

JPMORGAN CHASE & CO  
Form 424B2  
March 08, 2019

**The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to completion dated March 8, 2019**

March 8, 2019 Registration Statement Nos. 333-222672 and 333-222672-01; Rule 424(b)(2)

JPMorgan Chase Financial Company LLC  
Structured Investments

Capped Buffered Return Enhanced Notes Linked to the S&P 500<sup>®</sup> Index due August 12, 2020

Fully and Unconditionally Guaranteed by JPMorgan Chase & Co.

The notes are designed for investors who seek a return of 1.50 times any appreciation of the S&P 500<sup>®</sup> Index, up to a maximum return of at least 13.25%, at maturity.

Investors should be willing to forgo interest and dividend payments and be willing to lose some or all of their principal amount at maturity.

The notes are unsecured and unsubordinated obligations of JPMorgan Chase Financial Company LLC, which we refer to as JPMorgan Financial, the payment on which is fully and unconditionally guaranteed by JPMorgan Chase & Co. **Any payment on the notes is subject to the credit risk of JPMorgan Financial, as issuer of the notes, and the credit risk of JPMorgan Chase & Co., as guarantor of the notes.**

Minimum denominations of \$1,000 and integral multiples thereof

The notes are expected to price on or about March 8, 2019 (the "Pricing Date") and are expected to settle on or about March 13, 2019. **The Strike Value has been determined by reference to the closing level of the Index on March 7, 2019 and not by reference to the closing level of the Index on the Pricing Date.**

CUSIP: 48130WF97

**Investing in the notes involves a number of risks. See "Risk Factors" beginning on page PS-10 of the accompanying product supplement, "Risk Factors" beginning on page US-1 of the accompanying underlying supplement and "Selected Risk Considerations" beginning on page PS-3 of this pricing supplement.**

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the notes or passed upon the accuracy or the adequacy of this pricing supplement or the accompanying product supplement, underlying supplement, prospectus supplement and prospectus. Any representation to the contrary is a criminal offense.

	Price to Public (1) Fees and Commissions	(2) Proceeds to Issuer
Per note \$1,000	—	\$1,000
Total \$	—	\$

(1) See "Supplemental Use of Proceeds" in this pricing supplement for information about the components of the price to public of the notes.

(2) All sales of the notes will be made to certain fee-based advisory accounts for which an affiliated or unaffiliated broker-dealer is an investment adviser. These broker-dealers will forgo any commissions

related to these sales. See “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement.

**The estimated value of the notes, when the terms of the notes are set, will be provided in the pricing supplement, may be less than \$1,000.00 per \$1,000 principal amount note and will not be less than \$990.00 per \$1,000 principal amount note. See “The Estimated Value of the Notes” in this pricing supplement for additional information.**

*The notes are not bank deposits, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and are not obligations of, or guaranteed by, a bank.*

Pricing supplement to product supplement no 4-I dated April 5, 2018, underlying supplement no. 1-I dated April 5, 2018 and the prospectus and prospectus supplement, each dated April 5, 2018

Key Terms

<b>Issuer:</b> JPMorgan Chase Financial Company LLC, an indirect, wholly owned finance subsidiary of JPMorgan Chase & Co.	<p>Payment at Maturity:</p> <p>If the Final Value is greater than the Strike Value, your payment at maturity per \$1,000 principal amount note will be calculated as follows:</p>
<b>Guarantor:</b> JPMorgan Chase & Co.	$\$1,000 + (\$1,000 \times \text{Index Return} \times \text{Upside Leverage Factor}), \text{ subject to the Maximum Return}$
<b>Index:</b> The S&P 500 <sup>®</sup> Index (Bloomberg ticker: SPX)	<p>If the Final Value is equal to the Strike Value or is less than the Strike Value by up to the Buffer Amount, you will receive the principal amount of your notes at maturity.</p>
<b>Maximum Return:</b> At least 13.25% (corresponding to a maximum payment at maturity of at least \$1,132.50 per \$1,000 principal amount note) (to be provided in the pricing supplement)	<p>If the Final Value is less than the Strike Value by more than the Buffer Amount, your payment at maturity per \$1,000 principal amount note will be calculated as follows:</p>
<b>Upside Leverage Factor:</b> 1.50	$\$1,000 + [\$1,000 \times (\text{Index Return} + \text{Buffer Amount}) \times \text{Downside Leverage Factor}]$
<b>Buffer Amount:</b> 20.00%	<p><i>If the Final Value is less than the Strike Value by more than the Buffer Amount, you will lose some or all of your principal amount at maturity.</i></p>
<b>Downside Leverage Factor:</b> An amount equal to $1 / (1 - \text{Buffer Amount})$ , which is 1.25	<b>Index Return:</b>
<b>Strike Date:</b> March 7, 2019	$\frac{(\text{Final Value} - \text{Strike Value})}{\text{Strike Value}}$
<b>Pricing Date:</b> On or about March 8, 2019	<b>Strike Value:</b> The closing level of the Index on the Strike Date, which was 2,748.93. <b>The Strike Value is not the closing level on the Pricing Date.</b>
<b>Original Issue Date (Settlement Date):</b> On or about March 13, 2019	<b>Final Value:</b> The closing level of the Index on the Observation Date
<b>Observation Date*:</b> August 7, 2020	
<b>Maturity Date*:</b> August 12, 2020	

\* Subject to postponement in the event of a market disruption event and as described under “General Terms of Notes — Postponement of a Determination Date — Notes Linked to a Single Underlying — Notes Linked to a Single Underlying (Other Than a Commodity Index)” and “General Terms of Notes — Postponement of a Payment Date” in the accompanying product supplement

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## Hypothetical Payout Profile

The following table illustrates the hypothetical total return and payment at maturity on the notes linked to a hypothetical Index. The “total return” as used in this pricing supplement is the number, expressed as a percentage, that results from comparing the payment at maturity per \$1,000 principal amount note to \$1,000. The hypothetical total returns and payments set forth below assume the following:

- a Strike Value of 100.00;
- a Maximum Return of 13.25%;
- an Upside Leverage Factor of 1.50;
- a Buffer Amount of 20.00%; and
- a Downside Leverage Factor of 1.25.

The hypothetical Strike Value of 100.00 has been chosen for illustrative purposes only and does not represent the actual Strike Value. The actual Strike Value is the closing level of the Index on the Strike Date and is specified under “Key Terms — Strike Value” in this pricing supplement. For historical data regarding the actual closing levels of the Index, please see the historical information set forth under “The Index” in this pricing supplement.

Each hypothetical total return or hypothetical payment at maturity set forth below is for illustrative purposes only and may not be the actual total return or payment at maturity applicable to a purchaser of the notes. The numbers appearing in the following table have been rounded for ease of analysis.

Final Value	Index Return	Total Return on the Notes	Payment at Maturity
180.00	80.00%	13.25%	\$1,132.50
165.00	65.00%	13.25%	\$1,132.50
150.00	50.00%	13.25%	\$1,132.50
140.00	40.00%	13.25%	\$1,132.50
130.00	30.00%	13.25%	\$1,132.50
120.00	20.00%	13.25%	\$1,132.50
110.00	10.00%	13.25%	\$1,132.50
108.83	8.83%	13.25%	\$1,132.50
105.00	5.00%	7.50%	\$1,075.00
101.00	1.00%	1.50%	\$1,015.00
100.000	0.000%	0.00%	\$1,000.00
95.00	-5.00%	0.00%	\$1,000.00
90.00	-10.00%	0.00%	\$1,000.00
80.00	-20.00%	0.00%	\$1,000.00
70.00	-30.00%	-12.50%	\$875.00
60.00	-40.00%	-25.00%	\$750.00
50.00	-50.00%	-37.50%	\$625.00
40.00	-60.00%	-50.00%	\$500.00
30.00	-70.00%	-62.50%	\$375.00
20.00	-80.00%	-75.00%	\$250.00
10.00	-90.00%	-87.50%	\$125.00
0.00	-100.00%	-100.00%	\$0.00

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## How the Notes Work

### Upside Scenario:

If the Final Value is greater than the Strike Value, investors will receive at maturity the \$1,000 principal amount *plus* a return equal to the Index Return *times* the Upside Leverage Factor of 1.50, up to the Maximum Return of at least 13.25%. Assuming a hypothetical Maximum Return of 13.25%, an investor will realize the maximum payment at maturity at a Final Value at or above approximately 108.83% of the Strike Value.

If the closing level of the Index increases 5.00%, investors will receive at maturity a 7.50% return, or \$1,075.00 per \$1,000 principal amount note.

Assuming a hypothetical Maximum Return of 13.25%, if the closing level of the Index increases 50.00%, investors will receive at maturity a return equal to the 13.25% Maximum Return, or \$1,132.50 per \$1,000 principal amount note, which is the maximum payment at maturity.

### Par Scenario:

If the Final Value is equal to the Strike Value or is less than the Strike Value by up to the Buffer Amount of 20.00%, investors will receive at maturity the principal amount of their notes.

### Downside Scenario:

If the Final Value is less than the Strike Value by more than the Buffer Amount of 20.00%, investors will lose 1.25% of the principal amount of their notes for every 1% that the Final Value is less than the Strike Value by more than the Buffer Amount.

For example, if the closing level of the Index declines 60.00%, investors will lose 50.00% of their principal amount and receive only \$500.00 per \$1,000 principal amount note at maturity, calculated as follows:  
$$\$1,000 + [\$1,000 \times (-60.00\% + 20.00\%) \times 1.25] = \$500.00$$

The hypothetical returns and hypothetical payments on the notes shown above apply only if you hold the notes for their entire term. These hypotheticals do not reflect the fees or expenses that would be associated with any sale in the secondary market. If these fees and expenses were included, the hypothetical returns and hypothetical payments shown above would likely be lower.

### Selected Risk Considerations

An investment in the notes involves significant risks. These risks are explained in more detail in the "Risk Factors" sections of the accompanying product supplement and underlying supplement.

### **YOUR INVESTMENT IN THE NOTES MAY RESULT IN A LOSS —**

The notes do not guarantee any return of principal. If the Final Value is less than the Strike Value by more than 20.00%, you will lose 1.25% of the principal amount of your notes for every 1% that the Final Value is less than the Strike Value by more than 20.00%. Accordingly, under these circumstances, you will lose some or all of your principal amount at maturity.

**YOUR MAXIMUM GAIN ON THE NOTES IS LIMITED TO THE MAXIMUM RETURN,** regardless of any appreciation of the Index, which may be significant.

### **CREDIT RISKS OF JPMORGAN FINANCIAL AND JPMORGAN CHASE & CO. —**

Investors are dependent on our and JPMorgan Chase & Co.'s ability to pay all amounts due on the notes. Any actual or potential change in our or JPMorgan Chase & Co.'s creditworthiness or credit spreads, as determined by the market for taking that credit risk, is likely to adversely affect the value of the notes. If we and JPMorgan Chase & Co. were to default on our payment obligations, you may not receive any amounts owed to you under the notes and you could lose your entire investment.

**AS A FINANCE SUBSIDIARY, JPMORGAN FINANCIAL HAS NO INDEPENDENT OPERATIONS AND HAS LIMITED ASSETS —**

As a finance subsidiary of JPMorgan Chase & Co., we have no independent operations beyond the issuance and administration of our securities. Aside from the initial capital contribution from JPMorgan Chase & Co., substantially all of our assets relate to obligations of our affiliates to make payments under loans made by us or other intercompany agreements. As a result, we are dependent upon payments from our affiliates to meet our obligations under the notes. If these affiliates do not make payments to us and we fail to make payments on the notes, you may have to seek payment under the related guarantee by JPMorgan Chase & Co., and that guarantee will rank *pari passu* with all other unsecured and unsubordinated obligations of JPMorgan Chase & Co.

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**POTENTIAL CONFLICTS —**

We and our affiliates play a variety of roles in connection with the notes. In performing these duties, our and JPMorgan Chase & Co.'s economic interests are potentially adverse to your interests as an investor in the notes. It is possible that hedging or trading activities of ours or our affiliates in connection with the notes could result in substantial returns for us or our affiliates while the value of the notes declines. Please refer to "Risk Factors — Risks Relating to Conflicts of Interest" in the accompanying product supplement.

**JPMORGAN CHASE & CO. IS CURRENTLY ONE OF THE COMPANIES THAT MAKE UP THE INDEX,**

but JPMorgan Chase & Co. will not have any obligation to consider your interests in taking any corporate action that might affect the level of the Index.

**THE NOTES DO NOT PAY INTEREST.**

**YOU WILL NOT RECEIVE DIVIDENDS ON THE SECURITIES INCLUDED IN THE INDEX OR HAVE ANY RIGHTS WITH RESPECT TO THOSE SECURITIES.**

**LACK OF LIQUIDITY —**

The notes will not be listed on any securities exchange. Accordingly, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which J.P.Morgan Securities LLC, which we refer to as JPMS, is willing to buy the notes. You may not be able to sell your notes. The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your notes to maturity.

**THE FINAL TERMS AND VALUATION OF THE NOTES WILL BE PROVIDED IN THE PRICING SUPPLEMENT —**

You should consider your potential investment in the notes based on the minimums for the estimated value of the notes and the Maximum Return.

**THE ESTIMATED VALUE OF THE NOTES MAY BE LOWER THAN THE ORIGINAL ISSUE PRICE (PRICE TO PUBLIC) OF THE NOTES —**

The estimated value of the notes is only an estimate determined by reference to several factors. The original issue price of the notes may exceed the estimated value of the notes because costs associated with structuring and hedging the notes are included in the original issue price of the notes. These costs include the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. See "The Estimated Value of the Notes" in this pricing supplement.

