Horizon Technology Finance Corp
Form 497
March 19, 2012
Table of Contents

Filed pursuant to Rule 497
Registration No. 333-178516

PROSPECTUS SUPPLEMENT

(to Prospectus dated February 6, 2012)

$30,000,000

Horizon Technology Finance Corporation

7.375% Senior Notes due 2019

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

We are offering $30,000,000 in aggregate principal amount of 7.375% senior notes due 2019, (the Notes). The Notes will mature on March 15, 2019. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning on June 15, 2012. We may redeem the Notes in whole or in part at any time or from time to time on or after March 15, 2015 at the redemption prices set forth under Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

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

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

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

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

	Per Note	Total
Public offering price	100.00%	$ 30,000,000
Sales load (underwriting discounts and commissions)	3.00%	$ 900,000
Proceeds to us (before expenses)	97.00%	$ 29,100,000

In addition, the underwriters may purchase up to an additional $4,500,000 total aggregate principal amount of the Notes at the public offering price, less the sales load payable by us to cover overallotments, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total sales load paid by us will be $1,035,000 and total net proceeds, before expenses, will be $33,465,000.

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

The underwriters are offering the Notes as set forth in Underwriting. Delivery of the Notes in book-entry form through The Depository Trust Company (DTC) will be made on or about March 23, 2012.

Sole Book-running Manager

Stifel Nicolaus Weisel

Co-Lead Managers

BB&T Capital Markets **Sterne Agee**

Co-Manager

Wunderlich Securities

The date of this prospectus supplement is March 16, 2012

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

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

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

Our Company

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

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

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

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

Our Advisor

Our investment activities are managed by our Advisor and we expect to continue to benefit from our Advisor s ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage our diversified portfolio of investments. In addition to the experience gained from the years that they have worked together both at our Advisor and prior to the formation by our Advisor of the Company, the members of our investment team have broad lending backgrounds, with substantial experience at a variety of commercial finance companies, technology banks and private debt funds, and have developed a broad network of contacts within the venture capital and private equity community. This network of contacts provides a principal source of investment opportunities.

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

Our Strategy

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

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

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

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

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

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

Table of Contents

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

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

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

Market Opportunity

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

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

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

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

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

Table of Contents

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

allows portfolio companies to better match cash sources with uses.

Competitive Strengths

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

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

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

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

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

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

Our Portfolio

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

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

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

Company Information

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

Table of Contents

THE OFFERING

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

Issuer	Horizon Technology Finance Corporation, a Delaware Corporation
Title of the securities	7.375% Senior Notes due 2019
Initial aggregate principal amount being offered	$30,000,000
Overallotment option	The underwriters may also purchase from us up to an additional $4,500,000 aggregate principal amount of Notes to cover overallotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100% of the aggregate principal amount.
Listing	We intend to list the Notes on The New York Stock Exchange within 30 days of the original issue date.
Interest rate	7.375% per year
Stated maturity date	March 15, 2019, unless redeemed prior to maturity.
Interest payment dates	Each March 15, June 15, September 15, and December 15, commencing June 15, 2012. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Ranking of Notes	The Notes will be our direct unsecured obligations and will rank:
	pari passu with our future senior unsecured indebtedness;

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

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

Table of Contents

Denominations	We will issue the Notes in denominations of $25 and integral multiples of $25 in excess thereof.
Use of Proceeds	We estimate that the net proceeds from the sale of the Notes in this offering will be approximately $28,850,000 (or approximately $33,215,000 if the underwriters fully exercise their overallotment option), after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds from the sale of the Notes for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. See the Use of Proceeds section of this prospectus supplement.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after March 15, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption.
Repayment at option of Holders	Holders will not have the option to have the Notes repaid prior to the stated maturity date.
Governing Law	New York
Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
Investment Company Act covenant	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:
	We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act or any successor provisions.
	See the Description of the Notes section of this prospectus supplement for certain other covenants applicable to the Notes.

