

Horizon Technology Finance Corp
Form 10-Q
November 09, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 814-00802

HORIZON TECHNOLOGY FINANCE CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or
organization)

27-2114934
(I.R.S. Employer Identification No.)

312 Farmington Avenue
Farmington, CT
(Address of principal executive offices)

06032
(Zip Code)

Registrant's telephone number, including area code (860) 676-8654
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered
The NASDAQ Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

Edgar Filing: Horizon Technology Finance Corp - Form 10-Q

submit and post such files). Yes " No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer " Accelerated filer " Non-accelerated filer Smaller Reporting Company "

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes " No .

As of November 9, 2011, the Registrant had 7,626,718 shares of common stock, \$0.001 par value, outstanding.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-Q
TABLE OF CONTENTS

	Page
PART I	
Item 1.	Financial Statements
	Consolidated Statements of Assets and Liabilities as of September 30, 2011 and December 31, 2010 (unaudited)
	5
	Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (unaudited)
	6
	Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2011 and 2010 (unaudited)
	7
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)
	8
	Consolidated Schedules of Investments as of September 30, 2011 and December 31, 2010 (unaudited)
	9
	Notes to the Consolidated Financial Statements (unaudited)
	15
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	28
Item 3.	Quantitative And Qualitative Disclosures About Market Risk
	38
Item 4.	Controls and Procedures
	38
PART II	
Item 1.	Legal Proceedings
	38
Item 1A.	Risk Factors
	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	39
Item 3.	Defaults Upon Senior Securities
	39
Item 4.	Removed and Reserved
	39
Item 5.	Other Information
	39
Item 6.	Exhibits
	39
	Signatures
	40
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

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 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 SBIC;
- the impact of legislative and regulatory actions and reforms and regulatory supervisory or enforcement actions of government agencies relating to us or our Advisor;
 - our contractual arrangements and relationships with third parties;

- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals; and
- the impact of changes to tax legislation and, generally, our tax position.

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 in “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2010 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 SEC, including, future reports on Form 10-Q, current reports on Form 8-K and annual reports on Form 10-K.

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities (Unaudited)
(In thousands, except share data)

	September 30, 2011	December 31, 2010
ASSETS		
Non-affiliate investments at fair value (cost of \$179,651 and \$133,494, respectively) (Note 4)	\$ 180,186	\$ 136,810
Cash and cash equivalents	32,598	76,793
Interest receivable	2,477	1,938
Other assets (Note 2)	1,610	664
Total assets	\$ 216,871	\$ 216,205
LIABILITIES		
Borrowings (Note 6)	\$ 81,885	\$ 87,425
Base management fee payable (Note 3)	362	360
Incentive fee payable (Note 3)	1,453	414
Other accrued expenses	792	811
Total liabilities	84,492	89,010
Net assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 7,626,718 shares outstanding as of September 30, 2011 and 7,593,421 shares outstanding as of December 31, 2010	8	8
Paid-in capital in excess of par	124,361	123,836
Accumulated undistributed (distributions in excess of) net investment income	1,507	(143)
Net unrealized appreciation on investments	508	3,043
Net realized gain on investments	5,995	451
Total net assets	132,379	127,195
Total liabilities and net assets	\$ 216,871	\$ 216,205
Net asset value per common share	\$ 17.36	\$ 16.75

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited)
(In thousands, except share data)