**THE ESTIMATED VALUE OF THE NOTES DOES NOT REPRESENT FUTURE VALUES OF THE NOTES AND MAY DIFFER FROM OTHERS' ESTIMATES —**

See "The Estimated Value of the Notes" in this pricing supplement.

**THE ESTIMATED VALUE OF THE NOTES IS DERIVED BY REFERENCE TO AN INTERNAL FUNDING RATE —**

The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the notes and any secondary market prices of the notes. See "The Estimated Value of the Notes" in this pricing supplement.

**THE VALUE OF THE NOTES AS PUBLISHED BY JPMS (AND WHICH MAY BE REFLECTED ON CUSTOMER ACCOUNT STATEMENTS) MAY BE HIGHER THAN THE THEN-CURRENT ESTIMATED**

**VALUE OF THE NOTES FOR A LIMITED TIME PERIOD —**

We generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. See “Secondary Market Prices of the Notes” in this pricing supplement for additional information relating to this initial period. Accordingly, the estimated value of your notes during this initial period may be lower than the value of the notes as published by JPMS (and which may be shown on your customer account statements).

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**SECONDARY MARKET PRICES OF THE NOTES WILL LIKELY BE LOWER THAN THE ORIGINAL ISSUE PRICE OF THE NOTES —**

Any secondary market prices of the notes will likely be lower than the original issue price of the notes because, among other things, secondary market prices take into account our internal secondary market funding rates for structured debt issuances and, also, because secondary market prices may exclude projected hedging profits, if any, and estimated hedging costs that are included in the original issue price of the notes. As a result, the price, if any, at which JPMS will be willing to buy the notes from you in secondary market transactions, if at all, is likely to be lower than the original issue price. Any sale by you prior to the Maturity Date could result in a substantial loss to you.

**SECONDARY MARKET PRICES OF THE NOTES WILL BE IMPACTED BY MANY ECONOMIC AND MARKET FACTORS —**

The secondary market price of the notes during their term will be impacted by a number of economic and market factors, which may either offset or magnify each other, aside from the projected hedging profits, if any, estimated hedging costs and the level of the Index. Additionally, independent pricing vendors and/or third party broker-dealers may publish a price for the notes, which may also be reflected on customer account statements. This price may be different (higher or lower) than the price of the notes, if any, at which JPMS may be willing to purchase your notes in the secondary market. See “Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors” in the accompanying product supplement.

The Index

The Index consists of stocks of 500 companies selected to provide a performance benchmark for the U.S. equity markets. For additional information about the Index, see “Equity Index Descriptions — The S&P U.S. Indices” in the accompanying underlying supplement.

Historical Information

The following graph sets forth the historical performance of the Index based on the weekly historical closing levels of the Index from January 3, 2014 through March 1, 2019. The closing level of the Index on March 7, 2019 was 2,748.93. We obtained the closing levels above and below from the Bloomberg Professional<sup>®</sup> service (“Bloomberg”), without independent verification.

The historical closing levels of the Index should not be taken as an indication of future performance, and no assurance can be given as to the closing level of the Index on the Observation Date. There can be no assurance that the performance of the Index will result in the return of any of your principal amount.

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## Tax Treatment

You should review carefully the section entitled “Material U.S. Federal Income Tax Consequences” in the accompanying product supplement no. 4-I. The following discussion, when read in combination with that section, constitutes the full opinion of our special tax counsel, Davis Polk & Wardwell LLP, regarding the material U.S. federal income tax consequences of owning and disposing of notes.

Based on current market conditions, in the opinion of our special tax counsel it is reasonable to treat the notes as “open transactions” that are not debt instruments for U.S. federal income tax purposes, as more fully described in “Material U.S. Federal Income Tax Consequences — Tax Consequences to U.S. Holders — Notes Treated as Open Transactions That Are Not Debt Instruments” in the accompanying product supplement. Assuming this treatment is respected, the gain or loss on your notes should be treated as long-term capital gain or loss if you hold your notes for more than a year, whether or not you are an initial purchaser of notes at the issue price. However, the IRS or a court may not respect this treatment, in which case the timing and character of any income or loss on the notes could be materially and adversely affected. For example, there can be no assurance that the IRS would not seek to recharacterize the notes as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the notes every year at a “comparable yield” determined at the time of issuance and recognize all income and gain in respect of the notes as ordinary income. In addition, in 2007 Treasury and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require investors in these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. You should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments and the issues presented by this notice.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax (unless an income tax treaty applies) on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (such as an index, a “Qualified Index”). Additionally, a recent IRS notice excludes from the scope of Section 871(m) instruments issued prior to January 1, 2021 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each an “Underlying Security”). Based on certain determinations made by us, we expect that Section 871(m) will not apply to the notes with regard to Non-U.S. Holders. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If necessary, further information regarding the potential application of Section 871(m) will be provided in the pricing supplement for the notes. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

Withholding under legislation commonly referred to as “FATCA” may (if the notes are recharacterized as debt instruments) apply to amounts treated as interest paid with respect to the notes, as well as to payments of gross proceeds of a taxable disposition, including redemption at maturity, of a note, although under recently proposed

regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply to payments of gross proceeds (other than any amount treated as interest). You should consult your tax adviser regarding the potential application of FATCA to the notes.

#### The Estimated Value of the Notes

The estimated value of the notes set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the notes, valued using the internal funding rate described below, and (2) the derivative or derivatives underlying the economic terms of the notes. The estimated value of the notes does not represent a minimum price at which JPMS would be willing to buy your notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. For additional information, see "Selected Risk Considerations — The Estimated Value of the Notes Is Derived by Reference to an Internal Funding Rate" in this pricing supplement.

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The value of the derivative or derivatives underlying the economic terms of the notes is derived from internal pricing models of our affiliates. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the estimated value of the notes is determined when the terms of the notes are set based on market conditions and other relevant factors and assumptions existing at that time.

The estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Different pricing models and assumptions could provide valuations for the notes that are greater than or less than the estimated value of the notes. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the notes could change significantly based on, among other things, changes in market conditions, our or JPMorgan Chase & Co.'s creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which JPMS would be willing to buy notes from you in secondary market transactions.

The estimated value of the notes may be lower than the original issue price of the notes because costs associated with structuring and hedging the notes are included in the original issue price of the notes. These costs include the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. A portion of the profits, if any, realized in hedging our obligations under the notes may be allowed to other affiliated or unaffiliated dealers, and we or one or more of our affiliates will retain any remaining hedging profits. See "Selected Risk Considerations — The Estimated Value of the Notes May Be Lower Than the Original Issue Price (Price to Public) of the Notes" in this pricing supplement.

#### Secondary Market Prices of the Notes

For information about factors that will impact any secondary market prices of the notes, see "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement. In addition, we generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. These costs can include projected hedging profits, if any, and, in some circumstances, estimated hedging costs and our internal secondary market funding rates for structured debt issuances. This initial predetermined time period is intended to be the shorter of six months and one-half of the stated term of the notes. The length of any such initial period reflects the structure of the notes, whether our affiliates expect to earn a profit in connection with our hedging activities, the estimated costs of hedging the notes and when these costs are incurred, as determined by our affiliates. See "Selected Risk Considerations — The Value of the Notes as Published by JPMS (and Which May Be Reflected on Customer Account Statements) May Be Higher Than the Then-Current Estimated Value of the Notes for a Limited Time Period" in this pricing supplement.

#### Supplemental Use of Proceeds

The notes are offered to meet investor demand for products that reflect the risk-return profile and market exposure provided by the notes. See "Hypothetical Payout Profile" and "How the Notes Work" in this pricing supplement for an illustration of the risk-return profile of the notes and "The Index" in this pricing supplement for a description of the market exposure provided by the notes.

The original issue price of the notes is equal to the estimated value of the notes plus (minus) the projected profits (losses) that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes, plus the estimated cost of hedging our obligations under the notes.

### **Supplemental Plan of Distribution**

We expect that delivery of the notes will be made against payment for the notes on or about the Original Issue Date set forth on the front cover of this pricing supplement, which will be the third business day following the Pricing Date of the notes (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisors.

### **Additional Terms Specific to the Notes**

You may revoke your offer to purchase the notes at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the notes prior to their issuance. In the event of any

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changes to the terms of the notes, we will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes, in which case we may reject your offer to purchase.

You should read this pricing supplement together with the accompanying prospectus, as supplemented by the accompanying prospectus supplement relating to our Series A medium-term notes of which these notes are a part, and the more detailed information contained in the accompanying product supplement and the accompanying underlying supplement. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in the “Risk Factors” sections of the accompanying product supplement and the accompanying underlying supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at [www.sec.gov](http://www.sec.gov) as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Product supplement no. 4-I dated April 5, 2018:

[http://www.sec.gov/Archives/edgar/data/19617/000095010318004519/dp87528\\_424b2-ps4i.pdf](http://www.sec.gov/Archives/edgar/data/19617/000095010318004519/dp87528_424b2-ps4i.pdf)

Underlying supplement no. 1-I dated April 5, 2018:

[http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt\\_dp87766-424b2.pdf](http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt_dp87766-424b2.pdf)

Prospectus supplement and prospectus, each dated April 5, 2018:

[http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767\\_424b2-ps.pdf](http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767_424b2-ps.pdf)

Our Central Index Key, or CIK, on the SEC website is 1665650, and JPMorgan Chase & Co.’s CIK is 19617. As used in this pricing supplement, “we,” “us” and “our” refer to JPMorgan Financial.

## PS-8 | Structured Investments

### Capped Buffered Return Enhanced Notes Linked to the S&P 500® Index

t">	—	—	(11,173)	—	—	(11,173)	Balance at September 30,	
2012	9,562,956	\$10	\$154,343	\$2,372	\$(2,776)	\$2,997	\$156,946	Balance at December 31,
2012	9,567,225	\$10	\$154,384	\$1,428	\$(10,772)	\$(78)	\$144,972	Net increase in net assets resulting from
operations	—	—	9,862	3,996	(5,839)	8,019		Issuance of common stock under dividend reinvestment
plan	21,768	—	312	—	—	312		Dividends declared — — — (9,919) — — (9,919)Balance at September 30,
2013	9,588,993	\$10	\$154,696	\$1,371	\$(6,776)	\$(5,917)	\$143,384	

On July 18, 2012, the Company completed a follow-on public offering of 1,909,000 shares (including 249,000 (1)shares of common stock that were issued pursuant to the underwriters’ option to purchase additional shares) of its common stock at a public offering price of \$16.20 per share. Total offering costs were \$1.4 million.

See Notes to Consolidated Financial Statements





**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 8,019	\$ 8,402
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Amortization of debt issuance costs	902	286
Net realized loss on investments	5,629	61
Net unrealized (appreciation) depreciation on investments	(3,996 )	117
Purchase of investments	(69,143 )	(86,720 )
Principal payments received on investments	55,954	44,186
Proceeds from sale on investments	39	38
Changes in assets and liabilities:		
Net (increase) decrease in investments in money market funds	(22,459 )	11,152
Net increase in restricted investments in money market funds	(3,568 )	—
Increase in interest receivable	(160 )	(70 )
Increase in end-of-term payments	(1,148 )	(1,011 )
Decrease in unearned loan income	(1,190 )	(578 )
Decrease in other assets	458	16
Decrease in other accrued expenses	(143 )	(260 )
(Decrease) increase in base management fee payable	(76 )	62
Increase (decrease) in incentive fee payable	17	(1,024 )
Net cash used in operating activities	(30,865 )	(25,343 )
Cash flows from financing activities:		
Proceeds from issuance of 2019 Notes	—	33,000
Proceeds from shares sold, net of offering cost	—	29,545
Proceeds from issuance of Asset-Backed Notes	90,000	—
Dividends paid	(9,599 )	(10,885 )
Net decrease in Credit Facilities	(46,020 )	(21,320 )
Debt issuance costs	(2,125 )	(3,007 )
Net cash provided by financing activities	32,256	27,333
Net increase in cash	1,391	1,990
Cash:		
Beginning of period	1,048	1,298
End of period	\$ 2,439	\$ 3,288

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 4,982	\$ 2,395
Supplemental non-cash investing and financing activities:		
Warrant investments received & recorded as unearned loan income	\$ 626	\$ 1,120
Dividends Payable	\$ 3,308	\$ —

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****September 30, 2013****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Prin Am
Debt Investments — 161.6% (9)			
Debt Investments — Life Science — 29.3% (9)			
ACT Biotech Corporation (8)	Biotechnology	Term Loan (13.10% cash, 8.00% ETP, Due 9/1/14)	\$3,9
Celsion Corporation (2)(5)	Biotechnology	Term Loan (11.75% cash, Due 10/1/15)	2,
Inotek Pharmaceuticals Corporation (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 10/1/16)	3,5
N30 Pharmaceuticals, LLC (2)	Biotechnology	Term Loan (11.25% cash, 3.00% ETP, Due 9/1/14)	99
		Term Loan (11.25% cash, 3.00% ETP, Due 10/1/15)	2,5
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	1,5
		Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	50
Sample6, Inc. (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 1/1/16)	2,5
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 3.75% ETP, Due 10/1/15)	1,0
		Term Loan (9.00% cash, 3.75% ETP, Due 10/1/15)	2,4
Xcovery Holding Company, LLC (2)	Biotechnology	Term Loan (12.50% cash, Due 8/1/15)	88
		Term Loan (12.50% cash, Due 8/1/15)	1,3
		Term Loan (12.50% cash, Due 10/1/15)	25
Direct Flow Medical, Inc. (2)	Medical Device	Term Loan (11.00% cash, 3.00% ETP, Due 7/1/16)	5,0
		Term Loan (11.00% cash, 3.00% ETP, Due 10/1/16)	2,5
Mitralign, Inc. (2)	Medical Device	Term Loan (12.00% cash, 3.00% ETP, Due 10/1/15)	1,7
		Term Loan (10.88% cash, 3.00% ETP, Due 11/1/15)	1,
		Term Loan (10.50% cash, 3.00% ETP, Due 7/1/16)	1,
PixelOptics, Inc. (2)(8)	Medical Device	Term Loan (10.75% cash, 3.00% ETP, Due 11/1/14)	5,0
Tengion, Inc. (2)(5)	Medical Device	Term Loan (13.00% cash, Due 5/1/14)	2,3
Tryton Medical, Inc.	Medical Device	Term Loan (10.41% cash, 2.50% ETP, Due 9/1/16)	3,0
Total Debt Investments — Life Science			
Debt Investments — Technology — 94.3% (9)			
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash, 2.00% ETP, Due 7/1/16)	3,2
eASIC Corporation	Semiconductors	Term Loan (11.00% cash, 2.50% ETP, Due 4/1/17)	2,0
Kaminario, Inc. (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	3,0
		Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	3,0
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash, 8.00% ETP, Due 12/1/15)	3,0
		Term Loan (10.25% cash, 8.00% ETP, Due 3/1/16)	1,0
Newport Media, Inc. (2)	Semiconductors	Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)	3,5
		Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)	3,5

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NexPlanar Corporation (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	3,0
		Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	2,0
Xtera Communications, Inc. (2)	Semiconductors	Term Loan (11.50% cash, Due 3/1/15)	6,8
		Term Loan (11.50% cash, Due 10/1/15)	1,7
Ekahau, Inc.	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	1,5
Overture Networks, Inc. (2)	Communications	Term Loan (10.75% cash, 4.75% ETP, Due 12/1/16)	5,0
Optaros, Inc. (2)	Internet and Media	Term Loan (11.95% cash, 3.00% ETP, Due 10/1/15)	1,3
		Term Loan (11.95% cash, 3.00% ETP, Due 3/1/16)	50
SimpleTuition, Inc. (2)	Internet and Media	Term Loan (11.75% cash, Due 3/1/16)	4,2
Bolt Solutions, Inc. (2)	Software	Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	5,0
		Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	5,0
Construction Software Technologies, Inc. (2)	Software	Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,2
		Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,2
Courion Corporation (2)	Software	Term Loan (11.45% cash, Due 10/1/15)	2,9
		Term Loan (11.45% cash, Due 10/1/15)	2,9
Decisyon, Inc. (2)	Software	Term Loan (11.65% cash, 5.00% ETP, Due 9/1/16)	4,0
Fiberlink Communications Corporation (2)	Software	Term Loan (11.50% cash, 5.00% ETP, Due 7/1/16)	5,0
		Term Loan (11.50% cash, 5.00% ETP, Due 12/1/16)	3,0
Kontera Technologies, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,0
		Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,0
Lotame Solutions, Inc.	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,0
		Term Loan (11.50% cash, 3.00% ETP, Due 9/1/19)	1,5
Netuitive, Inc. (2)	Software	Term Loan (11.75% cash, Due 1/1/16)	2,0
Raydiance, Inc. (2)	Software	Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	5,0
		Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	1,0
Razorsight Corporation (2)	Software	Term Loan (11.75% cash, 3.00% ETP, Due 11/1/16)	1,5
		Term Loan (11.75% cash, 3.00% ETP, Due 9/1/16)	1,5
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash, Due 6/1/16)	7,4
Vidsys, Inc. (2)	Software	Term Loan (11.00% cash, 6.50% ETP, Due 6/1/16)	3,0
Visage Mobile, Inc. (2)	Software	Term Loan (12.00% cash, 3.50% ETP, Due 9/1/16)	1,0

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****September 30, 2013****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)
Aquion Energy, Inc. (2)	Power Management	Term Loan (10.25% cash, 4.00% ETP, Due Term Loan (10.25% cash, 4.00% ETP, Due Term Loan (10.25% cash, 4.00% ETP, Due
Xtreme Power, Inc. (2)	Power Management	Term Loan (10.75% cash, 3.50% ETP, Due
Total Debt Investments — Technology		
Debt Investments — Cleantech — 20.0% (9)		
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 3.00% ETP, Due Term Loan (10.25% cash, 3.00% ETP, Due Term Loan (10.25% cash, Due 10/1/16)
Semprius, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 2.50% ETP, Due
Cereplast, Inc. (5)(8)	Waste Recycling	Term Loan (12.00% cash, Due 8/1/14) Term Loan (12.00% cash, Due 8/1/14)
Aurora Algae, Inc. (2)	Energy Efficiency	Term Loan (10.50% cash, 2.00% ETP, Due
Rypos, Inc.	Energy Efficiency	Term Loan (11.80% cash, Due 1/1/17)
Solarbridge Technologies, Inc. (2)	Energy Efficiency	Term Loan (12.15% cash, 3.21 ETP, Due 4/
Tigo Energy, Inc. (2)	Energy Efficiency	Term Loan (13.00% cash, Due 6/1/15) Revolver (13.75% (Prime + 7.50%) cash, Du
Total Debt Investments — Cleantech		
Debt Investments — Healthcare information and services — 18.0% (9)		
BioScale, Inc. (2)	Diagnostics	Term Loan (11.51% cash, Due 1/1/14)
Radisphere National Radiology Group, Inc. (2)	Diagnostics	Revolver (11.25% (Prime + 8.00%) cash, Du
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due Term Loan (11.00% cash, 3.00% ETP, Due
Watermark Medical, Inc. (2)	Other Healthcare	Term Loan (12.00% cash, 4.00% ETP, Due Term Loan (12.00% cash, 4.00% ETP, Due
Total Debt Investments — Healthcare information and services		
Total Debt Investments		
Warrant Investments — 4.6% (9)		
Warrants — Life Science — 1.4% (9)		
ACT Biotech Corporation	Biotechnology	1,521,782 Preferred Stock Warrants
Ambit Biosciences, Inc.(5)	Biotechnology	44,795 Common Stock Warrants
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	84,583 Common Stock Warrants
Celsion Corporation (5)	Biotechnology	25,685 Common Stock Warrants

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Inotek, Pharmaceuticals Corporation	Biotechnology	114,387 Preferred Stock Warrants
N30 Pharmaceuticals, LLC	Biotechnology	214,200 Preferred Stock Warrants
New Haven Pharmaceuticals, Inc.	Biotechnology	34,729 Preferred Stock Warrants
Revance Therapeutics, Inc.	Biotechnology	687,091 Preferred Stock Warrants
Sample6, Inc.	Biotechnology	200,582 Preferred Stock Warrants
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	116,203 Common Stock Warrants
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	42,083 Preferred Stock Warrants
Tranzyme, Inc. (2)(5)	Biotechnology	77,902 Common Stock Warrants
Direct Flow Medical, Inc.	Medical Device	176,922 Preferred Stock Warrants
EnteroMedics, Inc. (5)	Medical Device	141,026 Common Stock Warrants
Mitralign, Inc.	Medical Device	295,238 Common Stock Warrants
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants
PixelOptics, Inc.	Medical Device	381,612 Preferred Stock Warrants
Tengion, Inc. (2)(5)	Medical Device	1,708,273 Common Stock Warrants
Tryton Medical, Inc.	Medical Device	47,977 Preferred Stock Warrants
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants
Total Warrants — Life Science		
Warrants — Technology — 2.1% (9)		
Ekahau, Inc.	Communications	978,261 Preferred Stock Warrants
OpenPeak, Inc.	Communications	18,997 Preferred Stock Warrants
Overture Networks, Inc.	Communications	344,574 Preferred Stock Warrants
Everyday Health, Inc.	Consumer-related Technologies	65,674 Preferred Stock Warrants
SnagAJob.com, Inc.	Consumer-related Technologies	365,396 Preferred Stock Warrants
Tagged, Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants
Avalanche Technology, Inc.	Semiconductors	201,835 Preferred Stock Warrants
eASIC Corporation`	Semi-conductor	1,877,799 Preferred Stock Warrants
Kaminario, Inc.	Semi-conductor	1,087,203 Preferred Stock Warrants
Luxtera, Inc.	Semiconductors	1,827,485 Preferred Stock Warrants
Newport Media, Inc.	Semiconductors	188,764 Preferred Stock Warrants

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****September 30, 2013****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount (6)	Cost of Investments (5)	Fair Value
NexPlanar Corporation	Semiconductors	172,801 Preferred Stock Warrants	—	36	58
Xtera Communications, Inc.	Semiconductors	983,607 Preferred Stock Warrants	—	206	1
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	—	22	20
Cartera Commerce, Inc.	Internet and media	90,909 Preferred Stock Warrants	—	16	16
Optaros, Inc.	Internet and media	477,403 Preferred Stock Warrants	—	21	15
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	—	63	16
IntelePeer, Inc.	Networking	141,549 Preferred Stock Warrants	—	39	37
Motion Computing, Inc.	Networking	260,707 Preferred Stock Warrants	—	7	26
Bolt Solutions, Inc.	Software	202,892 Preferred Stock Warrants	—	113	12
Clarabridge, Inc.	Software	104,503 Preferred Stock Warrants	—	28	29
Construction Software Technologies, Inc. (2)	Software	386,415 Preferred Stock Warrants	—	69	32
Courion Corporation	Software	772,543 Preferred Stock Warrants	—	106	98
Decisyon, Inc.	Software	314,686 Preferred Stock Warrants	—	44	41
DriveCam, Inc.	Software	71,639 Preferred Stock Warrants	—	20	12
Kontera Technologies, Inc. (2)	Software	99,476 Preferred Stock Warrants	—	102	88
Lotame Solutions, Inc.	Software	216,810 Preferred Stock Warrants	—	4	4
Netuitive, Inc.	Software	748,453 Preferred Stock Warrants	—	75	56
Raydiance, Inc.	Software	735,784 Preferred Stock Warrants	—	51	52
Razorsight Corporation	Software	194,553 Preferred Stock Warrants	—	34	32
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	—	242	23
Vidsys, Inc.	Software	37,346 Preferred Stock Warrants	—	23	7
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	—	20	19
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	—	7	61
Xtreme Power, Inc.	Power Management	182,723 Preferred Stock Warrants	—	76	59
Total Warrants — Technology				1,914	2,
Warrants — Cleantech — 0.5% (9)					
Renmatix, Inc.	Alternative Energy	52,296 Preferred Stock Warrants	—	68	73
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	—	25	23
Cereplast, Inc. (5)	Waste Recycling	365,000 Common Stock Warrants	—	175	—
Enphase Energy, Inc. (5)	Energy Efficiency	161,959 Common Stock Warrants	—	175	35
Rypos, Inc.	Energy Efficiency	5,627 Preferred Stock Warrants	—	44	44
Solarbridge Technologies, Inc. (2)	Energy Efficiency	3,645,302 Preferred Stock Warrants	—	236	21
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	—	100	28



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Total Warrants — Cleantech			823	73
Warrants — Healthcare information and services — 0.6% (9)				
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	— 107	82
BioScale, Inc. (2)	Diagnostics	315,618 Preferred Stock Warrants	— 54	—
Precision Therapeutics, Inc.	Diagnostics	13,461 Preferred Stock Warrants	— 73	—
Radisphere National Radiology Group, Inc. (2)	Diagnostics	519,943 Preferred Stock Warrants	— 378	36
Recondo Technology, Inc.	Software	360,645 Preferred Stock Warrants	— 62	16
Patientkeeper, Inc.	Other Healthcare	396,410 Preferred Stock Warrants	— 269	32
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	— 44	14
Talyst, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	— 100	58
Watermark Medical, Inc.	Other Healthcare	12,216 Preferred Stock Warrants	— 66	68
Total Warrants — Healthcare information and services			1,153	91
Total Warrants			5,683	6,
Other Investments — 1.4% (9)				
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	— 4,760	2,
Total Other Investments			4,760	2,
Equity — 0.7% (9)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	— 227	51
Revance Therapeutics, Inc.	Biotechnology	72,925 Preferred Stock	— 73	10
Overture Networks Inc.	Communications	386,191 Common Stock	— 482	42
Cereplast, Inc. (5)	Waste Recycling	200,000 Common Stock	— —	—
Total Equity			782	1,
Total Portfolio Investment Assets — 168.3% (9)			\$248,095	\$24

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****September 30, 2013****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Cost of Amount Investments (6)	Fair Value
Short Term Investments — Money Market Funds — 17.4%				
(9)				
		Blackrock Liquid Fed Funds Institutional (Fund #30)	\$ 22,741	\$22,741
		Fidelity Prime Money Market (Class I Fund #690)	91	91
		US Bank Money Market	2,187	2,187
		Total Short Term Investments — Money Market Funds	\$ 25,019	\$25,019
Short Term Investments — Restricted Investments— 2.5%				
(9)				
		US Bank Money Market (2)	\$ 3,568	\$3,568
		Total Short Term Investments — Restricted Investments	\$ 3,568	\$3,568

(1) All of the Company's investments are in entities which are domiciled in the United States and/or have a principal place of business in the United States.

(2) Has been pledged as collateral under the Credit Facilities or Asset-Backed Notes.

(3) All investments are less than 5% ownership of the class and ownership of the portfolio company.

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 ETP and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment, the current interest rate in effect as of September 30, 2013 is provided.

(5) Portfolio company is a public company.

- (6) For debt investments, represents principal balance less unearned income.
- (7) Preferred and common stock warrants, equity interests and other investments are non-income producing.
- (8) Debt is on non-accrual status at September 30, 2013 and is, therefore, considered non-income producing.
- (9) Value as a percent of net assets.

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2012****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)
Debt Investments — 152.0% (9)		
Debt Investments — Life Science — 42.4% (9)		
ACT Biotech Corporation (8)	Biotechnology	Term Loan (13.10% cash, 8.00% ETP, Due 9/1/14)
Ambit Biosciences Corporation (2)	Biotechnology	Term Loan (12.25% cash, 3.00% ETP, Due 10/1/13)
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (9.41% cash, 5.50% ETP, Due 4/1/15)
		Term Loan (9.67% cash, 5.50% ETP, Due 4/1/15)
		Term Loan (9.47% cash, 5.50% ETP, Due 4/1/15)
Celsion Corporation (2)(5)	Biotechnology	Term Loan (11.75% cash, Due 10/1/15)
N30 Pharmaceuticals, LLC (2)	Biotechnology	Term Loan (11.25% cash, 3.00% ETP, Due 9/1/14)
		Term Loan (11.25% cash, 3.00% ETP, Due 7/1/15)
Revance Therapeutics, Inc.	Biotechnology	Convertible Note (8.00% ETP, Due 2/10/13)
Sample6 Technologies, Inc. (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 1/1/16)
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 3.75% ETP, Due 10/1/15)
		Term Loan (9.00% cash, 3.75% ETP, Due 10/1/15)
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 8/1/14)
		Term Loan (11.00% cash, 2.50% ETP, Due 1/1/15)
Xcovery Holding Company, LLC (2)	Biotechnology	Term Loan (12.50% cash, Due 8/1/15)
		Term Loan (12.50% cash, Due 8/1/15)
		Term Loan (12.50% cash, Due 10/1/15)
Direct Flow Medical, Inc. (2)	Medical Device	Term Loan (11.00% cash, 3.00% ETP, Due 7/1/16)
Mitralign, Inc. (2)	Medical Device	Term Loan (12.00% cash, 3.00% ETP, Due 10/1/15)
		Term Loan (10.88% cash, 3.00% ETP, Due 11/1/15)
OraMetrix, Inc. (2)	Medical Device	Term Loan (11.50% cash, 3.00% ETP, Due 4/1/14)
		Revolver (11.50% (Prime + 8.25%) cash, Due 12/1/15)
PixelOptics, Inc. (2)	Medical Device	Term Loan (10.75% cash, 3.00% ETP, Due 11/1/14)
Tengion, Inc. (2)(5)	Medical Device	Term Loan (13.00% cash, Due 5/1/14)
Total Debt Investments — Life Science		
Debt Investments — Technology — 72.9% (9)		
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash, 2.00% ETP, Due 7/1/16)
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash, 8.00% ETP, Due 12/1/15)
		Term Loan (10.25% cash, 8.00% ETP, Due 3/1/16)
Newport Media, Inc. (2)	Semiconductors	Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)

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		Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)
Xtera Communications, Inc. (2)	Semiconductors	Term Loan (11.50% cash, Due 12/1/14)
		Term Loan (11.50% cash, Due 7/1/15)
Grab Networks, Inc. (2)	Internet and Media	Term Loan (12.00% cash, Due 1/1/16)
Optaros, Inc. (2)	Internet and Media	Term Loan (11.95% cash, 3.00% ETP, Due 10/1/15)
		Term Loan (11.95% cash, 3.00% ETP, Due 3/1/16)
SimpleTuition, Inc. (2)	Internet and Media	Term Loan (11.75% cash, Due 3/1/16)
Construction Software Technologies, Inc. (2)	Software	Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)
		Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)
Courion Corporation (2)	Software	Term Loan (11.45% cash, Due 10/1/15)
		Term Loan (11.45% cash, Due 10/1/15)
Fiberlink Communications Corporation (2)	Software	Term Loan (11.50% cash, 5.00% ETP, Due 7/1/16)
Kontera Technologies, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)
		Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)
Netuitive, Inc. (2)	Software	Term Loan (11.75% cash, Due 1/1/16)
Seapass Solutions, Inc. (2)	Software	Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)
		Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)
StreamBase Systems, Inc. (2)	Software	Term Loan (12.51% cash, Due 11/1/13)
		Term Loan (12.50% cash, Due 6/1/14)
		Term Loan (12.50% cash, Due 12/1/15)
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash, Due 6/1/16)
Vidsys, Inc. (2)	Software	Term Loan (11.00% cash, 5.00% ETP, Due 6/1/16)
Aquion Energy, Inc. (2)	Power Management	Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)
		Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)
		Term Loan (10.25% cash, 4.00% ETP, Due 6/1/16)
Xtreme Power, Inc. (2)	Power Management	Term Loan (10.75% cash, 3.50% ETP, Due 5/1/16)
Total Debt Investments — Technology		

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2012****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)
<b>Debt Investments — Cleantech — 16.4% (9)</b>		
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 3.00% ETP, Du Term Loan (10.25% cash, 3.00% ETP, Du
Semprius, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 2.50% ETP, Du
Cereplast, Inc. (5)(8)	Waste Recycling	Term Loan (12.00% cash, Due 8/1/14) Term Loan (12.00% cash, Due 8/1/14) Term Loan (15.00% cash, Due 4/4/13) Term Loan (15.00% cash, Due 4/4/13)
Aurora Algae, Inc. (2)	Energy Efficiency	Term Loan (10.50% cash, 2.00% ETP, Du
Satcon Technology Corporation (5)(8)	Energy Efficiency	Term Loan (12.58% cash, Due 1/1/14)
Solarbridge Technologies, Inc. (2)	Energy Efficiency	Term Loan (11.65% cash, Due 4/1/16)
Tigo Energy, Inc. (2)	Energy Efficiency	Term Loan (11.00% cash, Due 8/1/14) Revolver (10.75% (Prime + 7.50%) cash, )
<b>Total Debt Investments — Cleantech</b>		
<b>Debt Investments — Healthcare information and services — 20.3% (9)</b>		
Accumetrics, Inc. (2)	Diagnostics	Term Loan (10.90% cash, 5.00% ETP, Du
BioScale, Inc. (2)	Diagnostics	Term Loan (11.51% cash, Due 1/1/14)
Radisphere National Radiology Group, Inc. (2)	Diagnostics	Revolver (11.25% (Prime + 8.00%) cash, )
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Du Term Loan (11.00% cash, 3.00% ETP, Du Revolver (10.50% (Prime + 7.25%) cash, )
Singulex, Inc.	Other Healthcare	Term Loan (11.00% cash, 3.00% ETP, Du Term Loan (11.00% cash, 3.00% ETP, Du
<b>Total Debt Investments — Healthcare information and services</b>		
<b>Total Debt Investments</b>		
<b>Warrant Investments — 3.8% (9)</b>		
<b>Warrants — Life Science — 1.1% (9)</b>		
ACT Biotech Corporation	Biotechnology	1,390,910 Preferred Stock Warrants
Ambit Biosciences, Inc. (2)	Biotechnology	1,075,083 Preferred Stock Warrants
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	84,583 Common Stock Warrants
Anesiva, Inc.	Biotechnology	198,898 Common Stock Warrants
Celsion Corporation (2)(5)	Biotechnology	25,685 Common Stock Warrants
N30 Pharmaceuticals, LLC (2)	Biotechnology	214,200 Preferred Stock Warrants

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Novalar Pharmaceuticals, Inc.	Biotechnology	84,845 Preferred Stock Warrants
Revanche Therapeutics, Inc.	Biotechnology	199,470 Preferred Stock Warrants
Sample6 Technologies, Inc. (2)	Biotechnology	200,582 Preferred Stock Warrants
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	116,203 Common Stock Warrants
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	42,083 Preferred Stock Warrants
Tranzyme, Inc. (2)(5)	Biotechnology	77,902 Common Stock Warrants
Direct Flow Medical, Inc. (2)	Medical Device	176,922 Preferred Stock Warrants
Enteromedics, Inc. (5)	Medical Device	141,026 Common Stock Warrants
Mitralign, Inc. (2)	Medical Device	295,238 Common Stock Warrants
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants
PixelOptics, Inc. (2)	Medical Device	381,612 Preferred Stock Warrants
Tengion, Inc. (2)(5)	Medical Device	1,716,339 Common Stock Warrants
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants
Total Warrants — Life Science		
Warrants — Technology — 1.9% (9)		
OpenPeak, Inc.	Communications	18,997 Preferred Stock Warrants
Everyday Health, Inc.	Consumer-related Technologies	65,674 Preferred Stock Warrants
SnagAJob.com, Inc.	Consumer-related Technologies	365,396 Preferred Stock Warrants
Tagged, Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants
Avalanche Technology, Inc. (2)	Semiconductors	201,835 Preferred Stock Warrants
Impinj, Inc.	Semi-conductor	1 Preferred Stock Warrants
Luxtera, Inc. (2)	Semiconductors	1,827,485 Preferred Stock Warrants
Newport Media, Inc. (2)	Semiconductors	188,764 Preferred Stock Warrants
Xtera Communications, Inc. (2)	Semiconductors	983,607 Preferred Stock Warrants

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2012****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments	Fair Value
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	—	22	
Cartera Commerce, Inc.	Internet and media	90,909 Preferred Stock Warrants	—	16	
Grab Networks, Inc. (2)	Internet and media	1,493,681 Preferred Stock Warrants	—	194	
Optaros, Inc. (2)	Internet and media	477,403 Preferred Stock Warrants	—	20	
SimpleTuition, Inc. (2)	Internet and media	189,573 Preferred Stock Warrants	—	63	
IntelePeer, Inc.	Networking	141,549 Preferred Stock Warrants	—	39	
Motion Computing, Inc.	Networking	260,707 Preferred Stock Warrants	—	7	
Clarabridge, Inc.	Software	104,503 Preferred Stock Warrants	—	28	
Construction Software Technologies, Inc. (2)	Software	386,415 Preferred Stock Warrants	—	69	
Courion Corporation (2)	Software	772,543 Preferred Stock Warrants	—	107	
DriveCam, Inc.	Software	71,639 Preferred Stock Warrants	—	19	
Kontera Technologies, Inc. (2)	Software	99,476 Preferred Stock Warrants	—	101	
Netuitive, Inc. (2)	Software	748,453 Preferred Stock Warrants	—	75	
Seapass Solutions, Inc. (2)	Software	202,892 Preferred Stock Warrants	—	113	
StreamBase Systems, Inc. (2)	Software	306,041 Preferred Stock Warrants	—	83	
Sys-Tech Solutions, Inc. (2)	Software	375,000 Preferred Stock Warrants	—	242	
Vidsys, Inc. (2)	Software	178,802 Preferred Stock Warrants	—	23	
Aquion Energy, Inc. (2)	Power Management	82,644 Preferred Stock Warrants	—	7	
Xtreme Power, Inc. (2)	Power Management	182,723 Preferred Stock Warrants	—	76	
Total Warrants — Technology				1,844	
Warrants — Cleantech — 0.2% (9)					
Renmatix, Inc. (2)	Alternative Energy	52,296 Preferred Stock Warrants	—	69	
Semprius, Inc. (2)	Alternative Energy	519,981 Preferred Stock Warrants	—	25	
Cereplast, Inc. (5)	Waste Recycling	365,000 Common Stock Warrants	—	175	
Enphase Energy, Inc. (5)	Energy Efficiency	161,959 Common Stock Warrants	—	176	
Satcon Technology Corporation (5)	Energy Efficiency	493,097 Common Stock Warrants	—	285	
Solarbridge Technologies, Inc. (2)	Energy Efficiency	1,761,051 Preferred Stock Warrants	—	125	
Tigo Energy, Inc. (2)	Energy Efficiency	190,901 Preferred Stock Warrants	—	101	
Total Warrants — Cleantech				956	
Warrants — Healthcare information and services — 0.6% (9)					
Accumetrics, Inc. (2)	Diagnostics	1,028,57 Preferred Stock Warrants	—	107	
BioScale, Inc. (2)	Diagnostics	315,618 Preferred Stock Warrants	—	55	
Precision Therapeutics, Inc.	Diagnostics	561,409 Preferred Stock Warrants	—	73	
Radisphere National Radiology Group, Inc. (2)	Diagnostics	519,943 Preferred Stock Warrants	—	378	



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Recondo Technology, Inc. (2)	Software	360,645 Preferred Stock Warrants	—	60
Patientkeeper, Inc.	Other Healthcare	396,410 Preferred Stock Warrants	—	269
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	—	44
Talyst, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	—	100
Total Warrants — Healthcare information and services				1,086
Total Warrants				5,715
Other Investments — 1.4% (9)				
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019		4,880
Total Other Investments				4,880
Equity — 0.5% (9)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock		227
Overture Networks Inc.	Communications	386,191 Preferred Stock		482
Total Equity				709
Total Portfolio Investment Assets — 157.7% (9)				\$239,385 \$

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2012****(In thousands)**

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
Short Term Investments — Money Market Funds — 1.8% (9)					
	Blackrock	Liquid Fed Funds Institutional (Fund #30)		\$ 2,197	\$2,197
	Fidelity	Prime Money Market (Class I Fund #690)		91	91
	US Bank	Money Market		272	272
Total Short Term Investments — Money Market Funds				\$ 2,560	\$2,560

(1) All of the Company's investments are in entities which are domiciled in the United States and/or have a principal place of business in the United States.

(2) Has been pledged as collateral under the Credit Facilities.

(3) All investments are less than 5% ownership of the class and ownership of the portfolio company.

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 ETP and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment, the current interest rate in effect as of December 31, 2012 is provided.

(5) Portfolio company is a public company.

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

(7) Preferred and common stock warrants, equity interests and other investments are non-income producing.

(8) Debt is on non-accrual status at December 31, 2012 and is, therefore, considered non-income producing.

(9) Value as a percent of net assets.

See Notes to Consolidated Financial Statements

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

#### **Note 1. Organization**

Horizon Technology Finance Corporation (the “Company”) was organized as a Delaware corporation on March 16, 2010 and is an externally managed, non-diversified, closed-end investment company. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (“1940 Act”). In addition, for tax purposes, the Company has elected to be treated as a regulated investment company (“RIC”) as defined in Subtitle A, Chapter 1, under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and capital gains the Company distributes to the stockholders. The Company primarily makes secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. Substantially all of the Company’s debt investments consisting of loans are 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 (“CHF”), a Delaware limited liability company, which commenced operations in March 2008 and became the Company’s wholly owned subsidiary with the completion of the IPO.

Horizon Credit I LLC (“Credit I”) was formed as a Delaware limited liability company on January 23, 2008, with CHF as the sole equity member. Credit I is a special purpose bankruptcy remote entity and is a separate legal entity from the Company and CHF. There has been no activity in Credit I during the nine months ended September 30, 2013.

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

Horizon Credit III LLC (“Credit III”) was formed as a Delaware limited liability company on May 30, 2012, with the Company as the sole equity member. Credit III is a special purpose bankruptcy remote entity and is a separate legal entity from the Company. Any assets conveyed to Credit III are not available to creditors of the Company or any other entity other than Credit III’s lenders.

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

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 are special purpose bankruptcy remote entities and are separate legal entities from the Company. The Company formed the 2013-1 Entities for purposes of securitizing \$189.3 million of secured loans and issuing fixed-rate asset-backed notes in an aggregate principal amount of \$90 million (the “Asset-Backed Notes”).

The Company’s investment strategy is to maximize the investment portfolio’s return by generating current income from the debt investments made and the capital appreciation from the warrants received 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.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

#### **Note 2. Basis of Presentation and Significant Accounting Policies**

##### *Basis of Financial Statement Presentation*

The accompanying 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 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. 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 related notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2012.

##### *Principles of Consolidation*

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

##### *Use of Estimates*

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

relate to the valuation of investments.

### *Fair Value*

The Company measures substantially 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.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04). ASU 2011-04 converges the fair value measurement guidance in U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. The Company has adopted ASU 2011-04 and included additional disclosures in Note 5.

See Note 5 for additional information regarding fair value.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

#### *Segments*

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

#### *Investments*

Investments are recorded at fair value. The Company's board of directors (the "Board") determines the fair value of its portfolio investments. The Company intends 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 loan becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid. As of September 30, 2013, there were three investments on non-accrual status with a cost of \$11.1 million and a fair value of \$7.1 million. As of December 31, 2012, there were three investments on non-accrual status with a cost of \$12.9 million and a fair value of \$4.9 million.

The Company receives a variety of fees from borrowers in the ordinary course of conducting its business, including advisory fees, commitment fees, amendment fees, non-utilization fees and prepayment fees. In a limited number of cases, the Company may also receive a non-refundable deposit earned upon the termination of a transaction. Loan origination fees, net of certain direct origination costs, are deferred, and along with unearned income, are amortized as a level yield adjustment over the respective term of the loan. Fees for counterparty loan commitments with multiple



loans are allocated to each loan based upon each loan's relative fair value. When a loan is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the loan is returned to accrual status.

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

In connection with substantially all of the Company's 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 also recorded as unearned loan income on the grant date. The unearned income is recognized as interest income over the contractual life of the related loan in accordance with the Company's income recognition policy. Subsequent to loan origination, the warrants are also measured at fair value using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on investments. Gains or losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains or 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 our 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. Debt issuance costs are recognized as assets and are amortized as interest expense over the term of the related credit facility. The unamortized balance of debt issuance costs as of September 30, 2013 and December 31, 2012, included in other assets, was \$4.9 million and \$3.7 million, respectively. The accumulated amortization balance of debt issuance cost as of September 30, 2013 and December 31, 2012 was \$1.5 million and \$0.6 million, respectively. The amortization expense for the nine months ended September 30, 2013 and 2012 was \$0.9 and \$0.3 million, respectively.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

#### ***Income Taxes***

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

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the nine months ended September 30, 2013, \$0.2 million was recorded for U.S. federal excise tax. For the nine months ended September 30, 2012, no amount was recorded for U.S. federal excise tax.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at September 30, 2013 and December 31, 2012. The 2012, 2011 and 2010 tax years remain subject to examination by U.S. federal and state tax authorities.

#### ***Dividends***

Dividends to common stockholders are recorded on the declaration date. The amount to be paid out as a dividend is determined by the Board. Net realized long-term capital gains, if any, are distributed at least annually, although the

Company may decide to retain such capital gains for investment.

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

### *Transfers of Financial Assets*

Assets related to transactions that do not meet ASC Topic 860 — *Transfers and Servicing* requirements for accounting sale treatment are reflected in the Company’s consolidated statements of financial condition 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 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.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

#### **Note 3. Related Party Transactions**

##### ***Investment Management Agreement***

On October 28, 2010, the Company entered into the Investment Management Agreement with the Advisor, which was renewed by the Board in August 2013, under which the Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of the Company's gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage. The management fee payable at September 30, 2013 and December 31, 2012 was \$0.3 million and \$0.4 million, respectively. The base management fee expense was \$1.3 million and \$1.1 million for the three months ended September 30, 2013 and 2012, respectively. The base management fee expense was \$3.8 million and \$3.0 million for the nine months ended September 30, 2013 and 2012, respectively.

The incentive fee has two parts, as follows:

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

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

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

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

The performance based incentive fee expense was \$0.9 million and \$0.7 million for the three months ended September 30, 2013 and 2012, respectively. The performance based incentive fee expense was \$2.5 million and \$2.0 million for the nine months ended September 30, 2013 and 2012, respectively. The entire performance based incentive fee expense for both the three and nine months ended September 30, 2013 and 2012, represents part one of the incentive fee. The incentive fee payable for both September 30, 2013 and December 31, 2012 was \$0.9 million. The entire incentive fee payable as of September 30, 2013 and December 31, 2012 represents part one of the incentive fee.

#### ***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 compliance officer and chief financial officer and their respective staffs. For the three months ended September 30, 2013 and 2012, \$0.3 million and \$0.4 million were charged to operations under the Administration Agreement, respectively. For both the nine months ended September 30, 2013 and 2012, \$0.9 million was charged to operations under the Administration Agreement.

#### **Note 4. Investments**

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

	September 30, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$25,019	\$25,019	\$2,560	\$2,560
Restricted investments	\$3,568	\$3,568	\$—	\$—
Non-affiliate investments				
Debt	\$236,870	\$231,661	\$228,081	\$220,297
Warrants	5,683	6,611	5,715	5,468
Other Investments	4,760	2,000	4,880	2,100
Equity	782	1,047	709	748
Total non-affiliate investments	\$248,095	\$241,319	\$239,385	\$228,613

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)**

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

	September 30, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Life Science				
Biotechnology	\$25,074	\$ 25,073	\$40,358	\$ 39,569
Medical Device	22,475	19,609	24,296	23,733
Technology				
Consumer-Related Technologies	118	436	118	445
Networking	46	304	46	774
Software	72,884	73,449	55,220	55,237
Data Storage	4,782	2,020	4,901	2,121
Internet and Media	6,679	6,770	10,056	10,118
Communications	6,956	6,805	571	526
Semiconductors	36,542	36,401	26,128	25,913
Power Management	15,182	14,409	15,875	15,864
Cleantech				
Energy Efficiency	15,102	14,791	18,914	13,138
Waste Recycling	2,394	1,629	3,744	2,199
Alternative Energy	12,934	12,937	8,680	8,683
Healthcare Information and Services				
Diagnostics	15,421	15,256	21,952	21,921
Other Healthcare Related Services	7,373	7,193	3,067	2,829
Software	4,133	4,237	5,459	5,543
Total non-affiliate investments	\$248,095	\$ 241,319	\$239,385	\$ 228,613

**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 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.

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

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 that have been engaged at the direction of the 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 a valuation policy and a consistently applied valuation process. This valuation process is conducted at the end of each fiscal quarter, with 25% (based on fair value) of the Company's valuation of portfolio companies without readily available market quotations subject to review by an independent valuation firm.

*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:* For variable rate debt investments which re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values. The fair value of fixed rate debt investments is estimated by discounting the expected future cash flows using the year end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At both September 30, 2013 and December 31, 2012, the discount rates used ranged from 9% 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 guideline publicly traded companies within indices similar in nature to the underlying company issuing the warrant. A total of seven such indices were used. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value investment.

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. Significant increases (decreases) in this unobservable input would result in significantly lower (higher) fair value measurement.

Historical portfolio experience on cancellations and exercises of 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.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **(In thousands, except shares and per share data)**

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.

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 with 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 with the fair value hierarchy described above. These assets are recorded at fair value on a recurring basis.

*Other Investments:* Other investments will be valued based on the facts and circumstances of the underlying agreement. The Company currently values one contractual agreement 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 this other investment as Level 3 within the fair value hierarchy described above. These assets 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 investments as of September 30, 2013 and December 31, 2012. 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 fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to the Company's fair value measurements:

## September 30, 2013

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range
Debt investments	\$224,557	Discounted Expected Future Cash Flows	Hypothetical Market Yield	9% - 25%
	7,104	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	25%– 33% 0% - 65%
Warrant investments	5,296	Black-Scholes Valuation Model	Price per share Average Industry Volatility Marketability Discount Estimated Time to Exit	\$0.0 – \$63.98 21% 20% 1 to 10 years
Other investments	2,000	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	25% 10% - 45%
Equity investments	529	Most Recent Equity Investment	Price Per Share	\$1.09 – 1.50
Total Level 3 investments	\$239,486			

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)**

December 31, 2012				
Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range
Debt investments	\$215,396	Discounted Expected Future Cash Flows	Hypothetical Market Yield	8% - 25%
	4,901	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	25% 10% - 60%
Warrant investments	4,914	Black-Scholes Valuation Model	Price per share Average Industry Volatility Marketability Discount Estimated Time to Exit	\$0.0 - \$9.56 21% 20% 1 to 10 years
Other investments	2,100	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	25% 10% - 45%
Equity investments	526	Market Comparable Companies	Revenue Multiple	1.5x - 2.0x
Total Level 3 investments	\$227,837			

*Borrowings:* The carrying amount of borrowings under the Credit Facilities (as defined in Note 6) approximates fair value due to the variable interest rate of the Credit Facilities and are 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. At September 30, 2013, the 2019 Notes were trading on the New York Stock Exchange for \$25.42 per note, or \$33.6 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above. Based on market quotations on or around September 30, 2013, the Asset-Backed Notes (as defined in Note 6) were trading for \$0.9930 per dollar at par value, or \$89.4 million, and are categorized as Level 3 with the fair value hierarchy described above. These liabilities are not recorded at fair value on a recurring basis.

*Off-Balance-Sheet Instruments:* Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the

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

The following tables detail the assets and liabilities that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
Money market funds	\$25,019	\$—	\$25,019	\$—
Restricted investments	\$3,568	\$—	\$3,568	\$—
Debt investments	\$231,661	\$—	\$—	\$131,661
Warrant investments	\$6,611	\$—	\$1,315	\$5,296
Other investments	\$2,000	\$—	\$—	\$2,000
Equity investments	\$1,047	\$518	\$—	\$529

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Money market funds	\$2,560	\$—	\$2,560	\$—
Debt investments	\$220,297	\$—	\$—	\$220,297
Warrant investments	\$5,468	\$—	\$554	\$4,914
Other investments	\$2,100	\$—	\$—	\$2,100
Equity investments	\$748	\$222	\$—	\$526

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)**

The following tables show a reconciliation of the beginning and ending balances for Level 3 assets for the three months ended September 30, 2013:

	Three Months Ended September 30, 2013				Total
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	
Level 3 assets, beginning of period	\$237,871	\$ 5,150	\$ 529	\$ 2,100	\$245,650
Purchase of investments	11,500	—	—	—	11,500
Warrants and equity received and classified as Level 3	—	200	—	—	200
Principal payments received on investments	(17,986 )	—	—	(33 )	(18,019 )
Unrealized appreciation (depreciation) included in earnings	4,844	216	—	(67 )	4,993
Realized loss included in earnings	(5,010 )	(270 )	—	—	(5,280 )
Other	442	—	—	—	442
Level 3 assets, end of period	\$231,661	\$ 5,296	\$ 529	\$ 2,000	\$239,486

During the three months ended September 30, 2013, there were no transfers between levels.

	Three Months Ended September 30, 2012				Total
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	
Level 3 assets, beginning of period	\$187,932	\$ 4,355	\$ 526	\$ 2,000	\$194,813
Purchase of investments	36,464	—	—	—	36,464
Warrants and equity received and classified as Level 3	—	397	—	—	397
Principal payments received on investments	(12,066 )	—	—	—	(12,066 )
Unrealized appreciation included in earnings	339	40	—	—	379
Other	(264 )	—	—	—	(264 )
Level 3 assets, end of period	\$212,405	\$ 4,792	\$ 526	\$ 2,000	\$219,723

During the three months ended September 30, 2012, there were no transfers between levels.



