on investments decreased by $2.7 million, or 30.3%, for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. Interest income on investments decreased primarily due to a decrease of $60.9 million, or 25.3%, in the average size of our investment portfolio for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Fee income, which includes success fee and prepayment fee income on debt investments, increased by $0.4 million, or 132.3%, to $0.7 million primarily due to fees earned on higher principal prepayments received during the three months ended March 31, 2017 compared to the three months ended March 31, 2016.

For the three months ended March 31, 2017 and 2016, our dollar-weighted annualized yield on average debt investments was 15.5%, and the overall total return of our investment portfolio (including non-income producing investments) was 14.6% and 15.0%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 14% and 20%, respectively, of investment income for the three months ended March 31, 2017 and 2016.

Expenses

Total expenses decreased by $1.3 million, or 26.6%, to $3.6 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense decreased by $0.2 million, or 14.2%, to $1.3 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Interest expense, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in average borrowings of $26.0 million, or 23.2%, which was partially offset by an increase in our effective cost of debt for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

Base management fee expense decreased by $0.3 million, or 24.1%, to $1.0 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Base management fee decreased primarily due to a decrease of $60.9 million, or 25.3%, in the average size of our investment portfolio for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

Performance based incentive fee expense decreased by $0.7 million, or 60.9%, to $0.4 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Performance based incentive fee expense decreased because the incentive fee expense for the three months ended March 31, 2017 was limited by the incentive fee cap and deferral mechanism under our Investment Management Agreement. This resulted in $0.3 million of reduced expense and additional net investment income for the three months ended March 31, 2017. The incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism due to the cumulative incentive fees paid since July 1, 2014 exceeding the cumulative pre-incentive fee net return since July 1, 2015.

Administrative fee expense decreased by $0.1 million, or 31.0%, to $0.2 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. Administrative fee expense

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decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses remained flat at $0.7 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

Net realized gains and losses 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. Realized gains or losses on investments include 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 three months ended March 31, 2017, we realized net losses totaling $10.8 million primarily due to the resolution of two debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants. During the three months ended March 31, 2016, we realized net losses totaling $2.0 million primarily due to the resolution of one debt investment partially offset by realized gains on the sale of equity received upon the exercise of warrants.

During the three months ended March 31, 2017, net unrealized appreciation on investments totaled $11.1 million which was primarily due to reversal of previously recorded unrealized depreciation on two debt investments that were settled during the period. During the three months ended March 31, 2016, net unrealized depreciation on investments totaled $1.0 million which was primarily due to changes in fair value of our investment portfolio during the period offset by the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period, as described above.

Consolidated results of operations for the years ended December 31, 2016, 2015 and 2014

As a BDC and a RIC, we are subject to certain constraints on our operations, including limitations imposed by the 1940 Act and the Code. The consolidated results of operations described below may not be indicative of the results we report in future periods.

The following table shows consolidated results of operations for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
	(In thousands)		
Total investment income	$32,984	$31,110	$31,254
Total net expenses	15,972	17,114	20,377
Net investment income before excise tax	17,012	13,996	10,877
(Credit) provision for excise tax	(87)		160

Net investment income	17,099	13,996	10,717
Net realized loss on investments	(7,776)	(1,650)	(3,576)
Net unrealized (depreciation) appreciation on investments	(14,236)	(490)	8,289
Net (decrease) increase in net assets resulting from operations	$(4,913)	$11,856	$15,430
Average debt investments, at fair value	$221,257	$219,848	$204,862
Average borrowings outstanding	$102,875	$87,976	$102,754

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

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Investment income

Total investment income increased by $1.9 million, or 6.0%, to $33.0 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. For the year ended December 31, 2016, total investment income consisted primarily of $31.4 million in interest income from investments, which included $8.3 million in income from the accretion of origination fees and ETPs and $1.6 million in fee income. Interest income on investments increased by $2.7 million, or 9.6%, to $31.4 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Interest income on investments increased primarily due to the larger amount of ETPs earned during the year ended December 31, 2016 compared to the year ended December 31, 2015. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by $0.9 million, or 35.5%, primarily due to a lower average prepayment fee rate earned during the year ended December 31, 2016 compared to the year ended December 31, 2015, along with a lower amount of success fees earned during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Total investment income remained flat at $31.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. For the year ended December 31, 2015, total investment income consisted primarily of $28.7 million in interest income from investments, which included $4.5 million in income from the accretion of origination fees and ETPs, and $2.5 million in fee income. Interest income on investments remained flat at $28.7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Interest income on investments remained flat due to an increase in the average size of our investment portfolio of $15.0 million, or 7.3%, which was offset by lower acceleration of fees and ETPs from prepayments. Fee income, which includes prepayment fee income and fee income on debt investments, decreased by $0.2 million, or 6.0%, primarily due to a lower aggregate amount of principal prepayments for the year ended December 31, 2015.

For the years ended December 31, 2016, 2015 and 2014, our dollar-weighted annualized yield on average debt investments was 14.9%, 14.2% and 15.3%, respectively, and the overall total return of our investment portfolio (including non-income producing investments) was 14.4%, 13.7% and 14.8%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 17%, 14% and 20% of investment income for the years ended December 31, 2016, 2015 and 2014, respectively.

Expenses

Total net expenses decreased by $1.1 million, or 6.7%, to $16.0 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Total net expenses decreased by $3.3 million, or 16.0%, to $17.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by $0.1 million, or 2.1%, to $5.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $14.9 million, or 16.9%, which was partially offset by a decrease in our effective cost of debt for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Interest expense decreased by $3.0 million, or 33.9%, to $5.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Interest expense decreased primarily due to a decrease in average borrowings of $14.8 million, or 14.4%, along with a decrease in our effective cost of debt for the year ended December 31, 2015 compared to the year ended December 31, 2014.

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Base management fee expense increased by $0.3 million, or 7.4%, to $4.7 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, after giving effect to waivers of $0.3 million in base management fees for the year ended December 31, 2015. Base management fee increased for the year ended December 31, 2016 compared to December 31, 2015 primarily due to the waiver of base management fees of $0.3 million in 2015 in connection with the 2015 Offering, as described below. Base management fee expense, net of waivers, remained flat at $4.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Base management fee expense remained flat primarily due to our Advisor s waiver of base management fees of $0.3 million relating to the 2015 Offering, as described below, offset by an increase in our average gross assets of $6.4 million, or 2.6%.

As noted above, our Advisor agreed to waive its base management fee relating to the proceeds raised in the 2015 Offering, to the extent such fee was not otherwise waived and regardless of the application of the proceeds raised, until the earlier to occur of (i) March 31, 2016 or (ii) the last day of the second consecutive calendar quarter in which our net investment income exceeds distributions declared on shares of our common stock for the applicable quarter. During the year ended December 31, 2015, our Advisor waived $0.3 million of base management fees. As of December 31, 2015, condition (ii) above had been met, as our net investment income exceeded distributions declared for the quarters ended September 30, 2015 and December 31, 2015.

Performance based incentive fee expense decreased by $1.4 million, or 39.3%, to $2.1 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Performance based incentive fee expense decreased because the incentive fee expense for the three months ended September 30, 2016 and December 31, 2016 was limited by the incentive fee cap and deferral mechanism under our Investment Management Agreement. This resulted in $1.7 million of reduced expense and additional net investment income for the year ended December 31, 2016. The incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism due to net realized and unrealized losses in the portfolio during the year ended December 31, 2016 totaling $22.0 million. Performance based incentive fee expense, net of waivers, increased by $1.5 million, or 74.6%, to $3.5 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Performance based incentive fee expense increased primarily due to higher Pre-Incentive Fee Net Investment Income for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Administrative fee expense decreased by $0.3 million, or 22.7%, to $0.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Administrative fee expense decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Administrative fee expense remained flat at $1.1 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

In 2016 and 2015, we elected 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. For the years ended December 31, 2016 and 2015, the Company elected to carry forward taxable income in excess of current year distributions of $1.7 million and $1.3 million, respectively. At December 31, 2016, excise tax payable of $0.1 million was recorded. At December 31, 2015, no excise tax payable was recorded.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses for the year ended December 31, 2016 were unchanged at $2.3 million compared to the year ended December 31, 2015. These expenses for the year ended December 31, 2015 decreased by $1.8 million, or 43.7%, to $2.3 million compared to the year ended December 31, 2014 due to decreased legal fees and other costs associated with certain non-accrual investments and other assets.

Net realized gains and losses 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. Realized gains or losses on investments include 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.

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During the year ended December 31, 2016, we realized net losses totaling $7.8 million primarily due to the resolution of three debt investments. One debt investment was settled for net cash proceeds of $3.6 million, which resulted in a realized loss of $4.5 million and unrealized appreciation of $4.6 million. One debt investment was settled for net cash proceeds of $0.2 million and a royalty and sale agreement fair valued at $0.4 million, which resulted in a realized loss of $2.2 million and unrealized appreciation of $2.2 million. One debt investment was settled for cash proceeds which resulted in a realized loss of $0.9 million and unrealized appreciation of $0.7 million. During the year ended December 31, 2015, we realized net losses totaling $1.7 million primarily due to the resolution of one debt investment partially offset by realized gains on the sale of equity received upon the exercise of warrants. The debt investment was settled for a net cash payment of $4.9 million, which resulted in a realized loss of $1.8 million and unrealized appreciation of $1.8 million. During the year ended December 31, 2014, we realized net losses totaling $3.6 million primarily due to the resolution of three debt investments which were partially offset by realized gains on the sale of equity received upon the exercise of warrants. As a result of the resolution of the three debt investments, we recognized $5.0 million of realized net losses and $7.6 million of unrealized appreciation.

During the year ended December 31, 2016, net unrealized depreciation on investments totaled $14.2 million which was primarily due to the unrealized depreciation on three debt investments offset by the reversal of previously recorded unrealized depreciation on one debt investment. During the year ended December 31, 2015, net unrealized depreciation on investments totaled $0.5 million which was primarily due to the unrealized depreciation on one debt investment offset by the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period, described above. During the year ended December 31, 2014, net unrealized appreciation on investments totaled $8.3 million which was primarily due to the reversal of previously recorded unrealized depreciation on four debt investments.

Liquidity and capital resources

As of March 31, 2017 and December 31, 2016 and 2015, we had cash and investments in money market funds of $43.6 million, $37.1 million and $21.1 million, respectively. Cash and investments in money market funds are available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities and issuance of our 7.375% notes due 2019, or the 2019 Notes, and our fixed-rate asset-backed notes, or the Asset-Backed Notes.

On March 24, 2015, we completed a public offering of 2.0 million shares of common stock for net proceeds of $26.5 million, after deducting underwriting commission and discounts and other offering expenses. We generally used the net proceeds from this offering to make investments, to repurchase or pay down liabilities and for general corporate purposes.

On April 27, 2017, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to $5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to, repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Exchange Act and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2018 or the repurchase of $5.0 million of our common stock. During the three months ended March 31, 2017 and 2016, we did not make any repurchases of our common stock. During the year ended December 31, 2016, we repurchased 48,160 shares of our common stock at an average price of $10.66 on the open market for a total cost of $0.5 million. During the year ended December 31, 2015, we repurchased 113,382 shares of our common stock at an average price of $11.53 on the open market for a total cost of $1.3 million. From the inception of the stock repurchase program through March 31, 2017, we repurchased 161,542 shares of our common stock at an average price of $11.27 on the open market at a total cost of $1.8 million.

At March 31, 2017 and December 31, 2016 and 2015, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association, or Key, was $53.0 million, $63.0 million and $68.0 million, respectively. As of March 31, 2017 and December 31, 2016 and 2015, we had borrowing capacity under the Key Facility of $42.0 million, $32.0 million and $2.0 million, respectively.

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At March 31, 2017 and December 31, 2016 and 2015, $6.2 million $4.6 million and $2.0 million, respectively, were available, subject to existing terms and advance rates.

Our operating activities provided cash of $19.9 million for the three months ended March 31, 2017, and our financing activities used cash of $13.4 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to repay the Key Facility and pay distributions to our stockholders.

Our operating activities provided cash of $6.3 million for the three months ended March 31, 2016, and our financing activities used cash of $9.8 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay down our Asset-Backed Notes and pay distributions to our stockholders.

Our operating activities provided cash of $52.3 million for the year ended December 31, 2016, and our financing activities used cash of $35.9 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay off our Asset-Backed Notes and pay distributions to our stockholders.

Our operating activities used cash of $31.3 million for the year ended December 31, 2015, and our financing activities provided cash of $43.7 million for the same period. Our operating activities used cash primarily for investments made in portfolio companies, partially offset by principal payments received on our debt investments. Our financing activities provided cash primarily from the 2015 Offering and advances on our Key Facility of $58.0 million, which was partially offset by cash used to pay down our Asset-Backed Notes, pay distributions to our stockholders and repurchase common stock under the stock repurchase program.

Our operating activities provided cash of $36.7 million for the year ended December 31, 2014, and our financing activities used cash of $53.6 million for the same period. Our operating activities provided cash primarily from principal payments received on debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay down borrowings and pay distributions to our stockholders.

Our primary use of available funds is to make debt investments in portfolio companies and for general corporate purposes. We expect to raise additional equity and debt capital opportunistically as needed and, subject to market conditions, to support our future growth to the extent permitted by the 1940 Act.

In order to be subject to taxation as a RIC, we intend to distribute to our stockholders all or substantially all of our investment company taxable income. In addition, as a BDC, we are required to maintain asset coverage of at least 200%. This requirement limits the amount that we may borrow.

We believe that our current cash, cash generated from operations, and funds available from our Key Facility will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

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Current borrowings

The following table shows our borrowings as of March 31, 2017 and December 31, 2016 and 2015:

	March 31, 2017			December 31, 2016			December 31, 2015		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)								
Asset-Backed Notes	$	$	$	$	$	$	$ 14,546	$ 14,546	$
Key Facility	95,000	53,000	42,000	95,000	63,000	32,000	70,000	68,000	2,000
2019 Notes	33,000	33,000		33,000	33,000		33,000	33,000	
Total before debt issuance costs	128,000	86,000	42,000	128,000	96,000	32,000	117,546	115,546	2,000
Unamortized debt issuance costs attributable to term borrowings		(356)			(403)			(592)	
Total borrowings outstanding, net	$ 128,000	$ 85,644	$ 42,000	$ 128,000	$ 95,597	$ 32,000	$ 117,546	$ 114,954	$ 2,000

We entered into the Key Facility with Key effective November 4, 2013. The interest rate on the Key Facility is based upon the one-month London Interbank Offered Rate, or LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 0.98%, 0.77% and 0.43% on March 31, 2017 and December 31, 2016 and 2015, respectively. The interest rate in effect was 4.03%, 4.00% and 4.00%, respectively, as of March 31, 2017 and December 31, 2016 and 2015.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million. The Key Facility is collateralized by debt investments held by Horizon Credit II LLC, or Credit II, and permits an advance rate of up to fifty percent (50%) of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and to comply with portfolio company concentration limits as defined in the related loan agreement. We may request advances under the Key Facility through August 12, 2018, or the Revolving Period. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Key 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 Key Facility, particularly the condition that the principal balance of the Key Facility not exceed fifty percent (50%) of the aggregate principal balance of our eligible debt investments to our portfolio companies. All outstanding advances under the Key Facility are due and payable on August 12, 2020.

On March 23, 2012, we issued and sold an aggregate principal amount of $30 million 2019 Notes, and on April 18, 2012, pursuant to the underwriters 30-day option to purchase additional notes, we sold an additional $3 million of the

2019 Notes. The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at our option at any time or from time to time at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of March 31, 2017, we were in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol HTF .

On June 28, 2013, we completed the 2013-1 Securitization. In connection with the 2013-1 Securitization, 2013-1 Trust, a wholly owned subsidiary of ours, issued $90 million in the Asset-Backed Notes, which were

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rated A1(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by 2013-1 Trust and were backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of such portfolio companies. The Asset-Backed Notes were secured obligations of 2013-1 Trust and non-recourse to us. In connection with the issuance and sale of the Asset-Backed Notes, we made customary representations, warranties and covenants. The Asset-Backed Notes bore interest at a fixed rate of 3.00% per annum and had a stated maturity of May 15, 2018. As of September 30, 2016, the Asset-Backed Notes were repaid in full.

Under the terms of the Asset-Backed Notes, we were required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which could have been used to make monthly interest and principal payments on the Asset-Backed Notes.

As of March 31, 2017 and December 31, 2016 and 2015, other assets were $1.6 million, $2.1 million and $2.2 million, respectively, which were primarily comprised of debt issuance costs and prepaid expenses.

Contractual obligations and off-balance sheet arrangements

The following table shows our significant contractual payment obligations and off-balance sheet arrangements as of March 31, 2017:

	Payments due by period				
	Total	Less than 1 year	1 3 Years	3 5 Years	After 5 years
	(In thousands)				
Borrowings	$ 86,000	$ 4,443	$ 75,600	$ 5,957	$
Unfunded commitments	11,500	4,000	7,500		
Total	$ 97,500	$ 8,443	$ 83,100	$ 5,957	$

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 March 31, 2017, we had unfunded commitments of $11.5 million. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of March 31, 2017, we reasonably believed that our assets would provide adequate financial resources to satisfy all of our unfunded commitments.

In addition to the Key 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 (1) a base management fee equal to a percentage of the value of our gross assets less cash or cash equivalents, 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 obligations 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 for additional information regarding our Investment Management Agreement and our Administration Agreement.

Distributions

In order to qualify and be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income for each tax year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other

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income derived with respect to its business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each tax year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

In addition, in order to be subject to tax as a RIC and to avoid the imposition of corporate-level tax on the income and gains we distribute to our stockholders in respect of any tax year, we are required under the Code to distribute as distributions to our stockholders out of assets legally available for distribution each tax year of an amount generally at least equal to 90% of the sum of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any. Additionally, in order to avoid the imposition of a U.S. federal excise tax, we are required to distribute, in respect of each calendar year, dividends to our stockholders of an amount at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income and capital gain net income for preceding calendar years that were not distributed during such calendar years and on which we previously did not incur any U.S. federal income tax. If we fail to qualify as a RIC for any reason and become subject to corporate tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings for a fiscal year 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 distribution 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, or DRIP, 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 DRIP. 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, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional shares of our common stock will be treated as receiving a distribution of an amount equal to the fair market value of such shares of our common stock. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

Related party transactions

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Our investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment Management Agreement, we have agreed to pay the Advisor a base management fee as well as an incentive fee. During the three months ended March 31, 2017 and 2016 and the years ended December 31, 2016, 2015 and 2014, we paid the Advisor \$1.4 million, \$2.4 million, \$6.9 million, \$7.9 million and \$6.4 million, respectively, pursuant to the

Investment Management Agreement.

Our Advisor is 60% owned by HTF Holdings LLC, which is 100% owned by Horizon Technology Finance, LLC. By virtue of their ownership interest in Horizon Technology Finance, LLC, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud, may be deemed to control our Advisor.

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We have also entered into the Administration Agreement with the Advisor. Under the Administration Agreement, we have agreed to reimburse the Advisor for our allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Advisor provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the three months ended March 31, 2017 and 2016 and the years ended December 31, 2016, 2015 and 2014, we paid the Advisor $0.2 million, $0.3 million, $0.9 million, $1.1 million and $1.1 million, respectively, pursuant to the Administration Agreement.

The predecessor of the Advisor has granted the Company a non-exclusive, royalty-free license to use the name Horizon Technology Finance.

We believe that we derive substantial benefits from our relationship with our Advisor. Our Advisor may manage other investment vehicles, or Advisor Funds, with the same investment strategy as us. The Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates are precluded from co-investing in such investments. On January 23, 2017, we filed an application for exemptive relief with the SEC which, if granted, would permit us more flexibility to co-invest with the Advisor funds, subject to certain conditions.

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. 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 our portfolio investments. We apply fair value to substantially all of our investments in accordance with Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board s Accounting Standards Codification as amended, or ASC, 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.

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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.

Our Board determines the fair value of investments in good faith, based on the input of management, the audit committee and independent valuation firms that have been engaged at the direction of our Board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing twelve-month period under our valuation policy and a consistently applied valuation process. The Board conducts this valuation process at the end of each fiscal quarter, with at least 25% (based on fair value) of our valuation of portfolio companies that do not have a readily available market quotations subject to review by an independent valuation firm.

Income recognition

Interest on debt 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. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management s judgment at the time the debt investment is placed on non-accrual status. For the three months ended March 31, 2017 and 2016 and the year ended December 31, 2016, we did not recognize any interest income from debt investments on non-accrual status. For the years ended December 31, 2015 and 2014, we recognized as interest income interest payments of $0.2 million and $0.3 million, respectively, received from one portfolio company whose debt investment was on non-accrual status.

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, success 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. Debt investment 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 debt investment. All other income is recorded into income when earned. Fees for counterparty debt investment commitments with multiple debt investments are allocated to each debt investment based upon each debt investment s relative fair value. When a debt investment is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the debt investment is returned to accrual status.

Certain debt investment agreements also require the borrower to make an ETP that is accrued into income over the life of the debt investment 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.

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In connection with substantially all lending arrangements, we receive warrants to purchase shares of stock from the borrower. We record the warrants as assets at estimated fair value on the grant date using the Black-Scholes valuation model. We consider the warrants as loan fees and record them as unearned income on the grant date. The unearned income is recognized as interest income over the contractual life of the related debt investment in accordance with our income recognition policy. Subsequent to 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 and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

Realized gains or losses on the sale of investments, or upon the determination that an investment balance, or portion thereof, is not recoverable, are calculated using the specific identification method. We measure realized gains or losses by calculating the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Income taxes

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid the imposition of corporate-level U.S. federal income tax on the income and gains distributed to stockholders, among other things, we are required to meet certain source of income and asset diversification requirements, and we must timely distribute dividends to our stockholders out of assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid, for each tax 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 distributions into the next tax year and incur 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 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 in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946, *Financial Services Investment Companies*. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, are 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. We had no material uncertain tax positions at March 31, 2017 and December 31, 2016 and 2015.

Recently adopted accounting pronouncement

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03, as clarified by ASU 2015-15, *Interest Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, or ASU 2015-15, containing guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, instead of being recorded as a separate asset. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize these deferred costs over the term of the line-of-credit arrangement. We have adopted ASU 2015-03, as clarified by ASU 2015-15, which did not have a material impact on our consolidated financial statements other than corresponding reductions to total assets and total liabilities on the consolidated statements of assets and liabilities. Prior to adoption, we recorded debt issuance costs in other assets as an asset on the consolidated statements of assets and liabilities. Upon adoption, we reclassified these costs as unamortized debt issuance costs that reduce borrowings in the liabilities on the consolidated

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statements of assets and liabilities and retrospectively reclassified the debt issuance costs that were previously presented in other assets as an asset as of December 31, 2015.

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 debt investments within our portfolio were primarily at floating rates. We expect that our debt investments in the future will primarily have floating interest rates. As of March 31, 2017, December 31, 2016 and 2015, 100%, 96% and 93%, respectively, of the outstanding principal amount of our debt investments bore interest at floating rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index.

Based on our March 31, 2017 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income), the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

Change in basis points	Interest Income	Interest Expense	Change in Net Assets[1]
	(In thousands)		
Up 300 basis points	$ 4,151	$ 1,612	$ 2,539
Up 200 basis points	$ 2,801	$ 1,075	$ 1,726
Up 100 basis points	$ 1,371	$ 537	$ 834
Down 300 basis points	$ (1,222)	$ (32)	$ (1,190)
Down 200 basis points	$ (1,002)	$ (32)	$ (970)
Down 100 basis points	$ (781)	$ (32)	$ (749)

(1) Excludes the impact of incentive fees based on pre-incentive fee net investment income.

While our 2019 Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision, subject to a floor of 0.75%, based on a LIBOR index which resets monthly, and 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 caps, 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 expect to 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 could increase, which would reduce our net investment income.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of March 31, 2017 and December 31, 2016, 2015, 2014, 2013, 2012, 2011 and 2010. The information as of December 31, 2016, 2015, 2014, 2013 and 2012 was included in or derived from our consolidated financial statements for the year ended December 31, 2016, which were audited by RSM US LLP, our independent registered public accounting firm. This information about our senior securities should be read in conjunction with our audited consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Involuntary Liquidation Preference per Unit(3)	Average Market Value per Unit(4)
	(in thousands, except unit data)			
Credit facilities				
2017 (as of March 31)	$ 53,000	$ 4,254		N/A
2016	$ 63,000	$ 3,733		N/A
2015	$ 68,000	$ 4,048		N/A
2014	$ 10,000	$ 22,000		N/A
2013	$ 10,000	$ 25,818		N/A
2012	$ 56,020	$ 4,177		N/A
2011	$ 64,571	$ 3,012		N/A
2010	$ 87,425	$ 2,455		N/A
2019 Notes				
2017 (as of March 31)	$ 33,000	$ 6,831		$ 25.51
2016	$ 33,000	$ 7,127		$ 25.42
2015	$ 33,000	$ 8,342		$ 25.26
2014	$ 33,000	$ 6,667		$ 25.64
2013	$ 33,000	$ 7,824		$ 25.70
2012	$ 33,000	$ 7,091		$ 25.38
2013-1 Securitization				
2017 (as of March 31)				N/A
2016				N/A
2015	$ 14,546	$ 18,926		N/A
2014	$ 38,753	$ 5,677		N/A
2013	$ 79,343	$ 3,254		N/A
Total senior securities				
2017 (as of March 31)	$ 86,000	$ 2,621		N/A
2016	$ 96,000	$ 2,450		N/A
2015	$ 115,546	$ 2,383		N/A
2014	$ 81,753	$ 2,691		N/A
2013	$ 122,343	$ 2,110		N/A
2012	$ 89,020	$ 2,629		N/A

2011	$ 64,571	$ 3,012	N/A
2010	$ 87,425	$ 2,455	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 original cost less accumulated depreciation, amortization or impairment of the Company s 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.

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(3) The amount which the holder of such class of senior security would be entitled upon the voluntary liquidation of the applicable 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 to the Company s credit facilities and 2013-1 Securitization because such securities are not registered for public trading.

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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 maximize our investment portfolio s total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments to venture capital backed companies in our Target Industries. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. Venture Lending is typically characterized by, (i) the making of a secured debt investment 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. In addition, for U.S. federal income tax purposes, we have elected to be treated for as a RIC under Subchapter M of the Code. 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 a portion of 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. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute to our stockholders as long as 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

From the commencement of operations of our predecessor on March 4, 2008 through March 31, 2017, we funded 148 portfolio companies and invested $865.4 million in debt investments. As of March 31, 2017, our debt investment portfolio consisted of 37 debt investments with an aggregate fair value of $166.1 million. As of March 31, 2017, 98.8%, or $164.1 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. As of March 31, 2017, our net assets were $139.4 million, and all of our debt investments were secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The debt investments in our portfolio are generally not rated by any rating agency. If the individual debt investments in our portfolio were rated, they would be rated below investment grade . Debt investments that are unrated or rated below investment grade are sometimes referred to as junk bonds and have predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal.

For the three months ended March 31, 2017, our debt investment portfolio had a dollar-weighted annualized yield of 15.5% (excluding any yield from warrants), and our investment portfolio (including non-income producing investments) had an overall total return of 14.6%. The warrants we receive from time to time when making loans to portfolio companies are excluded from the calculation of our dollar-weighted annualized yield because such warrants do not generate any yield since we do not receive dividends or other payments in respect of our outstanding warrants. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month

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immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield represents the portfolio yield and will be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors. As of March 31, 2017, our debt investments had a dollar-weighted average term of 46 months from inception and a dollar-weighted average remaining term of 31 months. As of March 31, 2017, substantially all of our debt investments had an original committed principal amount of between $3 million and $15 million, repayment terms of between 28 and 60 months and bore current pay interest at annual interest rates of between 9% and 13%.

For the three months ended March 31, 2017, our total return based on market value was 8.5%. Total return based on market value is calculated as (x) the sum of (i) the closing sales price of our common stock on the last day of the period plus (ii) the aggregate amount of distributions paid per share during the period, less (iii) the closing sales price of our common stock on the first day of the period, divided by (y) the closing sales price of our common stock on the first day of the period.

In addition to our debt investments, as of March 31, 2017, we held warrants to purchase stock, predominantly preferred stock, in 71 portfolio companies, equity positions in five portfolio companies and success fee arrangements in 11 portfolio companies.

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 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, 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 Robert D. Pomeroy, Jr., our Chief Executive Officer, Gerald A. Michaud, our President, Daniel R. Trolio, 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 Investment Officer.

Our strategy

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

Structured investments in the venture capital and private and public equity markets. We make loans to development-stage companies within our Target Industries typically in the form of secured loans. The secured debt structure provides a lower risk strategy, as compared to equity or unsecured debt 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 principal and have a senior position to equity and unsecured debt in the borrower s capital structure 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 IPOs. Instead, we receive returns on our debt investments primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.

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Enterprise value lending. We and our Advisor take an enterprise value approach to structuring and underwriting loans. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the applicable portfolio company s particular technology, service or customer base. We secure our lien position against the enterprise value of each 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 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, ETPs, pre-payment fees, success fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies financing requirements while mitigating risk and maximizing returns on our investments.

Opportunity for enhanced returns. To enhance our debt investment portfolio returns, in addition to interest and fees, we frequently obtain warrants to purchase the equity of our portfolio companies as additional consideration for making debt investments. 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 by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. 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. For public companies, our Advisor typically relies on publicly reported quarterly financials.

Use of leverage. We use leverage to increase returns on equity through our Key Facility and our 2019 Notes. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and capital resources for additional information about our use of leverage. In addition, we may issue additional debt securities or 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. 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.

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Customized debt investment documentation process. Our Advisor employs an internally managed documentation process that assures that each debt investment transaction is documented using our enterprise value debt investment 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, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug discovery, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, electronic 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, power management, 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.

Debt investment 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 debt investment by initially providing a source of cash to fund the portfolio company s debt service obligations. In addition, because the debt investment 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 debt investments. Venture Loans typically require that interest payments begin within one month of closing, and principal payments typically 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

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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 debt investment (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 debt investment.

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 Venture 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 valued in dollar amounts equal to between 5% and 20% of the principal loan amount at the time of issuance. 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.

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

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 managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed Venture Loans with an aggregate original principal amount over $1.3 billion to more than 210 companies since operations commenced in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.

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Robust direct origination capabilities. Our Advisor has significant experience originating Venture Loans in our Target Industries. This experience has given our Advisor 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 s senior management team of experienced professionals has been together since our 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 other firms considerable time and expense to develop and we believe this represents a significant barrier to entry.

Well-known brand name. Our Advisor has originated Venture Loans to more than 210 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.

Stages of development of venture capital and private equity-backed companies

Below is a typical development curve for a company in our Target Industries and the various milestones along the development curve where we believe a Venture Loan may be a preferred financing solution:

Stages of Development

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Investment criteria

We seek to invest in companies that vary by their stage of development, their Target Industries and sectors of Target Industries and their geographical location, as well as by the venture capital and private equity sponsors that support our portfolio companies. While we invest in companies at various stages of development, we require that prospective portfolio companies be beyond the seed stage of development and have received at least their first round of venture capital or private equity financing before we will consider making an investment. We expect a prospective portfolio company to demonstrate its ability to advance technology and increase its value over time.

We have identified several criteria that we believe have proven, and will prove, important in achieving our investment objective. These criteria provide general guidelines for our investment decisions. However, we caution you that not all of these criteria are met by each portfolio company in which we choose to invest.

Management. Our portfolio companies are generally led by experienced management that has in-market expertise in the Target Industry in which the company operates, as well as extensive experience with development-stage companies. The adequacy and completeness of the management team is assessed relative to the stage of development and the challenges facing the potential portfolio company.

Continuing support from one or more venture capital and private equity investors. We typically invest in companies in which one or more established venture capital and private equity investors have previously invested and continue to make a contribution to the management of the business. We believe that established venture capital and private equity investors can serve as committed partners and will assist their portfolio companies and their management teams in creating value. We take into consideration the total amount raised by the company, the valuation history, investor reserves for future investment and the expected timing and milestones to the next equity round financing.