	Post-IPO as a Business Development Company Three Months Ended September 30, 2011	Pre-IPO Prior to Becoming a Business Development Company Three Months Ended September 30, 2010	Post-IPO as a Business Development Company Nine Months Ended September 30, 2011	Pre-IPO Prior to Becoming a Business Development Company Nine Months Ended September 30, 2010
Investment income				
Interest income on non-affiliate investments	\$ 6,129	\$ 4,955	\$ 16,911	\$ 12,852
Interest income on cash and cash equivalents	2	25	90	53
Fee income on non-affiliate investments	310	209	870	345
Total investment income	6,441	5,189	17,871	13,250
Expenses				
Interest expense	725	1,189	2,093	3,282
Base management fee (Note 3)	1,091	675	3,229	1,816
Performance based incentive fee (Note 3)	561	—	2,701	—
Administrative fee (Note 3)	355	—	873	—
Professional fees	489	7	1,034	110
General and administrative	227	61	740	164
Total expenses	3,448	1,932	10,670	5,372
Net investment income	2,993	3,257	7,201	7,878
Credit for loan losses	—	320	—	739
Net realized and unrealized gain on investments				
Net realized (loss) gain on investments	(17)	—	5,544	(2)
Net unrealized (depreciation) appreciation on investments	(217)	1,711	(2,535)	1,549
Net realized and unrealized (loss) gain on investments	(234)	1,711	3,009	1,547
Net increase in net assets resulting from operations	\$ 2,759	\$ 5,288	\$ 10,210	\$ 10,164
Net investment income per common share (1)	\$ 0.39	\$ N/A	\$ 0.95	\$ N/A
Change in net assets per common share (1)	\$ 0.36	\$ N/A	\$ 1.34	\$ N/A

Weighted average shares outstanding (1)	7,617,972	N/A	7,604,345	N/A
---	-----------	-----	-----------	-----

(1) For the three and nine months ended September 30, 2010, the Company did not have common shares outstanding or an equivalent and, therefore, earnings per share and weighted average shares outstanding information for this period is not provided.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	Member	Accumulated Other Comprehensive Loss	Common Shares	Stock Amount	Paid-In Capital in Excess of Par	in excess of Investment Income	Net Appreciation on Investments	Realized Gain on Investments	Total Net Assets
Balance at December 31, 2009	\$ 60,260	\$ (768)	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 59,492
Comprehensive income:									
Net income	10,164	—	—	—	—	—	—	—	10,164
Unrealized loss on interest rate swaps	—	409	—	—	—	—	—	—	409
Total comprehensive income	—	—	—	—	—	—	—	—	10,573
Balance at September 30, 2010	\$ 70,424	\$ (359)	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 70,065
Balance at December 31, 2010	\$ —	\$ —	7,593,421	\$ 8	\$ 123,836	\$ (143)	\$ 3,043	\$ 451	\$ 127,195
Net increase in net assets from operations	—	—	—	—	—	7,201	(2,535)	5,544	10,210
Issuance of common stock as stock dividend	—	—	33,297	—	525	—	—	—	525
Dividends declared	—	—	—	—	—	(5,551)	—	—	(5,551)
Balance at September 30, 2011	\$ —	\$ —	7,626,718	\$ 8	\$ 124,361	\$ 1,507	\$ 508	\$ 5,995	\$ 132,379

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Post-IPO as a Business Development Company Nine Months Ended September 30, 2011	Pre-IPO Prior to becoming a Business Development Company Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 10,210	\$ 10,164
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Credit for loan losses	—	(739)
Amortization of debt issuance costs	227	871
Net realized (gain) loss on investments	(5,799)	2
Net change in unrealized depreciation (appreciation) on investments	2,535	(1,549)
Purchase of investments	(78,156)	(64,608)
Principal payments received on investments	32,574	41,333
Proceeds from sale of investments	5,887	—
Stock received in settlement of fee income	(544)	—
Changes in assets and liabilities:		
Increase in interest receivable	(539)	(498)
Decrease in unearned loan income	(331)	(302)
Decrease (increase) in other assets	247	(251)
Increase in other accrued expenses	226	91
Increase in base management fee payable	2	35
Increase in incentive fee payable	1,039	—
Net cash used in operating activities	(32,422)	(15,451)
Cash flows from financing activities:		
Net (decrease) increase in revolving borrowings	(5,540)	24,778
Dividends paid	(5,026)	—
Capitalized debt issuance costs	(1,207)	—
Net cash (used in) provided by financing activities	(11,773)	24,778
Net (decrease) increase in cash and cash equivalents	(44,195)	9,327
Cash and cash equivalents:		
Beginning of period	76,793	9,892
End of period	\$ 32,598	\$ 19,219
Cash paid for interest	\$ 1,738	\$ 2,366