The following tables show a reconciliation of the beginning and ending balances for Level 3 assets for the nine months ended September 30, 2013:

	Nine Months Ended September 30, 2013				Total
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	
Level 3 assets, beginning of period	\$220,297	\$ 4,914	\$ 526	\$ 2,100	\$227,837
Purchase of investments	69,143	—	—	—	69,143
Warrants and equity received and classified as Level 3	—	626	—	—	626
Principal payments received on investments	(55,921 )	—	—	(33 )	(55,954 )
Proceeds from sale of warrants	—	(39 )	—	—	(39 )
Unrealized appreciation (depreciation) included in earnings	2,595	226	(70 )	(67 )	2,684
Realized loss included in earnings	(5,010 )	(315 )	—	—	(5,325 )
Transfer out of Level 3	—	(116 )	—	—	(116 )
Transfer from debt to equity investment	(73 )	—	73	—	—
Other	630	—	—	—	630
Level 3 assets, end of period	\$231,661	\$ 5,296	\$ 529	\$ 2,000	\$239,486

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)**

The Company's transfers between levels are recognized at the end of the reporting period. During the nine months ended September 30, 2013, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in one portfolio company, with a value of \$0.1 million, that were transferred into Level 2 due to the portfolio company becoming a public company during the nine months ended September 30, 2013. Because warrants held in publicly traded companies are determined based on inputs that are readily available in public markets or can be derived from information available in public markets, the Company has categorized the warrants as Level 2 within the fair value hierarchy described above as of September 30, 2013.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2013 includes \$2.7 million unrealized depreciation on loans, \$0.1 million unrealized appreciation on warrants, \$0.1 million unrealized depreciation on equity and \$0.1 million unrealized depreciation on other investments.

	Nine Months Ended September 30, 2012				Total
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	
Level 3 assets, beginning of period	\$ 173,286	\$ 4,048	\$ 526	\$ —	\$ 177,860
Purchase of investments	86,720	—	—	—	86,720
Warrants and equity received and classified as Level 3	—	937	—	—	937
Principal payments received on investments	(44,186 )	—	—	—	(44,186 )
Unrealized (depreciation) appreciation included in earnings	(872 )	85	—	—	(787 )
Transfer out of Level 3	—	(278 )	—	—	(278 )
Transfer from debt to other investments	(2,000 )	—	—	2,000	—
Other	(543 )	—	—	—	(543 )
Level 3 assets, end of period	\$ 212,405	\$ 4,792	\$ 526	\$ 2,000	\$ 219,723

During the nine months ended September 30, 2012, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in two portfolio companies, with a value of \$0.3 million, that were transferred into Level 2 due to the portfolio company becoming a public company during the nine months ended September 30, 2012. Because the fair value of warrants held in publicly traded companies are determined based on inputs that are readily available in public markets or can be derived from information available in public markets, the Company has

categorized these warrants as of September 30, 2012 as Level 2 within the fair value hierarchy described above.

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

The fair value amounts 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 September 30, 2013 and December 31, 2012, the recorded book balances equaled fair values of all the Company's financial instruments, except for the Company's 2019 Notes and Asset-Backed 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 Company expects the fair values of its financial instruments to 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 loans and by investing in securities with terms that mitigate the Company's overall interest rate risk.

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)****Note 6. Borrowings**

A summary of the Company's borrowings as of September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	\$90,000	\$ 90,000	\$ —
Wells Facility	75,000	—	75,000
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	\$273,000	\$ 133,000	\$ 140,000

	December 31, 2012		
	Total Commitment	Balance Outstanding	Unused Commitment
Wells Facility	\$75,000	\$ 46,020	\$ 28,980
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	\$183,000	\$ 89,020	\$ 93,980

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of September 30, 2013, the asset coverage for borrowed amounts was 208%.

The Company entered into a revolving credit facility (the "Wells Facility") with Wells Fargo Capital Finance, LLC ("Wells") effective July 14, 2011. The Wells Facility has an accordion feature which allows for an increase in the total loan commitment to \$150 million from the current \$75 million commitment provided by Wells. The Wells Facility is collateralized by all loans and warrants held by Credit II and permits an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contains covenants that, among other things, require the Company to maintain a

minimum net worth and to restrict the loans securing the Wells Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The Wells Facility has a three-year revolving term followed by a three-year amortization period and matures on July 14, 2017. The interest rate was based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. On May 28, 2013, the Company and Wells amended the Wells Facility. As amended, effective May 1, 2013, the stated interest rate was reduced to one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 1.00%. In general, all other terms and conditions of the Wells Facility remain unchanged. The rate at September 30, 2013 and December 31, 2012 was 4.25% and 5.0%, respectively. The average rate for the three months ended September 30, 2013 and 2012 was 4.25% and 5.0%, respectively. There were no amounts drawn on the Wells Facility during the three months ended September 30, 2013. The average rate for the nine months ended September 30, 2013 and 2012 was 4.8% and 5.0%, respectively. The average amount of borrowings were \$9.9 million for the three months ended September 30, 2012. The average amounts of borrowings were \$35.0 million and \$11.7 million for the nine months ended September 30, 2013 and 2012, respectively.

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 on or after March 15, 2015 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 with the Company's future senior unsecured indebtedness; (ii) rank senior 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 subsidiaries. As of September 30, 2013, 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."

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

(In thousands, except shares and per share data)

The Company entered into a term loan credit facility (the “Fortress Facility” and, together with the Wells Facility, the “Credit Facilities”) with Fortress Credit Co LLC effective August 23, 2012. The Fortress Facility is collateralized by all loans and warrants held by Credit III. The Fortress Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Fortress Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The Fortress Facility, among other things, has a three-year term subject to two one-year extensions with a draw period of up to four years. The Fortress Facility requires the payment of an unused line fee in an amount equal to 1.00% of any unborrowed amount available under the facility annually and has an effective advance rate of 66% against eligible loans. The Fortress Facility generally bears interest based upon the one-month LIBOR plus a spread of 6.00%, with a LIBOR floor of 1.00%. The rate at both September 30, 2013 and December 31, 2012 was 7.00%, and the average rate for both the three and nine months ended September 30, 2013 was 7.00%. The average amount of borrowings was \$10.0 million for both the three and nine months ended September 30, 2013.

On June 28, 2013, the Company completed a \$189.3 million securitization of secured loans which it originated. 2013-1 Trust, a newly formed wholly owned subsidiary of the Company, issued \$90 million in aggregate principal amount of fixed-rate asset-backed notes (the “Asset-Backed Notes”), which are rated A2(sf) by Moody’s Investors Service, Inc. The Company is the sponsor, originator and servicer for the transaction. The Asset-Backed Notes bear interest at a fixed rate of 3.00% per annum and have a stated maturity of May 15, 2018.

The Asset-Backed Notes were issued by 2013-1 Trust pursuant to a Note Purchase Agreement (the “Note Purchase Agreement”), dated as of June 28, 2013, by and among the Company, 2013-1 LLC, as trust depositor, 2013-1 Trust and Guggenheim Securities, LLC (“Guggenheim Securities”), as initial purchaser, and are backed by a pool of loans made to certain portfolio companies of the Company and secured by certain assets of such portfolio companies. The pool of loans is to be serviced by the Company. In connection with the issuance and sale of the Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the Note Purchase Agreement. The Asset-Backed Notes are secured obligations of 2013-1 Trust and are non-recourse to the Company.

As part of the transaction, the Company entered into a Sale and Contribution Agreement, dated as of June 28, 2013 (the “Sale and Contribution Agreement”), with 2013-1 LLC pursuant to which the Company has agreed to sell or has contributed to 2013-1 LLC certain secured loans made to certain portfolio companies of the Company (the “Loans”). The Company has made customary representations, warranties and covenants in the Sale and Contribution Agreement with respect to the Loans as of the date of the transfer of the Loans to 2013-1 LLC. The Company has also entered

into a sale and servicing agreement, dated as of June 28, 2013, with 2013-1 LLC and 2013-1 Trust pursuant to which 2013-1 LLC has agreed to sell or has contributed the Loans to 2013-1 Trust. The Company has made customary representations, warranties and covenants in the sale and servicing agreement. The Company will also serve as administrator to 2013-1 Trust pursuant to an administration agreement, dated as of June 28, 2013, with 2013-1 Trust, Wilmington Trust, National Association, and U.S. Bank National Association. 2013-1 Trust also entered into an indenture, dated as of June 28, 2013, which governs the Asset-Backed Notes and includes customary covenants and events of default. In addition, 2013-1 LLC entered into an amended and restated trust agreement, dated as of June 28, 2013, which includes customary representations, warranties and covenants. The Asset-Backed Notes were sold through an unregistered private placement to “qualified institutional buyers” in compliance with the exemption from registration provided by Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and to institutional “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who, in each case, are “qualified purchasers” for purposes of Section 3(c)(7) under the 1940 Act.

On June 3, 2013, the Company and Guggenheim Securities entered into a Promissory Note (the “Promissory Note”) whereby Guggenheim Securities made a term loan in the original principal amount of \$15 million (the “Term Loan”) to the Company. The Company granted Guggenheim Securities a security interest in all of its assets to secure the Term Loan. On June 28, 2013, the Company used a portion of the proceeds of the private placement of the Asset-Backed Notes to repay all of its outstanding obligations under the Term Loan and the security interest of Guggenheim Securities was released.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

**(In thousands, except shares and per share data)**

Under the terms of the Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which may be used to make monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as restricted investments in money market funds on the Consolidated Statement of Assets and Liabilities. There was \$3.6 million of restricted investments in money market funds as of September 30, 2013.

#### **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 \$7.3 million and \$24.6 million as of September 30, 2013 and December 31, 2012, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

#### **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 largest loans may vary from year to year as new loans are recorded and repaid. The Company's five largest loans represented 21% and 23% of total loans outstanding as of September 30, 2013 and December 31, 2012, respectively. No single loan represents more than 10% of the total loans as of September 30, 2013 and December 31, 2012. Loan income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for 21% and 23% of total interest income on investments for the three months ended September 30, 2013 and 2012, respectively. Interest income from the five largest loans accounted for 22% and 23% of total interest income on investments for the nine months ended September 30, 2013 and 2012, respectively.

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)****Note 9. Dividends and Distributions**

The Company's dividends and distributions are recorded on the record date. The following table summarizes the Company's dividend declaration and distribution activity since inception:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
Nine Months Ended September 30, 2013						
8/2/13	11/19/13	12/16/13	\$ 0.115	\$ —	—	\$ —
8/2/13	10/17/13	11/15/13	\$ 0.115	\$ —	—	\$ —
8/2/13	9/18/13	10/15/13	\$ 0.115	\$ 1,051	3,882	\$ 52
5/3/13	8/19/13	9/16/13	\$ 0.115	\$ 1,057	3,376	\$ 46
5/3/13	7/17/13	8/15/13	\$ 0.115	\$ 1,060	2,980	\$ 42
5/3/13	6/20/13	7/15/13	\$ 0.115	\$ 1,070	2,191	\$ 31
3/8/13	5/20/13	6/17/13	\$ 0.115	\$ 1,086	1,099	\$ 15
3/8/13	4/18/13	5/15/13	\$ 0.115	\$ 1,087	1,035	\$ 15
3/8/13	3/20/13	4/15/13	\$ 0.115	\$ 1,046	3,867	\$ 55
			\$ 1.035	\$ 7,457	18,430	\$ 256
Year Ended December 31, 2012						
11/27/12	2/21/13	3/15/13	\$ 0.115	\$ 1,050	3,392	\$ 50
11/27/12	1/18/13	2/15/13	\$ 0.115	\$ 1,087	898	\$ 14
11/27/12	12/20/12	1/15/13	\$ 0.115	\$ 1,056	2,930	\$ 44
11/2/12	11/16/12	11/30/12	\$ 0.450	\$ 4,243	4,269	\$ 61
8/7/12	8/17/12	8/31/12	\$ 0.450	\$ 4,105	11,608	\$ 193
5/3/12	5/17/12	5/31/12	\$ 0.450	\$ 3,402	2,299	\$ 37
3/12/12	3/23/12	3/30/12	\$ 0.450	\$ 3,378	3,517	\$ 58
			\$ 2.145	\$ 18,321	28,913	\$ 457
Year Ended December 31, 2011						
11/8/11	11/23/11	11/30/11	\$ 0.450	\$ 3,281	9,814	\$ 151
8/9/11	8/23/11	8/30/11	\$ 0.400	\$ 2,836	13,193	\$ 209
5/10/11	5/19/11	5/26/11	\$ 0.330	\$ 2,190	20,104	\$ 316
			\$ 1.180	\$ 8,307	43,111	\$ 676

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On November 1, 2013, the Board declared monthly dividends payable as set forth in the table below.

Record Dates	Payment Date	Dividends Declared
February 17, 2014	March 17, 2014	\$ 0.115
January 20, 2014	February 17, 2014	\$ 0.115
December 16, 2013	January 15, 2014	\$ 0.115

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements****(In thousands, except shares and per share data)****Note 10. Subsequent Events**

On November 4, 2013 the Company renewed and amended its Wells Facility previously administered by Wells and facilitated the assignment of all rights and obligations of Wells under the Wells Facility to Key Equipment Finance, Inc. (“Key”) (hereinafter in this footnote the Wells Facility shall be referred to as the “Key Facility”).

The Key Facility, among other things, provides the Company’s wholly owned subsidiary, Credit II, with a \$50 million commitment from Key and contains an “accordion” feature allowing additional lenders to make commitments under the Key Facility up to an aggregate commitment of \$150 million. The Key Facility has a three year revolving period followed by a two year amortization period and matures on November 4, 2018. The Key Facility generally bears interest based on LIBOR plus 3.25%, with a LIBOR floor of 0.75%. The Key Facility allows for a maximum advance rate of 50% against eligible loans and will be secured by all of the assets of Credit II. The Company has made certain customary representations and warranties, and is required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

**Note 11. Financial Highlights**

The financial highlights for the Company are as follows:

	Nine Months Ended September 30,	
	2013	2012
Per share data:		
Net asset value at beginning of period	\$ 15.15	\$ 17.01
Net investment income	1.03	1.06
Realized loss on investments	(0.61	(0.01
	)	)
Unrealized appreciation (depreciation) on investments	0.42	(0.02
		)
Net increase in net assets resulting from operations	0.84	1.03

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Net dilution from issuance of common stock	—		(0.28	)
Dividends declared	(1.04	)	(1.35	)
Net asset value at end of period	\$ 14.95		\$ 16.41	
Per share market value, end of period	\$ 13.32		\$ 16.16	
Total return based on a market value	(3.8	)%(1)	7.3	%(1)
Shares outstanding at end of period	9,588,993		9,562,956	
Ratios to average net assets:				
Expenses without incentive fees	11.5	%(2)	8.0	%(2)
Incentive fees	2.3	%(2)	2.0	%(2)
Total expenses	13.8	%(2)	10.0	%(2)
Provision for excise tax	0.2	%(2)	—	%(2)
Net investment income with incentive fees	9.1	%(2)	8.4	%(2)
Average net asset value	\$ 143,951		\$ 135,934	
Average debt per share	11.56		7.37	
Portfolio turnover ratio	29.3	%	48.3	%

The total return for the nine months ended September 30, 2013 and 2012, equals the change in the ending market (1) value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

(2)

Annualized.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*In this quarterly report on Form 10-Q, 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 quarterly report on Form 10-Q. Amounts are stated in thousands, except shares and per share data and where otherwise noted.*

### Forward-Looking Statements

This quarterly report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to future events or our future performance or financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. The forward-looking statements contained in this quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results, including the performance of our existing loans and warrants;
- the introduction, withdrawal, success and timing of business initiatives and strategies;

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

• the relative and absolute investment performance and operations of our investment advisor, Horizon Technology Management LLC, or the 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;
  - 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;
- our ability to cause a subsidiary to become a licensed Small Business Investment Company;
- 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.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth as “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2012, and elsewhere in this quarterly report on Form 10-Q.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this quarterly report on Form 10-Q, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the U.S. Securities and Exchange Commission, or the SEC, including, periodic reports on Form 10-Q and Form 10-K and current reports on Form 8-K.

## Overview

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

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or 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 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.

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 are managed by the Advisor and supervised by our board of directors, or the Board, of which a majority of the members are independent of us. Under an investment management agreement, or the Investment Management Agreement, we have agreed to pay the Advisor a base management fee and an incentive fee for its advisory services to us. We have also entered into an administration agreement, or the Administration Agreement, with the Advisor under which 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.



**Portfolio Composition and Investment Activity**

The following table shows our portfolio by asset class as of September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012				
	# of Investments	Fair Value	Percentage of Total Portfolio	# of Investments	Fair Value	Percentage of Total Portfolio		
Term loans	48	\$216,569	89.7	% 41	\$200,685	87.8	%	
Revolving loans	2	15,092	6.3	% 4	19,612	8.6	%	
Total loans	50	231,661	96.0	% 45	220,297	96.4	%	
Warrants	71	6,611	2.7	% 62	5,468	2.4	%	
Other investments	1	2,000	0.8	% 1	2,100	0.9	%	
Equity	4	1,047	0.5	% 2	748	0.3	%	
Total		\$241,319	100.0	%	\$228,613	100.0	%	

Total portfolio investment activity as of and for the periods ended September 30, 2013 and 2012 was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Beginning portfolio	\$ 246,861	\$ 195,600	\$ 228,613	\$ 178,013
New loan funding	11,500	48,464	69,143	117,459
Less refinanced balances and participation	—	(12,000 )	—	(30,739 )
Net new loan funding	11,500	36,464	69,143	86,720
Principal payments received on investments	(10,536 )	(10,607 )	(29,193 )	(28,522 )
Early pay-offs	(7,483 )	(1,459 )	(26,761 )	(15,664 )
Accretion of loan fees	694	606	1,995	1,698
New loan fees	(118 )	(372 )	(806 )	(1,120 )
New equity	—	—	73	—
Proceeds from sale of investments	—	—	(39 )	(38 )
Net realized loss on investments	(5,566 )	—	(5,629 )	(61 )
Net appreciation (depreciation) on investments	5,967	677	3,996	(117 )
Other	—	—	(73 )	—
Ending Portfolio	\$ 241,319	\$ 220,909	\$ 241,319	\$ 220,909

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

The following table shows our loan portfolio by industry sector as of September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
Life Science				
Biotechnology	\$ 12,618	9.8 %	\$ 38,018	17.3 %
Medical Device	19,423	8.4 %	23,446	10.6 %
Technology				
Software	71,953	31.0 %	54,358	24.7 %
Internet and Media	6,579	2.8 %	9,763	4.4 %
Communication	6,296	2.7 %	—	—
Semiconductors	36,106	15.6 %	25,795	11.7 %
Power Management	14,289	6.2 %	15,792	7.2 %
Cleantech				
Energy Efficiency	14,153	6.1 %	12,950	5.9 %

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Waste Recycling	1,629	0.7	%	2,197	1.0	%
Alternative Energy	12,841	5.5	%	8,586	3.9	%
Healthcare Information and Services						
Diagnostics	14,809	6.4	%	21,340	9.7	%
Other Healthcare Related Services	6,894	3.0	%	2,655	1.2	%
Software	4,071	1.8	%	5,397	2.4	%
Total	\$ 231,661	100.0	%	\$ 220,297	100.0	%

The largest loans may vary from year to year as new loans are recorded and repaid. Our five largest loans represented 21% and 23% of total loans outstanding as of September 30, 2013 and December 31, 2012, respectively. No single loan represented more than 10% of our total loans as of September 30, 2013 and December 31, 2012.

## Loan Portfolio Asset Quality

We use an internal credit rating system which rates each loan on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 represents an increased level of risk and while no loss is currently anticipated for a 2 rated loan, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and increased risk. Our internal credit rating system is not a national credit rating system. The following table shows the classification of our loan portfolio by credit rating as of September 30, 2013 and December 31, 2012:

Credit Rating	September 30, 2013		December 31, 2012			
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio		
4	\$38,909	16.8	% \$30,818	14.0	%	
3	170,768	73.7	% 181,019	82.2	%	
2	14,880	6.4	% 3,560	1.6	%	
1	7,104	3.1	% 4,900	2.2	%	
Total	\$231,661	100.0	% \$220,297	100.0	%	

As of September 30, 2013 and December 31, 2012, our loan portfolio had a weighted average credit rating of 3.1 and 3.2, respectively. As of September 30, 2013, there were three investments with a credit rating of 2. As of December 31, 2012, there was one investment with a credit rating of 2. As of both September 30, 2013 and December 31, 2012, there were three investments with a credit rating of 1, all of which were on non-accrual status.

## Consolidated Results of Operations

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

Consolidated operating results for the three months ended September 30, 2013 and 2012 are as follows:

	For the Three Months Ended September 30,	
	2013	2012
Total investment income	\$8,712	\$6,619
Total expenses	5,145	3,650
Net investment income before excise tax	3,567	2,969
Provision for excise tax	(80 )	—
Net investment income	3,487	2,969
Net realized loss on investments	(5,566 )	—
Net unrealized appreciation on investments	5,967	677
Net increase in net assets resulting from operations	\$3,888	\$3,646
Average investments, at fair value	\$238,167	\$195,147
Average debt outstanding	\$133,000	\$59,112

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. As a result, quarterly comparisons of net income may not be meaningful.

*Comparison of the three months ended September 30, 2013 and 2012*

***Investment Income***

Investment income increased by \$2.1 million, or 31.6%, for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. For the three months ended September 30, 2013, total investment income consisted primarily of \$8.2 million in interest income from investments, which included \$1.6 million in income from the accretion of origination fees and end-of-term payments, or ETPs. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio and higher fee income. Fee income, for the three months ended September 31, 2013, of \$0.5 million was primarily earned from prepayment fees collected from our portfolio companies, as we experienced early payoffs of \$7.5 million. For the three months ended September 30, 2012, total investment income consisted primarily of \$6.4 million in interest income from investments, which included \$1.1 million in income from the accretion of origination fees and ETPs.

For the three months ended September 30, 2013 and 2012, our dollar-weighted average annualized yield on average debt investments was 14.6% and 13.6%, 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.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for 21% and 23% of investment income for the three months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013 and December 31, 2012, interest receivables were \$4.1 million and \$2.8 million, respectively, which represent accreted ETPs and one month of accrued interest income on substantially all of our loans.

### *Expenses*

Total expenses increased by \$1.5 million, or 41.0%, to \$5.1 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees, interest expense and, to a lesser degree, professional fees and general and administrative expenses.

Interest expense for the three months ended September 30, 2013 and 2012 was \$2.2 million and \$1.1 million, respectively. Interest expense for the three months ended September 30, 2013 increased primarily due to an increase in our average debt outstanding, as well as an increase in borrowing cost associated with our term loan credit facility.

Management fee expense for the three months ended September 30, 2013 and 2012 was \$1.3 million and \$1.1 million, respectively. Management fee expense increased compared to the three months ended September 30, 2012 as a result of an increase in average gross assets partially offset by a waiver of the base management fee earned on cash during the period. The Advisor waived \$0.1 million of the base management fees it would have otherwise earned during the three months ended September 30, 2013. The Advisor waived such fees because we held more cash during the three month period than is typical for us to hold during a three month period. We held such cash due to the sale of the Asset-Backed Notes on June 28, 2013. Our Advisor is not obligated to waive the base management fee on cash in future periods.

Performance based incentive fee for the three months ended September 30, 2013 increased compared to the three months ended September 30, 2012 due to higher pre-incentive fee net investment income in the three months ended September 30, 2013. The incentive fees for the three months ended September 30, 2013 and 2012 were \$0.9 million and \$0.7 million, respectively, and consisted entirely of incentive fees payable on pre-incentive fee net investment income. Administrative fee expense for the three months ended September 30, 2013 and 2012 was \$0.3 million and \$0.4 million, respectively.

***Net Realized Gains and Net Unrealized Appreciation and Depreciation***

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

During the three months ended September 30, 2013, we recognized realized losses totaling \$5.6 million primarily due to the determination that our non-accrual debt investment and warrant investments in one portfolio company were not recoverable, which resulted in a realized loss totaling \$5.3 million. During the three months ended September 30, 2012, we did not have any recognized realized gains or losses.

During the three months ended September 30, 2013, net unrealized appreciation on investments totaled \$6.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on our non-accrual debt investment and warrant investments in one portfolio company totaling \$5.3 million and the remainder related to the change in fair values of our investment portfolio during the period. During the three months ended September 30, 2012, net unrealized appreciation on investments totaled \$0.7 million which was primarily due to the change in fair values of our investment portfolio during the period.

Consolidated operating results for the nine months ended September 30, 2013 and 2012 are as follows:

	For the Nine Months Ended September 30,	
	2013	2012
Total investment income	\$24,868	\$18,726
Total expenses	14,846	10,146
Net investment income before excise tax	10,022	8,580
Provision for excise tax	(160 )	—
Net investment income	9,862	8,580
Net realized loss on investments	(5,839 )	(61 )
Net unrealized appreciation (depreciation) on investments	3,996	(117 )
Net increase in net assets resulting from operations	\$8,019	\$8,402
Average investments, at fair value	\$235,745	\$179,417
Average debt outstanding	\$110,692	\$59,886

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. As a result, quarterly comparisons of net income may not be meaningful.

*Comparison of the nine months ended September 30, 2013 and 2012*

### ***Investment Income***



Investment income increased by \$6.1 million, or 32.8%, for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. For the nine months ended September 30, 2013, total investment income consisted primarily of \$24.0 million in interest income from investments, which included \$4.6 million in income from the accretion of origination fees and ETPs. Interest income on investments increased primarily due to the increased average size of the loan portfolio. Fee income for the nine months ended September 31, 2013 of \$0.9 million was primarily earned from prepayment fees collected from our portfolio companies as we experienced early payoffs of \$26.8 million. For the nine months ended September 30, 2012, total investment income consisted primarily of \$17.8 million in interest income from investments, which included \$3.1 million in income from the accretion of origination fees and ETPs.

For the nine months ended September 30, 2013 and 2012, our dollar-weighted average annualized yield on average debt investments was 14.1% and 13.9%, 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.

Investment income, consisting of interest income and fees on loans, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for 22% and 23% of investment income for the nine months ended September 30, 2013 and 2012, respectively.

### *Expenses*

Total expenses increased by \$4.7 million, or 46.3%, to \$14.8 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees, interest expense and, to a lesser degree, professional fees and general and administrative expenses.

Interest expense for the nine months ended September 30, 2013 and 2012 was \$5.9 million and \$2.8 million, respectively. Interest expense for the nine months ended September 30, 2013 increased primarily due to an increase in our average debt outstanding, as well as an increase in borrowing cost associated with our term loan credit facility and our 2019 Notes.

Management fee expense for the nine months ended September 30, 2013 and 2012 was \$3.8 million and \$3.0 million, respectively. Management fee expense increased compared to the nine months ended September 30, 2012 as a result of an increase in average gross assets.

Performance based incentive fees for the nine months ended September 30, 2013 increased compared to the nine months ended September 30, 2012 due to higher pre-incentive fee net investment income in the nine months ended September 30, 2013. The incentive fees for the nine months ended September 30, 2013 and 2012 were \$2.5 million and \$2.0 million, respectively, and consisted entirely of incentive fees payable on pre-incentive fee net investment income. Administrative fee expense for both the nine months ended September 30, 2013 and 2012 was \$0.9 million.