RISK FACTORS

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

the ability of our portfolio companies to achieve their objectives;

our ability to cause a subsidiary to become a licensed Small Business Investment Company (SBIC);

the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our Advisor;

our contractual arrangements and relationships with third parties;

our ability to access capital and any future financings by us;

the ability of our Advisor to attract and retain highly talented professionals; and

the impact of changes to tax legislation and, generally, our tax position.

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

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

Table of Contents

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

Table of Contents

SELECTED CONDENSED CONSOLIDATED FINANCIAL AND OTHER DATA

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

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

Table of Contents

USE OF PROCEEDS

We estimate that net proceeds we will receive from the sale of the Notes in this offering will be approximately $28,850,000 (or net proceeds of approximately $33,215,000 if the underwriters fully exercise their overallotment option), after deducting the underwriting discounts and commissions of $900,000 (or approximately $1,035,000 if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately $250,000 (including certain expenses of the underwriters that we will reimburse the underwriters for) payable by us.

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

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

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

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

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

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

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

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

Table of Contents

CAPITALIZATION

The following table sets forth:

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

- our pro forma capitalization to give effect to the sale of $30,000,000 aggregate principal amount of Notes in this offering based on the public offering price of $25 per Note, after deducting the underwriting discounts and commissions of $900,000 payable by us and estimated offering expenses of approximately $250,000 payable by us.

	As of December 31, 2011	
	Actual	Pro Forma
	(dollars in thousands)	
Cash and Investment in money market funds	$ 14,816	$ 43,666
Borrowings	64,571	64,571
Senior Notes due 2019		30,000
Total Borrowings	$ 64,571	$ 94,571
Net assets:		
Preferred stock, par value $0.001 per share; 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value $0.001 per share; 100,000,000 shares authorized, 7,636,532 shares issued and outstanding	8	8
Paid-in capital in excess of par	124,512	124,512
Distributions in excess of net investment income	4,965	4,965
Net unrealized depreciation on investments	(2,659)	(2,659)
Net realized gains on investments	3,058	3,058
Total net assets	$ 129,884	$ 129,884

Table of Contents

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

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

Overview

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

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

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

Portfolio Composition and Investment Activity

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

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

S-17

Table of Contents

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

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

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

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

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

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

Table of Contents

Loan Portfolio Asset Quality

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

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

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

Consolidated Results of Operations

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

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

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

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

Table of Contents

Investment Income

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

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

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

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

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

Expenses

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

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

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

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

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

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

Net Realized Gains and Net Unrealized Appreciation and Depreciation

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

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

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

Credit or Provision for Loan Losses

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

Current Borrowings

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

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

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

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

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

Table of Contents

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

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

Contractual Obligations and Off-Balance Sheet Arrangements

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

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

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

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

Distributions

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

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

Table of Contents

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

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

Critical Accounting Policies

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

We have identified the following items as critical accounting policies.

Valuation of Investments

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

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

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

Level 1	Quoted prices in active markets for identical assets and liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Income Recognition

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

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

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

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

Allowance for Loan Losses

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

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

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

Income taxes

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

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

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

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

Recently Issued Accounting Standards

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

Quantitative And Qualitative Disclosures About Market Risk

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

Table of Contents

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

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

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

Table of Contents

DESCRIPTION OF THE NOTES

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

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

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

General

The Notes:

- will be issued in an initial principal amount of $30,000,000 ($34,500,000 if the underwriters option to purchase Notes to cover overallotments, if any, is exercised in full);
- will mature on March 15, 2019, unless redeemed prior to maturity;
- will be issued in denominations of $25 and integral multiples of $25 in excess thereof;
- will be redeemable in whole or in part at any time or from time to time on and after March 15, 2015, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption as described under Redemption and Repayment below;
- are expected to be listed on The New York Stock Exchange within 30 days of the original issue date.

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

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

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

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

Table of Contents

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

The Notes will be issued in fully registered form only, without coupons, in minimum denominations of $25 and integral multiples thereof. The Notes will be represented by one or more global notes deposited with or on behalf of The Depository Trust Company (DTC), or a nominee thereof. Except as otherwise provided in the Indenture, the Notes will be registered in the name of tha