Supplemental non-cash investing and financing activities:

Warrant investments received & recorded as unearned loan income	\$ 1,129	\$ 1,212
Receivables resulting from sales of investments	\$ 213	\$ —
Decrease in interest rate swap liability	\$ (245)	\$ (409)

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments

September 30, 2011

(In thousands)

Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
Debt Investments						
Debt Investments — Life Science — 41.2%						
ACT Biotech, Inc.	Biotechnology	Term Loan(1)	13.10 %	12/1/2013	\$ 905	\$ 905
		Term Loan(1)	13.01 %	12/1/2013	905	905
		Term Loan(1)	13.01 %	12/1/2013	1,371	1,371
Ambit Biosciences Corporation	Biotechnology	Term Loan(1)	12.25 %	10/1/2013	5,066	5,066
Anacor Pharmaceuticals, Inc.(5)	Biotechnology	Term Loan(2)	9.41 %	4/1/2015	3,206	3,206
GenturaDx, Inc.	Biotechnology	Term Loan(2)	11.25 %	4/1/2014	1,903	1,903
N30 Pharmaceuticals, LLC	Biotechnology	Term Loan(1)	11.25 %	9/1/2014	2,412	2,412
Pharmasset, Inc.(5)	Biotechnology	Term Loan(1)	12.00 %	1/1/2012	379	379
		Term Loan(1)	12.50 %	10/1/2012	1,453	1,453
Revance Therapeutics, Inc.	Biotechnology	Convertible Note(1)	8.00 %	2/10/2013	62	62
Supernus Pharmaceuticals, Inc.	Biotechnology	Term Loan(2)	11.00 %	8/1/2014	2,947	2,947
Tranzyme, Inc.(5)	Biotechnology	Term Loan(1)	10.75 %	1/1/2014	4,538	4,538
Xcovery Holding Company, LLC	Biotechnology	Term Loan(2)	12.00 %	10/1/2013	1,494	1,494
		Term Loan(2)	12.00 %	7/1/2014	1,477	1,477
Concentric Medical, Inc.	Medical Device	Term Loan(1)	12.04 %	9/1/2013	6,676	6,676
OraMetrix, Inc.	Medical Device	Term Loan(1)	11.50 %	4/1/2014	4,669	4,669
PixelOptics, Inc.	Medical Device	Term Loan(2)	10.75 %	11/1/2014	9,910	9,910
Tengion, Inc.(5)	Medical Device	Term Loan(2)	11.75 %	1/1/2014	4,948	4,588
ViOptix, Inc.	Medical Device	Term Loan(1)	13.55 %	11/1/2011	656	656
Total Debt Investments — Life Science					54,977	54,617
Debt Investments — Technology — 36.2%						
OpenPeak, Inc.	Communications	Term Loan(1)	11.86 %	12/1/2013	6,016	5,647
Starcite, Inc.	Consumer-related Technologies	Term Loan(1)	12.05 %	9/1/2012	1,604	1,604
Tagged, Inc.	Consumer-related Technologies	Term Loan(1)	12.78 %	5/1/2012	671	671

Edgar Filing: Horizon Technology Finance Corp - Form 10-Q

		Term Loan(1)	11.46 %	8/1/2012	300	300
Xtera Communications, Inc.	Semiconductors	Term Loan(2)	11.50 %	12/1/2014	9,739	9,739
Vette Corp.	Data Storage	Term Loan(1)	11.75 %	7/1/2014	4,928	4,928
IntelePeer, Inc.	Networking	Term Loan(1)	12.43 %	4/1/2012	238	238
		Term Loan(1)	12.33 %	6/1/2012	315	315
		Term Loan(1)	12.33 %	10/1/2012	729	729
Construction Software Technologies, Inc.	Software					