### *Net Realized Gains and Net Unrealized Appreciation and Depreciation*

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

During the nine months ended September 30, 2013, we recognized realized losses totaling \$5.8 million primarily due to the determination that our non-accrual debt investment and warrant investments in one portfolio company were not recoverable, which resulted in a realized loss totaling \$5.3 million. During the nine months ended September 30,

2012, we recognized realized losses of \$0.1 million primarily due to the charge off of warrants in one portfolio company.

During the nine months ended September 30, 2013, net unrealized appreciation on investments totaled \$4.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on our non-accrual debt investment and warrant investments in one portfolio company totaling \$5.3 million and the remainder relates to change in fair values of our investment portfolio during the period. During the nine months ended September 30, 2012, net unrealized depreciation on investments totaled \$0.1 million which was primarily due to the change in fair values of our investment portfolio during the period.

### **Liquidity and Capital Resources**

As of September 30, 2013 and December 31, 2012, we had cash and investments in money market funds of \$31.0 million and \$3.6 million, respectively. As of September 30, 2013 and December 31, 2012, we had availability under our existing Credit Facilities of \$10.0 million and \$56.0 million, respectively. These amounts are available to fund new investments, reduce borrowings under a revolving credit facility with Wells Fargo Capital Finance, LLC, or the Wells Facility, and a term loan credit facility with Fortress Credit Co LLC, or the Fortress Facility, pay down the \$90 million principal amount of fixed-rate asset-backed notes, or Asset-Backed Notes, pay operating expenses and pay dividends. In this quarterly report on Form 10-Q, we refer to the Wells Facility and the Fortress Facility, collectively, as the Credit Facilities. Our primary sources of capital have been from our private and public common stock offerings, use of our Credit Facilities and issuance of our Asset-Backed Notes and 7.375% senior unsecured notes due in 2019, or the 2019 Notes.

As of September 30, 2013, there was no outstanding principal balance under the Wells Facility. As of September 30, 2013, we had available borrowing capacity of \$75.0 million under our Wells Facility, subject to existing terms and advance rates.

As of September 30, 2013, the outstanding principal balance under the Fortress Facility was \$10.0 million. As of September 30, 2013, we had available borrowing capacity of \$65.0 million under our Fortress Facility, subject to existing terms and advance rates.

Our operating activities used cash of \$30.9 million for the nine months ended September 30, 2013, and our financing activities provided cash of \$32.3 million for the same period. Our operating activities used cash primarily for investing in portfolio companies, net of principal payments received. Our financing activities provided cash primarily from the issuance of our Asset-Backed Notes, offset by a net decrease in borrowings under our Credit Facilities and our dividends paid in the period.

Our operating activities used cash of \$25.3 million for the nine months ended September 30, 2012 and our financing activities provided cash of \$27.3 million for the same period. Our operating activities used cash primarily for investing in portfolio companies. Our financing activities provided cash primarily from the issuance of our Senior Notes of \$33.0 million, and the completion of a follow-on public offering of 1.9 million shares of common stock for proceeds of \$29.5 million, after deducting offering expenses.

Our primary use of available funds is to make 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.

At September 30, 2013, we had \$3.6 million of restricted investments in money market funds. Our restricted investments in money market funds are generated from collections of principal payments on assets that secure the Asset-Backed Notes. In accordance with the terms of the related securitized Asset-Backed Notes, the restricted funds may be used to pay monthly fees, interest and principal on the Asset-Backed Notes and are not distributed to us or available for our general operations.

In order to satisfy the Code requirements applicable to a RIC, we distribute to our stockholders all or substantially all of our income except for certain net capital gains. In addition, as a BDC, we are required to meet a coverage ratio of 200%. This requirement limits the amount that we may borrow. As of September 30, 2013, the asset coverage for borrowed amounts was 208%.

We believe that our current cash and investments in money market funds, cash generated from operations, and funds available from our Credit Facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

### ***Current Borrowings***

A summary of our borrowings as of September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	\$90,000	\$ 90,000	\$ —
Wells Facility	75,000	—	75,000
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	\$273,000	\$ 133,000	\$ 140,000

	December 31, 2012		
	Total Commitment	Balance Outstanding	Unused Commitment
Wells Facility	\$75,000	\$ 46,020	\$ 28,980
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	\$183,000	\$ 89,020	\$ 93,980

We, through our wholly owned subsidiary, Horizon Credit II LLC, or Credit II, entered into the Wells Facility on July 14, 2011. The interest rate was based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. On May 28, 2013, we entered into an agreement with Wells Fargo Capital Finance, LLC to amend the Wells Facility. As amended, effective May 1, 2013, the stated interest rate of the Wells Facility was reduced to the one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 1.00%. In general, all other terms and conditions of the Wells Facility remain unchanged. The interest rate was 4.25% and 5.00% as of September 30, 2013 and December 31, 2012, respectively.

We may request advances under the Wells Facility through July 14, 2014, or the Revolving Period. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Wells Facility as of such date, at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Wells Facility, particularly the condition that the principal balance of the Wells Facility does not exceed fifty percent (50%) of the aggregate principal balance of our eligible loans to our portfolio companies. All outstanding advances under the Wells Facility are due and payable on July 14, 2017.

The Wells Facility is collateralized by loans held by Credit II and permits an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the loans securing the Wells Facility to certain criteria for qualified loans and to comply with portfolio company concentration limits as defined in the related loan agreement.

On March 23, 2012, we issued and sold \$30 million aggregate principal amount of 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 such 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 on or after March 15, 2015 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 rank (1) equally in right of payment with our future senior unsecured indebtedness; (2) senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (3) 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) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of September 30, 2013, 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".

We, through our wholly owned subsidiary Horizon Credit III LLC, or Credit III, entered into the Fortress Facility on August 23, 2012. The interest rate on the Fortress Facility is based upon the one-month LIBOR plus a spread of 6.00%, with a LIBOR floor of 1.00%. The interest rate was 7.00% as of September 30, 2013 and December 31, 2012.

We may request advances under the Fortress Facility through August 23, 2016, or the Draw Period. After the Draw Period, we may not request new advances and we must repay the outstanding advances under the Fortress 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 Fortress Facility, particularly the condition that the principal balance of the Fortress Facility does not exceed sixty-six percent (66%) of the aggregate principal balance of our eligible loans to our portfolio companies. All outstanding advances under the Fortress Facility are due and payable on August 23, 2017.

The Fortress Facility is collateralized by loans held by Credit III and permits an advance rate of up to 66% of eligible loans held by Credit III. The Fortress Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the loans securing the Fortress Facility to certain criteria for qualified loans and to comply with portfolio company concentration limits as defined in the related loan agreement.

On June 28, 2013, we completed a \$189.3 million securitization of secured loans which we originated. Horizon Funding Trust 2013-1, or 2013-1 Trust, a newly formed wholly owned subsidiary of ours, issued the Asset-Backed Notes, which are rated A2(sf) by Moody's Investors Service, Inc. We are the sponsor, originator and servicer for the transaction. The Asset-Backed Notes bear interest at a fixed rate of 3.00% per annum and have a stated maturity of May 15, 2018.

The Asset-Backed Notes were issued by 2013-1 Trust pursuant to a Note Purchase Agreement, dated as of June 28, 2013, by and among us, Horizon Funding 2013-1 LLC, or 2013-1 LLC, as trust depositor, 2013-1 Trust and Guggenheim Securities, LLC, or Guggenheim Securities, as initial purchaser, and are backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of such portfolio companies. The pool of loans is to be serviced by us. In connection with the issuance and sale of the Asset-Backed Notes, we have made customary representations, warranties and covenants in the Note Purchase Agreement. The Asset-Backed Notes are secured obligations of 2013-1 Trust and are non-recourse to us.

As part of the transaction, we entered into a Sale and Contribution Agreement, dated as of June 28, 2013, with 2013-1 LLC, pursuant to which we have agreed to sell or have contributed to 2013-1 LLC, certain secured loans made to certain portfolio companies of ours, or the Loans. We have made customary representations, warranties and covenants in the Sale and Contribution Agreement with respect to the Loans as of the date of the transfer of the Loans to 2013-1 LLC. We have also entered into a sale and servicing agreement, dated as of June 28, 2013, with 2013-1 LLC and 2013-1 Trust pursuant to which 2013-1 LLC has agreed to sell or has contributed the Loans to 2013-1 Trust. We have made customary representations, warranties and covenants in the sale and servicing agreement. We will also serve as administrator to 2013-1 Trust pursuant to an administration agreement, dated as of June 28, 2013, with 2013-1 Trust, Wilmington Trust, National Association, and U.S. Bank National Association. 2013-1 Trust also entered into an indenture, dated as of June 28, 2013, which governs the Asset-Backed Notes and includes customary covenants and events of default. In addition, 2013-1 LLC entered into an amended and restated trust agreement, dated as of June 28, 2013, which includes customary representations, warranties and covenants. The Asset-Backed Notes were sold through an unregistered private placement to “qualified institutional buyers” in compliance with the exemption from registration provided by Rule 144A under the Securities Act of 1933 as amended, or the Securities Act, and to institutional “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who, in each case, are “qualified purchasers” for purposes of Section 3(c)(7) under the 1940 Act.

On June 3, 2013, we entered into a Promissory Note with Guggenheim Securities, or the Promissory Note, whereby Guggenheim Securities made a term loan in the original principal amount of \$15 million, or the Term Loan, to us. We granted Guggenheim Securities a security interest in all of its assets to secure the Term Loan. On June 28, 2013, the Company used a portion of the proceeds of the private placement of the Asset-Backed Notes to repay all of its outstanding obligations under the Term Loan and the security interest of Guggenheim Securities was released.

As of September 30, 2013 and December 31, 2012, other assets were \$5.4 million and \$4.6 million, respectively, which were primarily, comprised of debt issuance costs.

### ***Contractual Obligations and Off-Balance Sheet Arrangements***

A summary of our significant contractual payment obligations and off-balance sheet arrangements as of September 30, 2013 is as follows:



Payments due by period					
	Total	Less than 1 year	1 – 3 Years	3-5 Years	After 5 years
Borrowings	\$ 133,000	\$ 27,901	\$ 70,702	\$ 1,397	\$ 33,000
Unfunded commitments	7,299	6,299	1,000	—	—
Total	\$ 140,299	\$ 34,200	\$ 71,702	\$ 1,397	\$ 33,000

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2013, we had unfunded commitments of \$7.3 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

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

### ***Distributions***

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

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

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

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

### **Related Party Transactions**

We have entered into a number of business relationships with affiliated or related parties, including the following:

We entered into the Investment Management Agreement with our Advisor. Mr. Robert D. Pomeroy Jr., Chairman of the Board and our Chief Executive Officer, is a manager of the Advisor, and Mr. Gerald A. Michaud, our President and a Director, is a manager of our Advisor.

Our Advisor provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement.

- We have entered into a license agreement with the predecessor of the Advisor, pursuant to which it has granted us a non-exclusive, royalty-free license to use the name “Horizon Technology Finance.”

Our Advisor may manage other investment vehicles with the same investment strategy as us, which we refer to in this report as “Advisor Funds.” Our 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 may be precluded from co-investing in such investments. Accordingly, we may apply for exemptive relief which would permit us to co-invest subject to certain conditions, including approval of such investments by both a majority of our directors who have no financial interest in such transaction and a majority of directors who are not interested directors as defined in the 1940 Act.

## **Critical Accounting Policies**

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

We have identified the following items as critical accounting policies.

### ***Valuation of Investments***

Investments are recorded at fair value. Our Board determines the fair value of our portfolio investments. We measure substantially all of our 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. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

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

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

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

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

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

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

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

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

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, among other things, we are required to meet certain source of income and asset diversification requirements and we must timely distribute to our stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from U.S. federal income taxes.

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

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. We had no material uncertain tax positions at September 30, 2013 and December 31, 2012.

### **Recently Issued Accounting Standards**

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRs, (ASU 2011-04). ASU 2011-04 converges the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. We adopted ASU 2011-04 in the quarter ended March 31, 2012.

### **Item 3. Quantitative And Qualitative Disclosures About Market Risk**

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

Assuming that the consolidated statement of assets and liabilities as of September 30, 2013 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the consolidated statement of assets and liabilities and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

While our Asset-Backed Notes and 2019 Notes bear interest at a fixed rate, our Credit Facilities have a floating interest rate provision based on a LIBOR index which resets daily, and we expect that any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations and we may use them in the future. Such instruments may include swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

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

### **Item 4. Controls and Procedures**

#### ***(a) Evaluation of Disclosure Controls and Procedures***



As of September 30, 2013, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

***(b) Changes in Internal Controls Over Financial Reporting.***

There have been no material changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II**

### **Item 1: Legal Proceedings.**

Neither we nor our Advisor are currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or against our Advisor.

### **Item 1A: Risk Factors.**

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our annual report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results. There have been no material changes during the nine months ended September 30, 2013 to the risk factors set forth in “Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2012.

### **Item 2: Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3: Defaults Upon Senior Securities.**

None.

### **Item 4: Mine Safety Disclosures.**

Not applicable

**Item 5: Other Information.**

None.

**Item 6: Exhibits.**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*Filed herewith  
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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Horizon Technology Finance Corporation

Date: November 5, 2013 By: /s/ Robert D. Pomeroy, Jr.

Name: Robert D. Pomeroy, Jr.

Title: Chief Executive Officer and Chairman of  
the Board of Directors

Date: November 5, 2013 By: /s/ Christopher M. Mathieu

Name: Christopher M. Mathieu

Title: Chief Financial Officer