Operating plan and cash resources. We generally require that a prospective portfolio company, in addition to having sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. Our review of the operating plan will take into consideration existing cash, cash burn, cash runway and the milestones necessary for the company to achieve cash flow positive operations or to access additional equity from its investors.

Enterprise and technology value. We expect that the enterprise value of a prospective portfolio company should substantially exceed the principal balance of debt borrowed by the company. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the company s particular technology, service or customer base.

Market opportunity and exit strategy. We seek portfolio companies that are addressing market opportunities that capitalize on their competitive advantages. Competitive advantages may include unique technology, protected intellectual property, superior clinical results or significant market traction. As part of our investment analysis, we typically also consider potential realization of our warrants through merger, acquisition or initial public offering based upon comparable exits in the company s Target Industry.

Investment process

Our Board has delegated authority for all investment decisions to our Advisor. Our Advisor, in turn, has created an integrated approach to the loan origination, underwriting, approval and documentation process that we believe effectively combines the skills of our Advisor s professionals. This process allows our Advisor to achieve an efficient and timely closing of an investment from the initial contact with a prospective portfolio company through the investment decision, close of documentation and funding of the investment, while ensuring that our Advisor s rigorous underwriting standards are consistently maintained. We believe that the high level of involvement by our Advisor s staff in the various phases of the investment process allows us to minimize the credit risk while delivering superior service to our portfolio companies.

Origination. Our Advisor s loan origination process begins with its industry-focused regional managing directors who are responsible for identifying, contacting and screening prospects. These managing directors meet with key decision makers and deal referral sources such as venture capital and private equity firms and

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management teams, legal firms, accounting firms, investment banks and other lenders to source prospective portfolio companies. We believe our brand name and management team are well known within the Venture Lending community, as well as by many repeat entrepreneurs and board members of prospective portfolio companies. These broad relationships, which reach across the Venture Lending industry, give rise to a significant portion of our Advisor s deal origination.

The responsible managing director of our Advisor obtains materials from the prospective portfolio company and from those materials, as well as other available information, determines whether it is appropriate for our Advisor to issue a non-binding term sheet. The managing director bases this decision to proceed on his or her experience, the competitive environment and the prospective portfolio company s needs and also seeks the counsel of our Advisor s senior management and investment team.

Term sheet. If the managing director determines, after review and consultation with senior management, that the potential transaction meets our Advisor s initial credit standards, our Advisor will issue a non-binding term sheet to the prospective portfolio company.

The terms of the transaction are tailored to a prospective portfolio company s specific funding needs while taking into consideration market dynamics, the quality of the management team, the venture capital and private equity investors involved and applicable credit criteria, which may include the prospective portfolio company s existing cash resources, the development of its technology and the anticipated timing for the next round of equity financing.

Underwriting. Once the term sheet has been negotiated and executed and the prospective portfolio company has remitted a good faith deposit, we request additional due diligence materials from the prospective portfolio company and arrange for a due diligence visit.

Due diligence. The due diligence process includes a formal visit to the prospective portfolio company s location and interviews with the prospective portfolio company s senior management team. The process includes obtaining and analyzing publicly available information from independent third parties that have knowledge of the prospective portfolio company s business, including, to the extent available analysts that follow the technology market, thought leaders in our Target Industries and important customers or partners, if any. Outside sources of information are reviewed, including industry publications, scientific and market articles, internet publications, publicly available information on competitors or competing technologies and information known to our Advisor s investment team from their experience in the technology markets.

A primary element of the due diligence process is interviewing key existing investors of the prospective portfolio company, who are often also members of the prospective portfolio company s board of directors. While these board members and/or investors are not independent sources of information, their support for management and willingness to support the prospective portfolio company s further development are critical elements of our decision making process.

Investment memorandum. Upon completion of the due diligence process and review and analysis of all of the information provided by the prospective portfolio company and obtained externally, our Advisor s assigned credit officer prepares an investment memorandum for review and approval. The investment memorandum is reviewed by our Advisor s Chief Investment Officer and then submitted to our Advisor s investment committee for approval.

Investment committee. Our Advisor s investment committee is responsible for overall credit policy, portfolio management, approval of all investments, portfolio monitoring and reporting and managing of problem accounts. The committee interacts with the entire staff of our Advisor to review potential transactions and deal flow. This interaction of cross-functional members of our Advisor s staff assures efficient transaction sourcing, negotiating and underwriting throughout the transaction process. Portfolio performance and current market conditions are reviewed and discussed by the investment committee on a regular basis to assure that transaction structures and terms are consistent and current.

Loan closing and funding. Approved investments are documented and closed by our Advisor s in-house legal and loan administration staff. Loan documentation is based upon standard templates created by our Advisor and is customized for each transaction to reflect the specific deal terms. The transaction documents

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typically include a loan and security agreement, warrant agreement and applicable perfection documents, including applicable UCC financing statements and, as applicable, may also include a landlord agreement, patent and trademark security grants, a subordination agreement, an intercreditor agreement and other standard agreements for commercial loans in the Venture Lending industry. Funding requires final approval by our Advisor s General Counsel, Chief Executive Officer or President, Chief Financial Officer and Chief Investment Officer.

Portfolio management and reporting. Our Advisor maintains a hands on approach to maintain communication with our portfolio companies. At least quarterly, our Advisor contacts our portfolio companies for operational and financial updates by phone and performs reviews. Our Advisor may contact portfolio companies deemed to have greater credit risk on a monthly basis. Our Advisor requires all private companies to provide financial statements, typically monthly. For public companies, our Advisor typically relies on publicly reported quarterly financials. This allows our Advisor to identify any unexpected developments in the financial performance or condition of our portfolio company.

Our Advisor has developed a proprietary internal credit rating system to analyze the quality of our debt investments. Using this system, our Advisor analyzes and then rates the credit risk within the portfolio on a quarterly basis. Each portfolio company is rated on a 1 through 4 scale, with 3 representing the rating for a standard level of risk. A rating of 4 represents an improved and better credit quality than existed at the time of its original underwriting. A rating of 2 or 1 represents a deteriorating credit quality and an increased risk of loss of principal. Newly funded investments are typically assigned a rating of 3, unless extraordinary circumstances require otherwise. These investment ratings are generated internally by our Advisor, and we cannot guarantee that others would assign the same ratings to our portfolio investments or similar portfolio investments.

Our Advisor closely monitors portfolio companies rated a 1 or 2 for adverse developments. In addition, our Advisor maintains regular contact with the management, board of directors and major equity holders of these portfolio companies in order to discuss strategic initiatives to correct the deterioration of the portfolio company.

The following table describes each rating level:

Rating	
4	The portfolio company has performed in excess of our expectations as demonstrated by exceeding revenue milestones, clinical milestones or other operating metrics or as a result of raising capital well in excess of our underwriting assumptions. Generally the portfolio company displays one or more of the following: its enterprise value greatly exceeds our loan balance; it has achieved cash flow positive operations or has sufficient cash resources to cover the remaining balance of the loan; there is strong potential for warrant gains from our warrants; and there is a high likelihood that the borrower will receive favorable future financing to support operations. Loans rated 4 are the lowest risk profile in our portfolio and there is no expected risk of principal loss.
3	The portfolio company has performed to our expectations as demonstrated by meeting revenue milestones, clinical milestones or other operating metrics. It has raised, or is expected to raise, capital consistent with our underwriting assumptions. Generally the portfolio company displays one or more of the following: its enterprise value comfortably exceeds our loan balance; it has sufficient cash resources to operate according to its plan; it is expected to raise additional capital as needed; and there continues to be potential for warrant gains from our warrants. New loans are typically rated 3 when approved and thereafter 3 rated loans represent a standard risk profile, with no principal loss currently expected.

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Rating	
2	The portfolio company has performed below our expectations as demonstrated by missing revenue milestones, delayed clinical progress or otherwise failing to meet projected operating metrics. It may have raised capital in support of the poorer performance but generally on less favorable terms than originally contemplated at the time of underwriting. Generally the portfolio company displays one or more of the following: its enterprise value exceeds our loan balance but at a lower multiple than originally expected; it has sufficient cash to operate according to its plan but liquidity may be tight; and it is planning to raise additional capital but there is uncertainty and the potential for warrant gains from our warrants are possible, but unlikely. Loans rated 2 represent an increased level of risk of loss of principal. While no loss is currently anticipated for a 2-rated loan, there is potential for future loss of principal.
1	The portfolio company has performed well below plan as demonstrated by materially missing revenue milestones, delayed or failed clinical progress or otherwise failing to meet operating metrics. The portfolio company has not raised sufficient capital to operate effectively or retire its debt obligation to us. Generally the portfolio company displays one or more of the following: its enterprise value may not exceed our loan balance; it has insufficient cash to operate according to its plan and liquidity may be tight; and there are uncertain plans to raise additional capital or the portfolio company is being sold under distressed conditions. There is no potential for warrant gains from our warrants. Loans rated 1 are generally put on non-accrual status and represent a high degree of risk of loss of principal.

For a discussion of the ratings of our existing portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations Debt investment asset quality.

Managerial assistance

As a BDC, we offer, through our Advisor, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance may involve monitoring the operations of the portfolio companies, participating in board of directors and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance.

Although we may receive fees for these services, pursuant to the Administration Agreement, we will reimburse our Advisor for its expenses related to providing such services on our behalf.

Competition

We compete to provide financing to development-stage companies in our Target Industries 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 and other resources than we do. We believe we compete effectively with these entities primarily on the basis of the experience, industry knowledge and contacts of our Advisor s investment professionals, its responsiveness and efficient investment analysis and decision-making processes, its creative financing products and its customized investment terms. We do not intend to compete primarily on the interest rates we offer and believe that some competitors make loans with rates that are comparable or lower than our rates. For additional information concerning our competitive position and competitive risks, see Risk Factors Risks related to our business and structure 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.

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Employees

We do not have any employees. Each of our executive officers described under Management is an employee of our Advisor. Our day-to-day investment operations are managed by our Advisor. We reimburse our Advisor for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, as our Administrator, including our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs.

Properties

We do not own any real estate or other physical properties materially important to our operation. Our headquarters and our Advisor s headquarters are currently located at 312 Farmington Avenue, Farmington, Connecticut 06032. We believe that our office facilities are suitable and adequate to our business.

Legal Proceedings

Neither we nor our Advisor is currently subject to any material legal proceedings.

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PORTFOLIO COMPANIES

The following table sets forth certain information as of March 31, 2017 for each portfolio company in which we had a debt, equity or other investment. Other than these investments, our only relationships with our portfolio companies involve the managerial assistance we may separately provide to our portfolio companies, such services being ancillary to our investments, and the board observer or participation rights we may receive in connection with our investment. We do not control and are not an affiliate of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would control a portfolio company if we owned more than 25% of its voting securities and would be an affiliate of a portfolio company if we owned 5% or more of its voting securities.

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