

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

## Form N-2

## REGISTRATION STATEMENT

## UNDER

## THE SECURITIES ACT OF 1933

Pre-Effective Amendment Post-Effective Amendment No. 

## 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

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(7)
<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>			\$250,000,000	\$28,650
<b>Secondary Offering:</b>				
Common Stock, \$0.001 par value per share(2)	1,322,669	\$16.00(8)	\$21,162,704	\$2,426
<b>Secondary Offering Total</b>				\$2,426
<b>Total</b>				\$31,076

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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

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.

## TABLE OF CONTENTS

	<u>Page</u>
About this Prospectus	1
Prospectus Summary	2
Offerings	7
Fees and Expenses	10
Selected Consolidated Financial and Other Data	12
Risk Factors	14
Cautionary Note Regarding Forward-Looking Statements	35
Use of Proceeds	36
Price Range of Common Stock and Distributions	37
Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Senior Securities	53
Business	54
Portfolio Companies	64
Management	70
Certain Relationships and Related Transactions	78
Our Advisor	79
Investment Management and Administration Agreements	80
Control Persons and Principal Stockholders	87
Determination of Net Asset Value	89
Dividend Reinvestment Plan	91
Description of Securities That We May Issue	93
Description of Common Stock That We May Issue	94
Description of Preferred Stock That We May Issue	99
Description of Subscription Rights That We May Issue	100
Description of Debt Securities That We May Issue	101
Description of Warrants That We May Issue	102
Description of Units That We May Issue	104
Shares Eligible for Future Sale	105
Selling Stockholders	106
Regulation	108
Brokerage Allocations and Other Practices	113
Plan of Distribution	114
Material U.S. Federal Income Tax Considerations	117
Custodian, Transfer Agent, Dividend Paying Agent and Registrar	125
Legal Matters	125
Independent Registered Public Accounting Firm	125
Where You Can Find More Information	125
Index to Consolidated Financial Statements	F-1

---

## **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 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;
- 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](http://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.

<b>Stockholder Transaction Expenses</b>	
Sales Load (as a percentage of offering price)	%(1)
Offering Expenses (as a percentage of offering price)	%(2)
Dividend Reinvestment Plan Fees	<u>None</u> (3)
<b>Total Stockholder Transaction Expenses (as a percentage of offering price)</b>	<u><u>%</u></u>
<b>Annual Expenses (as a Percentage of Net Assets Attributable to Common Stock)</b>	
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)	<u>1.81%</u> (7)
<b>Total Annual Expenses (estimated)</b>	<u><u>9.38%</u></u> (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.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
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.

	Post-IPO as a Business Development Company Nine Months Ended September 30, 2011	Pre-IPO Prior to becoming a Business Development Company Nine Months Ended September 30, 2010	Post-IPO as a Business Development Company 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
(Dollar amounts in thousands, except per share data)						
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
Net increase in net assets per common share	\$ 1.34	N/A	\$ 0.45	N/A	N/A	N/A
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)						
<b>Balance sheet data at period end:</b>						
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.

	2011		
	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)		
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

	2010			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
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

	2009			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
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(1)	-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 as a RIC and thus become subject to corporate-level income tax. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for additional information regarding our credit arrangements.

The breach of certain of the covenants or restrictions unless cured within the applicable grace period would result in a default under the Credit Facilities that would permit the applicable lender to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness and the lender may exercise rights available to it under the security interest granted in the assets of Credit I or Credit II, as applicable, including, to the extent permitted under applicable law, the seizure of such assets without adjudication. As a result, any default could have serious consequences to our financial condition. An event of

default or acceleration under the Credit Facilities could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to the Credit Facilities if for any reason we are unable to comply with it, and we may not be able to refinance the Credit Facilities on terms acceptable to us, or at all.

***The impact of recent financial reform legislation on us is uncertain.***

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act institutes a wide range of reforms that will have an impact on all financial institutions. Many of these provisions are subject to rule making procedures and studies that will be conducted in the future. Accordingly, we cannot predict the effect it or its implementing regulations will have on our business, results of operations or financial condition.

***Because we distribute all or substantially all of our income and any realized net short-term capital gains over realized net long-term capital losses to our stockholders, we will need additional capital to finance our growth, if any. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.***

To satisfy the requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of corporate-level federal income taxes, we intend to distribute to our stockholders all or substantially all of our net ordinary income and realized net short-term capital gains over realized net long-term capital losses except that we may retain certain net long-term capital gains, pay applicable income taxes with respect thereto, and elect to treat such retained capital gains as deemed distributions to our stockholders. As a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we continue to need capital to grow our loan and investment portfolio, this limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are limited in our ability to issue equity securities priced below net asset value. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

***If we are unable to obtain additional debt financing, our business could be materially adversely affected.***

We may want to obtain additional debt financing, or need to do so upon maturity of the Credit Facilities, in order to obtain funds which may be made available for investments. We currently may not request new advances under the WestLB Facility and we must repay the outstanding advances under the WestLB Facility 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 not exceed 75% of the aggregate principal balance of Credit I's eligible loans to its portfolio companies. We may request new advances under the Wells Facility until July 14, 2014, and, after such date, we must repay the outstanding advances under the Wells Facility as of such date at such times and in such amounts as are necessary to maintain compliance with the terms and conditions of the Wells Facility, particularly the condition that the principal balance of the Wells Facility not exceed 50% of the aggregate principal balance of Credit II's eligible loans to its portfolio companies. All outstanding advances under the WestLB Facility are due and payable on March 4, 2015, unless such date is extended upon Credit I's request and upon mutual agreement of WestLB and Credit I. All outstanding advances under the Wells Facility are due and payable on July 14, 2017, unless such date is extended upon Credit II's request and upon mutual agreement of Wells and Credit II. If we are unable to increase, renew or replace any such facility and enter into a new debt financing facility on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such facilities and are declared in default or are unable to renew or refinance these facilities, we may not be able to make new investments or operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as lack of access to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an

operational problem that affects third parties or us, and could materially damage our business. Moreover, we have withdrawn our application to the Small Business Administration (“SBA”) for a license to operate as a small business investment company (“SBIC”), which was originally filed on December 6, 2010, and, though we may in the future submit a new application, we have no present intention to do so and, therefore, do not expect to be able to access liquidity by issuing SBA-guaranteed debentures.

***Changes in interest rates may affect our cost of capital and net investment income.***

Because we currently incur indebtedness to fund our investments, a portion of our income depends upon the difference between the interest rate at which we borrow funds and the interest rate at which we invest these funds. Most of our investments have fixed interest rates, while our borrowings have floating interest rates. As a result, a significant change in interest rates could have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds could increase, which would reduce our net investment income. We may hedge against interest rate fluctuations by using hedging instruments such as swaps, futures, options and forward contracts, subject to applicable legal requirements, including, without limitation, all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission. These activities may limit our ability to benefit from lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions or any adverse developments from our use of hedging instruments could have a material adverse effect on our business, financial condition and results of operations. In addition, we may be unable to enter into appropriate hedging transactions when desired and any hedging transactions we enter into may not be effective.

***Because many of our investments typically are not and will not be in publicly traded securities, the value of our investments may not be readily determinable, which could adversely affect the determination of our net asset value.***

Our investments consist, and we expect our future investments to consist, primarily of loans or securities issued by privately held companies. The fair value of these investments that are not publicly traded may not be readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. We value these investments on a quarterly basis, or more frequently as circumstances require, in accordance with our valuation policy consistent with generally accepted accounting principles. Our Board employs an independent third-party valuation firm to assist them in arriving at the fair value of our investments. Our Board discusses valuations and determines the fair value in good faith based on the input of our Advisor and the third-party valuation firm. The factors that may be considered in fair value pricing our investments include the nature and realizable value of any collateral, the portfolio company’s earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments are materially higher than the values that we ultimately realize upon the disposal of these investments.

***Disruption in the capital markets and the credit markets could adversely affect our business.***

Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new investment opportunities. The global capital markets are in a period of disruption and extreme volatility and, accordingly, there has been and will continue to be uncertainty in the financial markets in general. Ongoing disruptive conditions in the financial industry could restrict our business operations and could adversely impact our results of operations and financial condition. We are unable to predict when economic and market conditions may become more favorable. Even if these conditions improve significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

***We may not realize gains from our equity investments.***

We may make non-control, equity co-investments in companies in conjunction with private equity sponsors. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, refinancing or public offering, which would allow us to sell the underlying equity interests. In addition, our Advisor's significant experience in Venture Lending may not result in returns on our equity investments.

From time to time we may also acquire equity participation rights in connection with an investment which will allow us, at our option, to participate in future rounds of equity financing through direct capital investments in our portfolio companies. Our Advisor determines whether to exercise any of these rights. Accordingly, you will have no control over whether or to what extent these rights are exercised, if at all. If we exercise these rights, we will be making an additional investment completely in the form of equity which will subject us to significantly more risk than our Venture Loans and we may not receive the returns that are anticipated with respect to these investments.

***We may not realize expected returns on warrants received in connection with our debt investments.***

As discussed above, we generally receive warrants in connection with our debt investments. If we do not receive the returns that are anticipated on the warrants, our investment returns on our portfolio companies, and the value of your investment in us, may be lower than expected.

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

Our business plan contemplates a need for a substantial amount of capital in addition to our current amount of capital. We may obtain additional capital through the issuance of debt securities, other indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. If we issue senior securities, we would be exposed to typical risks associated with leverage, including an increased risk of loss. In addition, if we issue preferred stock, it would rank senior to common stock in our capital structure and preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock.

The 1940 Act permits us to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If our asset coverage ratio is not at least 200%, we are not permitted to pay dividends or issue additional senior securities. If the value of our assets declines, we may be unable to satisfy this asset coverage test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when we may be unable to do so or unable to do so on favorable terms. See Note 6 to Consolidated Financial Statements for additional information regarding borrowings.

As a BDC, we generally are not able to issue our common stock at a price below net asset value without first obtaining the approval of our stockholders and our independent directors. This requirement does not apply to stock issued upon the exercise of options, warrants or rights that we may issue from time to time. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

***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.***

To qualify as a RIC under the Code, we must meet certain source-of-income, diversification and other requirements contained in Subchapter M of the Code and maintain our election to be regulated as a BDC under the 1940 Act. We must also meet the Annual Distribution Requirement, as defined in "Material U.S. Federal Income Tax Considerations" to avoid corporate-level federal income tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders.

The source-of-income requirement is satisfied if we derive in each taxable year at least 90% of our gross income from dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, other income (including but not limited to gain from options, futures or forward contracts) derived with respect to our business of investing in stock, securities or currencies, or net income derived from an interest in a “qualified publicly traded partnership.” The status of certain forms of income we receive could be subject to different interpretations under the Code and might be characterized as non-qualifying income that could cause us to fail to qualify as a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may cause us to be subject to corporate-level federal income taxes.

The Annual Distribution Requirement for a RIC is satisfied if we distribute to our stockholders on an annual basis an amount equal to 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. If we borrow money, we may be subject to certain asset coverage ratio requirements under the 1940 Act and loan covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may be subject to corporate-level income tax.

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (i) dispose of certain investments quickly; (ii) raise additional capital to prevent the loss of RIC status; or (iii) engage in certain remedial actions that may entail the disposition of certain investments at disadvantageous prices that could result in substantial losses, and the payment of penalties, if we qualify to take such actions. Because most of our investments are and will be in development-stage companies within our Target Industries, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we raise additional capital to satisfy the asset diversification requirements, it could take a longer time to invest such capital. During this period, we will invest in temporary investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of our investments in secured and amortizing loans.

If we were to fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level federal income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. In addition, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC. See “Regulation.”

***We may have difficulty paying our required distributions if we recognize taxable income before or without receiving cash.***

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt instruments that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in taxable income each year a portion of the original issue discount that accrues over the life of the debt instrument, regardless of whether cash representing such income is received by us in the same taxable year. Because in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the requirement that we distribute an amount equal to at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized long-term capital losses, if any.

Accordingly, we may need to sell some of our assets at times that we would not consider advantageous, raise additional debt or equity capital or forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take actions that we believe are necessary or advantageous to our business) in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other

sources to satisfy the Annual Distribution Requirement, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level federal income tax on all our income.

***If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.***

As a BDC, we are prohibited from acquiring any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Substantially all of our assets are qualifying assets and we expect that substantially all assets that we may acquire in the future will be qualifying assets, although we may decide to make other investments that are not qualifying assets to the extent permitted by the 1940 Act. If we acquire debt or equity securities from an issuer that has outstanding marginable securities at the time we make an investment, these acquired assets may not be treated as qualifying assets. This result is dictated by the definition of “eligible portfolio company” under the 1940 Act, which in part looks to whether a company has outstanding marginable securities. See “Regulation — Qualifying Assets.” If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC, which would have a material adverse effect on our business, financial condition and results of operations.

***Changes in laws or regulations governing our business could adversely affect our business, results of operations and financial condition.***

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations, our cost of doing business and our investment strategy. We are subject to federal, state and local laws and regulations and judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, portfolio composition and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements, we may incur significant expenses to comply with these laws, regulations or decisions or we might have to restrict our operations or alter our investment strategy. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

***Our Advisor has significant potential conflicts of interest with us and our stockholders.***

As a result of our arrangements with our Advisor, there may be times when our Advisor has interests that differ from those of our stockholders, giving rise to a potential conflict of interest. Our executive officers and directors, as well as the current and future executives and employees of our Advisor, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of our stockholders. In addition, our Advisor may manage other funds in the future that may have investment objectives that are similar, in whole or in part, to ours. Our Advisor may determine that an investment is appropriate for us and for one or more of those other funds. In such an event, depending on the availability of the investment and other appropriate factors, our Advisor will endeavor to allocate investment opportunities in a fair and equitable manner. It is also possible that we may not be given the opportunity to participate in these other investment opportunities.

We pay management and incentive fees to our Advisor and reimburse our Advisor for certain expenses it incurs. As a result, investors in our common stock invest on a “gross” basis and receive distributions on a “net” basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Also, the incentive fee payable by us to our Advisor may create an incentive for our Advisor to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangements.

We have entered into a license agreement with Horizon Technology Finance, LLC, pursuant to which it has agreed to grant us a non-exclusive, royalty-free right and license to use the service mark “Horizon Technology Finance.” Under this agreement, we have a right to use the “Horizon Technology Finance” service mark for so long as the Investment Management Agreement is in effect between us and our Advisor. In addition, we pay our Advisor



our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our chief financial officer and any administrative support staff. Any potential conflict of interest arising as a result of our arrangements with our Advisor could have a material adverse effect on our business, results of operations and financial condition.

***Our incentive fee may impact our Advisor's structuring of our investments, including by causing our Advisor to pursue speculative investments.***

The incentive fee payable by us to our Advisor may create an incentive for our Advisor to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Advisor is calculated based on a percentage of our return on invested capital. This may encourage our Advisor to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of our common stock. In addition, our Advisor receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, our Advisor may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income-producing securities. Such a practice could result in our investing in more speculative investments than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. In addition, the incentive fee may encourage our Advisor to pursue different types of investments or structure investments in ways that are more likely to result in warrant gains or gains on equity investments, including upon exercise of equity participation rights, which are inconsistent with our investment strategy and disciplined underwriting process.

The incentive fee payable by us to our Advisor may also induce our Advisor to pursue investments on our behalf that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our stockholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash. In addition, the "catch-up" portion of the incentive fee may encourage our Advisor to accelerate or defer interest payable by portfolio companies from one calendar quarter to another, potentially resulting in fluctuations in the timing and amounts of dividends. Our governing documents do not limit the number of loans we may make with deferred interest features or the proportion of our income we derive from such loans.

***Our Advisor's liability is limited, and we have agreed to indemnify our Advisor against certain liabilities, which may lead our Advisor to act in a riskier manner on our behalf than it would when acting for its own account.***

Under the Investment Management Agreement, our Advisor does not assume any responsibility to us other than to render the services called for under that agreement, and it is not responsible for any action of our Board in following or declining to follow our Advisor's advice or recommendations. Under the terms of the Investment Management Agreement, our Advisor, its officers, members, personnel and any person controlling or controlled by our Advisor is not liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Management Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of our Advisor's duties under the Investment Management Agreement. In addition, we have agreed to indemnify our Advisor and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Management Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Management Agreement. These protections may lead our Advisor to act in a riskier manner when acting on our behalf than it would when acting for its own account.

***If we are unable to manage our future growth effectively, we may be unable to achieve our investment objective, which could adversely affect our business, results of operations and financial condition and cause the value of your investment in us to decline.***

Our ability to achieve our investment objective depends on our ability to achieve and sustain growth, which depends, in turn, on our Advisor's direct origination capabilities and disciplined underwriting process in identifying, evaluating, financing, investing in and monitoring suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our Advisor's marketing capabilities, management of the investment process, ability to provide efficient services and access to financing sources on acceptable terms. In addition to monitoring the performance of our existing investments, our Advisor may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow the rate of investment. If we fail to manage our future growth effectively, our business, results of operations and financial condition could be materially adversely affected and the value of your investment in us could decrease.

***Our Board may change our operating policies and strategies, including our investment objective, without prior notice or stockholder approval, the effects of which may adversely affect our business.***

Our Board may modify or waive our current operating policies and strategies, including our investment objective, without prior notice and without stockholder approval (provided that no such modification or waiver may change the nature of our business so as to cease to be, or withdraw our election as, a BDC as provided by the 1940 Act without stockholder approval at a special meeting called upon written notice of not less than ten or more than sixty days before the date of such meeting). We cannot predict the effect any changes to our current operating policies and strategies would have on our business, results of operations or financial condition or on the value of our stock. However, the effects of any changes might adversely affect our business, any or all of which could negatively impact our ability to pay dividends or cause you to lose all or part of your investment in us.

***Our quarterly and annual operating results may fluctuate due to the nature of our business.***

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including: our ability to make investments in companies that meet our investment criteria; the interest rate payable on our loans; the default rate on these investments; the level of our expenses, variations in, and the timing of, the recognition of realized and unrealized gains or losses; and the degree to which we encounter competition in our markets and general economic conditions. For example, we have historically experienced greater investment activity during the second and fourth quarters relative to other periods. As a result of these factors, you should not rely on the results for any prior period as being indicative of our performance in future periods.

***Our business plan and growth strategy depends to a significant extent upon our Advisor's referral relationships. If our Advisor is unable to develop new or maintain existing relationships, or if these relationships fail to generate investment opportunities, our business could be materially adversely affected.***

We have historically depended on our Advisor's referral relationships to generate investment opportunities. For us to achieve our future business objectives, members of our Advisor need to maintain these relationships with venture capital and private equity firms and management teams and legal firms, accounting firms, investment banks and other lenders, and we rely to a significant extent upon these relationships to provide us with investment opportunities. If they fail to maintain their existing relationships or develop new relationships with other firms or sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, persons with whom our Advisor has relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will lead to the origination of debt or other investments.

***Our Advisor can resign on 60 days' notice and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, results of operations or financial condition.***

Under the Investment Management Agreement, our Advisor has the right to resign at any time, including during the first two years following the Investment Management Agreement's effective date, upon not more than 60 days' written notice, whether we have found a replacement or not. If our Advisor resigns, we may not be able to

find a new investment advisor or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so, our operations are likely to be disrupted, our business, results of operations and financial condition and our ability to pay distributions may be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of new management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, results of operations or financial condition.

***Our ability to enter into transactions with our affiliates is restricted.***

As a BDC, we are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is considered our affiliate for purposes of the 1940 Act. We are generally prohibited from buying or selling any security from or to an affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to that person or certain of that person’s affiliates, or entering into prohibited joint transactions with those persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

***We incur significant costs as a result of being a publicly traded company.***

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 (the “Sarbanes Oxley Act”), and other rules implemented by the SEC.

***Efforts to comply with Section 404 of the Sarbanes-Oxley Act may involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our common stock.***

Under current SEC rules, we are required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and related rules and regulations of the SEC. As a result, we incur additional expenses that may negatively impact our financial performance and our ability to make distributions. This process also results in a diversion of management’s time and attention. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations, and we may not be able to ensure that the process is effective or that our internal control over financial reporting is or will be effective in a timely manner. In the event that we are unable to maintain or achieve compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

***Terrorist attacks and other catastrophic events may disrupt the businesses in which we invest and harm our operations and our profitability.***

Terrorist attacks and threats, escalation of military activity or acts of war may significantly harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or United States businesses. Such attacks or armed conflicts in the United States or elsewhere may impact the businesses in which we invest directly or indirectly, by undermining economic conditions in the United States or elsewhere. In addition, because many of our portfolio companies operate and rely on network infrastructure and enterprise applications and internal technology systems for development, marketing, operational, support and other business activities, a disruption or failure of any or all of these systems in the event of a major telecommunications failure, cyber-attack, fire, earthquake, severe weather conditions or other catastrophic event

could cause system interruptions, delays in product development and loss of critical data and could otherwise disrupt their business operations. Losses resulting from terrorist attacks are generally uninsurable.

#### **Risks Related to our Investments**

***We have not yet identified many of the potential investment opportunities for our portfolio.***

We have not yet identified many of the potential investment opportunities for our portfolio. Our future investments will be selected by our Advisor, subject to the approval of its investment committee. Our stockholders do not have input into our Advisor's investment decisions. As a result, our stockholders are unable to evaluate any of our future portfolio company investments. These factors increase the uncertainty, and thus the risk, of investing in our securities.

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on stake holdings in investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

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

We intend to make distributions of income on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. See "Regulation." Also, restrictions and provisions in any existing or future credit facilities may limit our ability to make distributions. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including failure to obtain, or possible loss of, the federal income tax benefits allowable to RICs.

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

Our portfolio companies typically require substantial additional financing to satisfy their continuing working capital and other capital requirements and service the interest and principal payments on our investments. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. Each round of institutional equity financing is typically intended to provide a company with only enough capital to reach the next stage of development. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms that are unfavorable to the portfolio company, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or lenders, thereby requiring these companies to cease or curtail business operations. Accordingly, investing in these types of companies generally entails a higher risk of loss than investing in companies that do not have significant incremental capital raising requirements.

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

General economic conditions may affect our activities and the operation and value of our portfolio companies. Economic slowdowns or recessions may result in a decrease of institutional equity investment, which would limit our lending opportunities. Furthermore, many of our portfolio companies may be susceptible to economic

slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions could also increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the loans that we hold. We may incur expenses to the extent necessary to recover our investment upon default or to negotiate new terms with a defaulting portfolio company. These events could harm our financial condition and operating results.

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

We intend to invest, under normal circumstances, most of the value of our total assets (including the amount of any borrowings for investment purposes) in development-stage companies, which may have relatively limited operating histories, in our Target Industries. Many of these companies may have narrow product lines and small market shares, compared to larger established publicly-owned firms, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. The revenues, income (or losses) and valuations of development-stage companies in our Target Industries can and often do fluctuate suddenly and dramatically. For these reasons, investments in our portfolio companies, if rated by one or more ratings agency, would typically be rated below "investment grade," which refers to securities rated by ratings agencies below the four highest rating categories. These companies may also have more limited access to capital and higher funding costs. In addition, development-stage technology markets are generally characterized by abrupt business cycles and intense competition, and the competitive environment can change abruptly due to rapidly evolving technology. Therefore, our portfolio companies may face considerably more risk than companies in other industry sectors. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us and may materially adversely affect the return on, or the recovery of, our investments in these businesses.

Because of rapid technological change, the average selling prices of products and some services provided by development-stage companies in our Target Industries have historically decreased over their productive lives. These decreases could adversely affect their operating results and cash flow, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect our business, financial condition and results of operations.

***Any unrealized depreciation we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a BDC, we are required to carry our investments at fair value which shall be the market value of our investments or, if no market value is ascertainable, at the fair value as determined in good faith pursuant to procedures approved by our Board in accordance with our valuation policy. We are not permitted to maintain a reserve for loan losses. Decreases in the fair values of our investments are recorded as unrealized depreciation. Any unrealized depreciation in our loan portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately reduces our income available for distribution in future periods.

***If the assets securing the loans we make decrease in value, we may not have sufficient collateral to cover losses and may experience losses upon foreclosure.***

We believe our portfolio companies generally are and will be able to repay our loans from their available capital, from future capital-raising transactions or from cash flow from operations. However, to mitigate our credit

risks, we typically take a security interest in all or a portion of the assets of our portfolio companies, including the equity interests of their subsidiaries. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to appraise or sell in a timely manner and may fluctuate in value based upon the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration of a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration of the value of the collateral for the loan. Consequently, although such loan is secured, we may not receive principal and interest payments according to the loan's terms and the value of the collateral may not be sufficient to recover our investment should we be forced to enforce our remedies.

In addition, because we invest in development-stage companies in our Target Industries, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory, equipment, cash and accounts receivables. Intellectual property, if any, which secures a loan, could lose value if the company's rights to the intellectual property are challenged or if the company's license to the intellectual property is revoked or expires. In addition, in lieu of a security interest in a portfolio company's intellectual property, we may sometimes obtain a security interest in all assets of the portfolio company other than intellectual property and also obtain a commitment by the portfolio company not to grant liens to any other creditor on the company's intellectual property. In these cases, we may have additional difficulty recovering our principal in the event of a foreclosure. Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure.

***We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.***

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. These events could harm our financial condition and operating results.

***The lack of liquidity in our investments may adversely affect our business, and if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.***

We plan to generally invest in loans with terms of up to four years and hold such investments until maturity, unless earlier prepaid, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We expect to primarily invest in companies whose securities are not publicly-traded, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. We may also face other restrictions on our ability to liquidate an investment in a public portfolio company to the extent that we possess material non-public information regarding the portfolio company. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to dispose of our investments in the near term. However, we may be required to do so in order to maintain our qualification as a BDC and as a RIC if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. Because most of our investments are illiquid, we may be unable to dispose of them, in which case we could fail to qualify as a RIC and/or BDC, or we may not be able to dispose of them at favorable prices, and as a result, we may suffer losses.

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

We plan to invest primarily in loans issued by our portfolio companies. Some of our portfolio companies are permitted to have other debt that ranks equally with, or senior to, our loans in the portfolio company. By their terms, these debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of our loans. These debt instruments may prohibit the portfolio companies from paying interest on or repaying our investments in the event of, and during, the continuance of a default under the debt instruments. In addition, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any payment in respect of our investment. After repaying senior creditors, a portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with our loans, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy.

***There may be circumstances where our loans could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Even though certain of our investments are structured as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a portfolio company's business, including in rendering significant managerial assistance, or instances where we exercise control over the portfolio company.

***An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.***

We currently invest, and plan to invest, primarily in privately held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our Advisor to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies frequently have less diverse product lines and a smaller market presence than larger competitors. Thus, they are generally more vulnerable to economic downturns and may experience substantial variations in operating results. These factors could affect our investment returns.

In addition, our success depends, in large part, upon the abilities of the key management personnel of our portfolio companies, who are responsible for the day-to-day operations of our portfolio companies. Competition for qualified personnel is intense at any stage of a company's development. The loss of one or more key managers can hinder or delay a company's implementation of its business plan and harm its financial condition. Our portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively affect our investment returns.

***Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.***

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. For example, most of our debt investments have historically been repaid prior to maturity by our portfolio companies. At the time of a liquidity event, such as a sale of the business, refinancing or public offering, many of our portfolio companies have availed themselves of the opportunity to repay our loans prior to maturity. Our investments generally allow for repayment at any time subject to certain penalties. When this occurs, we generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments have substantially lower yields than the debt being prepaid, and we could experience significant delays in

reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

***Our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting the industries in which our portfolio companies operate change.***

Some of our portfolio companies operate in industries that are highly regulated by federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns.

***Our portfolio companies operating in the life science industry are subject to extensive government regulation and certain other risks particular to that industry.***

As part of our investment strategy, we have invested, and plan to invest in the future, in companies in the life science industry that are subject to extensive regulation by the Food and Drug Administration and to a lesser extent, other federal and state agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Portfolio companies in the life science industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair our ability to timely collect principal and interest payments owed to us.

***If our portfolio companies are unable to commercialize their technologies, products, business concepts or services, the returns on our investments could be adversely affected.***

The value of our investments in our portfolio companies may decline if our portfolio companies are not able to commercialize their technology, products, business concepts or services. Additionally, although some of our portfolio companies may already have a commercially successful product or product line at the time of our investment, technology-related products and services often have a more limited market or life span than products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate in increasingly competitive markets. If they are unable to do so, our investment returns could be adversely affected and their ability to service their debt obligations to us over the life of the loan could be impaired. Our portfolio companies may be unable to successfully acquire or develop any new technologies and the intellectual property they currently hold may not remain viable. Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

***If our portfolio companies are unable to protect their intellectual property rights, our business and prospects could be harmed, and if portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of our investment could be reduced.***

Our future success and competitive position depends in part upon the ability of our portfolio companies to obtain, maintain and protect proprietary technology used in their products and services. The intellectual property held by our portfolio companies often represents a substantial portion of the collateral securing our investments and/or constitutes a significant portion of the portfolio companies' value that may be available in a downside



scenario to repay our loans. