

Horizon Technology Finance Corp  
Form N-2  
December 15, 2011

As filed with the Securities and Exchange Commission on December 15, 2011  
Securities Act Registration No. 333-

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**Form N-2**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**Pre-Effective Amendment o**

**Post-Effective Amendment No. o**

**Horizon Technology Finance Corporation**

*(Exact name of Registrant as specified in its charter)*

**312 Farmington Avenue**

**Farmington, Connecticut 06032**

*(Address of Principal Executive Offices)*

**(860) 676-8654**

*(Registrant's Telephone Number, Including Area Code)*

**Robert D. Pomeroy, Jr.**

**Chief Executive Officer**

**Horizon Technology Finance Corporation**

**312 Farmington Avenue**

**Farmington, Connecticut 06032**

*(Name and Address of Agent for Service)*

*Copies to:*

**Stephen C. Mahon, Esq.**

**Toby D. Merchant, Esq.**

**Squire, Sanders & Dempsey (US) LLP**

**221 East Fourth Street, Suite 2900**

**Cincinnati, Ohio 45202**

**(513) 361-1200**

**(513) 361-1201 Facsimile**

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**

From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check the appropriate box)

When declared effective pursuant to section 8(c)

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Amount Being</b>	<b>Proposed Maximum</b>	<b>Proposed Maximum</b>	<b>Amount of</b>
	<b>Offering Price Per</b>	<b>Aggregate Offering</b>	

<b>Title of Securities Being Registered</b>	<b>Registered</b>	<b>Unit</b>	<b>Price(1)</b>	<b>Registration Fee(7)</b>
<b>Primary Offering:</b>				
Common Stock, \$0.001 par value per share(2)				
Preferred Stock(2)				
Subscription Rights(3)				
Debt Securities(4)				
Warrants(5)				
Units(6)				
<b>Primary Offering Total</b>			<b>\$250,000,000</b>	<b>\$28,650</b>
<b>Secondary Offering:</b>				
Common Stock, \$0.001 par value per share(2)	1,322,669	\$16.00(8)	<b>\$21,162,704</b>	<b>\$2,426</b>
<b>Secondary Offering Total</b>				<b>\$2,426</b>
<b>Total</b>				<b>\$31,076</b>

- (1) Estimated pursuant to Rule 457 solely for the purpose of calculating the registration fee. Pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.
- (2) Subject to Note 7 below, there is being registered hereunder an indeterminate amount of common stock or preferred stock as may be sold, from time to time. This includes such indeterminate number of shares of common stock as may, from time to time, be issued upon conversion or exchange of other securities registered hereunder, to the extent any such securities are, by their terms, convertible or exchangeable for common stock.
- (3) Subject to Note 7 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold from time to time, representing rights to purchase common stock.
- (4) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$250,000,000.
- (5) Subject to Note 7 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.
- (6) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of units. Each unit may consist of a combination of any one or more of the securities being registered hereunder and may also include securities issued by the U.S. Treasury.
- (7) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$271,162,704.
- (8) Pursuant to Rule 457(c) of the Securities Act of 1933, as amended, the proposed maximum aggregate offering price and the amount of the registration fee have been determined on the basis of the high and low market prices of the Company's common stock reported on the NASDAQ Global Market on December 12, 2011.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**PRELIMINARY PROSPECTUS**

**Subject to Completion, dated \_\_\_\_\_, 2011**

\$250,000,000

Horizon Technology Finance Corporation

Common Stock  
Preferred Stock  
Subscription Rights  
Debt Securities  
Warrants  
Units  
and

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

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

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

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

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

Our common stock is listed on The NASDAQ Global Market ( NASDAQ ) under the symbol HRZN. On December 13, 2011, the last reported sale price of a share of our common stock on NASDAQ was \$15.89. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was \$17.36.

**Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this public offering. See Risk Factors Risks Related to Offerings Under This Prospectus Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering on page 31 for more information.**

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

**Investing in our securities is speculative and involves numerous risks, and you could lose your entire investment if any of the risks occur. For more information regarding these risks, please see Risk Factors beginning on page 14.**

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

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

The date of this prospectus is \_\_\_\_\_, 2011

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

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## **ABOUT THIS PROSPECTUS**

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

## PROSPECTUS SUMMARY

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

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

### **Our Company**

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

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



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

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

## Our Strategy

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

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

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

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

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

*Direct Origination.* We originate transactions directly with technology, life science, healthcare information and services and cleantech companies. These transactions are referred to our Advisor from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity firms, portfolio company management teams, legal firms, accounting firms, investment banks 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 use leverage to increase returns on equity through revolving credit facilities provided by WestLB AG (the WestLB Facility ) and Wells Fargo Capital Finance, LLC (the Wells Facility and collectively with the WestLB Facility, the Credit Facilities ). See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information about the Credit Facilities.

## **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 increased level 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;

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

allows portfolio companies to better match cash sources with uses.

## **Competitive Strengths**

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

*Consistently Execute Commitments and Close Transactions.* Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and closing Venture

Loans. Our Advisor has directly originated, underwritten and managed more than 130 Venture Loans with an aggregate original principal amount over \$800 million since it commenced operations in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.

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

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

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

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

## **Our Portfolio**

Since our inception and through September 30, 2011, we have funded 65 portfolio companies and have invested \$337.9 million in loans (including 28 loans that have been repaid). As of September 30, 2011, our total investment portfolio consisted of 37 loans which totaled \$174.4 million and our net assets were \$132.4 million. Our existing loans are secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The loans in our loan portfolio generally are not rated by any rating agency. For the nine months ended September 30, 2011, our loan portfolio had a dollar-weighted average annualized yield of approximately 14.6% (excluding any yield from warrants). As of September 30, 2011, our loan portfolio had a dollar-weighted average term of approximately 38 months from inception and a dollar-weighted average remaining term of approximately 28 months. In addition, we held warrants to purchase either common stock or preferred stock in 48 portfolio companies. As of September 30, 2011, our loans had an original committed principal amount of between \$1 million and \$12 million, repayment terms of between 30 and 48 months and bore current pay interest at annual interest rates of between 10% and 14%.

## **Risk Factors**

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

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

We may not replicate the historical results achieved by us or other entities managed or sponsored by members of our Advisor or its affiliates;

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

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

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

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

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

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

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

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

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

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

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

Subsequent sales in the public market of substantial amounts of our common stock may have an adverse effect on the market price of our common stock;

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

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

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

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

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

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in debt securities that we may issue may not receive all of the interest income to which they are entitled;

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

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

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

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



Our credit ratings may not reflect all risks of an investment in any debt securities that we may issue.

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

**Company Information**

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

## OFFERINGS

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

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

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

Use of proceeds	We intend to use the net proceeds from selling our securities to make new investments in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes. We will not receive any proceeds from the sale of our common stock by the selling stockholders.
Listing	Our common stock is traded on NASDAQ under the symbol HRZN.
Dividends and Distributions	We pay quarterly dividends to our stockholders out of assets legally available for distribution. Our dividends, if any, will be determined by our Board. Our ability to declare dividends depends on our earnings, our overall financial condition (including our liquidity position), maintenance of RIC status and such other factors as our Board may deem relevant from time to time.
Taxation	We have elected to be treated as a RIC. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.
Leverage	We borrow funds to make additional investments. We use this practice, which is known as leverage, to attempt to increase returns to our

stockholders, but it involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

Trading at a Discount

Shares of closed-end investment companies frequently trade at a discount to their net asset value. This risk is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade above, at or below net asset value.

Dividend Reinvestment Plan

We have a dividend reinvestment plan for our stockholders. The dividend reinvestment plan is an opt out dividend reinvestment plan. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.

Sales of Common Stock Below Net Asset Value

In the event we offer common stock or warrants or rights to acquire such common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with the exercise of certain warrants, options or rights whose issuance has been approved by our stockholders at an exercise or conversion price not less than the market value of our common stock at the date of issuance (or, if no such market value exists, the net asset value per share of our common stock as of such date); (2) to the extent such an offer or sale is approved by a majority of our stockholders and our Board; or (3) under such other circumstances as may be permitted under the 1940 Act or by the SEC. For purposes of (2) above, a majority of outstanding securities is defined in the 1940 Act as (i) 67% or more of the voting securities present at a stockholders' meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (ii) 50% of the outstanding voting securities of the Company, whichever is less.

Certain Anti-Takeover Provisions

Our certificate of incorporation and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See Description of Common Stock That We May Issue.

Investment Management Agreement

We have entered into an investment management agreement (the Investment Management Agreement) with our Advisor, under which our Advisor, subject to the overall supervision of our Board, manages our day-to-day operations and provides investment advisory services to us. For providing these services, our Advisor receives a base management fee from us, paid monthly in arrears, at an annual rate of 2% of our gross assets, including any assets acquired with the proceeds of leverage. The Investment Management Agreement also provides that our Advisor or its affiliates may be entitled to an incentive fee under certain circumstances. The incentive fee has two parts, which are independent of each other, with the result that one part may be payable even if the other is not. Under the first part, we will pay our Advisor each quarter 20% of the amount by

which our accrued net income for the quarter after expenses and excluding the effect of any realized capital gains and losses and any unrealized

appreciation and depreciation for the quarter exceeds 1.75% (which is 7% annualized) of our average net assets at the end of the immediately preceding calendar quarter, subject to a catch-up feature. Under the second part of the incentive fee, we will pay our Advisor at the end of each calendar year 20% of our realized capital gains from inception through the end of that year, computed net of all realized capital losses and all unrealized depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is not subject to any minimum return to stockholders. The Investment Management Agreement may be terminated by either party without penalty by delivering written notice to the other party upon not more than 60 days written notice. See Investment Management and Administration Agreements Investment Management Agreement.

#### Administration Agreement

We reimburse our Administrator for the allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under an administration agreement (the Administration Agreement ), including furnishing rent, the fees and expenses associated with performing compliance functions and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and chief financial officer and their respective staffs. See Investment Management and Administration Agreements Administration Agreement.

#### Available Information

We are required to file periodic reports, current reports, proxy statements and other information with the SEC. This information is available on the SEC's website at [www.sec.gov](http://www.sec.gov). You can also inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You may also obtain such information by contacting us at 312 Farmington Avenue, Farmington, Connecticut 06032 or by calling us at (860) 676-8654. We intend to provide much of the same information on our website at [www.horizontechnologyfinancecorp.com](http://www.horizontechnologyfinancecorp.com). Information contained on our website is not part of this prospectus or any prospectus supplement and should not be relied upon as such.

## FEES AND EXPENSES

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

### Stockholder Transaction Expenses

Sales Load (as a percentage of offering price)	%(1)
Offering Expenses (as a percentage of offering price)	%(2)
Dividend Reinvestment Plan Fees	None(3)

**Total Stockholder Transaction Expenses (as a percentage of offering price)** %

### Annual Expenses (as a Percentage of Net Assets Attributable to Common Stock)

Base Management Fee	3.30%(4)
Incentive Fees Payable Under the Investment Management Agreement	2.15%(5)
Interest Payments on Borrowed Funds	2.12%(6)
Other Expenses (estimated)	1.81%(7)

**Total Annual Expenses (estimated)** 9.38%(4)(8)

- (1) In the event that securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) In the event that we conduct an offering of any of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses because they will be ultimately borne by us.
- (3) The expenses of the dividend reinvestment plan are included in Other Expenses in the table. See Dividend Reinvestment Plan.
- (4) Our base management fee under the Investment Management Agreement is based on our gross assets, which includes assets acquired using leverage, and is payable monthly in arrears. The management fee referenced in the table above assumes the base management fee remains consistent with fees incurred for the three months ended September 30, 2011. See Investment Management and Administration Agreements Investment Management Agreement.
- (5) Our incentive fee payable under the Investment Management Agreement consists of two parts:

The first part, which is payable quarterly in arrears, equals 20% of the excess, if any, of our Pre-Incentive Fee Net Investment Income over a 1.75% quarterly (7% annualized) hurdle rate and a catch-up provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our Advisor receives no incentive fee until our net investment income equals the hurdle rate of 1.75% but then receives, as a catch-up, 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875%. The effect of this provision is that, if Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, our Advisor will receive 20%

of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply. The first part of the incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash.

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

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

- (6) We will continue to borrow funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. The costs associated with our outstanding borrowings are indirectly borne by our investors. For purposes of this section, we have computed the interest expense using the balance outstanding at September 30, 2011. We used the LIBOR rate on September 30, 2011 and the interest rates on the Credit Facilities. We have also included the estimated amortization of fees incurred in establishing the Credit Facilities. At September 30, 2011, we had approximately \$66 million outstanding under the WestLB Facility and approximately \$16 million



outstanding under the Wells Facility. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act.

- (7) Includes our overhead expenses, including payments under the Administration Agreement, based on our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement. See Investment Management and Administration Agreements Administration Agreement. Other Expenses are based on estimated amounts to be incurred on an annual basis.
- (8) Total Annual Expenses as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the Total Annual Expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness and after taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been funded with borrowed monies.

**Example**

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 179	\$ 337	\$ 480	\$ 780

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

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

**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

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

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

Net increase in net assets per common share						
Per share dividend declared	\$ 0.73	N/A	\$ 0.22	N/A	N/A	N/A
Dollar amount of dividends declared	\$ 5,551	N/A	\$ 1,662	N/A	N/A	N/A
Weighted average common shares	7,604,345	N/A	7,555,722	N/A	N/A	N/A

**September 30, 2011    September 30, 2010    December 31, 2010    December 31, 2009    December 31, 2008**  
(Dollar amounts in thousands, except per share data)

**Balance sheet data at period end:**

Investments	\$ 180,186	\$ 137,818	\$ 136,810	\$ 111,954	\$ 92,174
Cash and cash equivalents	32,598	19,219	76,793	9,892	20,024
Other assets	4,087	2,899	2,602	3,022	3,017
Total assets	216,871	159,936	216,205	124,868	115,215
Total liabilities	84,492	89,870	89,010	65,375	65,430
Total net assets	132,379	70,065	127,195	59,493	49,785

**SELECTED QUARTERLY FINANCIAL DATA (Unaudited)**

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

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

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

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

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

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

(3)

For periods prior to October 29, 2010, the Company did not have common shares outstanding or an equivalent and, therefore, cannot calculate earnings per share and net asset value per share.

## **RISK FACTORS**

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

### **Risks Relating to Our Business and Structure**

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

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

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

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

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

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

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

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

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

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

Leverage is generally considered a speculative investment technique, and we intend to continue to borrow money as part of our business plan. The use of leverage magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in us. We borrow from and issue senior debt securities to banks and other lenders. Such senior debt securities include those under the Credit Facilities. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources. Lenders of senior debt securities have fixed dollar claims on our assets that are superior to the claims of our common stockholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. However, any decrease in our income would cause net income to decline more sharply than it would have had we not leveraged. This decline could adversely affect our



ability to make common stock dividend payments. In addition, because our investments may be illiquid, we may be unable to dispose of them, or unable to do so at a favorable price in the event we need to do so, if we are unable to refinance any indebtedness upon maturity, and, as a result, we may suffer losses.

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

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

	<b>Assumed Return on Our Portfolio (Net of Expenses)</b>				
	<b>-10%</b>	<b>-5%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
Corresponding return to stockholder <sup>(1)</sup>	-18.50%	-10.28%	-2.06%	6.16%	14.38%

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

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

***If we are unable to comply with the covenants or restrictions in our Credit Facilities, our business could be materially adversely affected.***

Horizon Credit I LLC ( "Credit I" ) is wholly owned by us through our wholly-owned subsidiary, Compass Horizon, and is party to our WestLB Facility. Our wholly-owned subsidiary, Horizon Credit II LLC ( "Credit II" ) is party to our Wells Facility. The Credit Facilities include covenants that, among other things, restrict the ability of Credit I and Credit II to make loans to, or investments in, third parties (other than Venture Loans and warrants or other equity participation rights), pay dividends and distributions, incur additional indebtedness and engage in mergers or consolidations. The Credit Facilities also restrict the ability of Credit I and Credit II to create liens on the collateral securing the Credit Facilities, permit additional negative pledges on such collateral and change the business currently conducted by them. The Credit Facilities also include provisions that restrict a change of control of Credit I or Credit II, and the Wells Facility makes the acquisition of 20% or more of the beneficial ownership of the Company by any person or group of persons (as defined in the Securities Exchange Act of 1934 as amended) an event of default. For this purpose a change of control generally means a merger or other consolidation, a liquidation, a sale of all or substantially all of our assets, or a transaction in which any person or group acquires more than 50% of our shares. In addition, the Credit Facilities also require Credit I, Credit II and our Advisor to comply with various financial covenants, including, among other covenants, maintenance by our Advisor of a minimum tangible net worth and limitations on the value of, and modifications to, the loan collateral that secures the Credit Facilities. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. Complying with these restrictions may prevent us from taking actions that we believe would help us to grow our business or are otherwise consistent with our investment objective. These restrictions could also limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities or could result in our failing to qualify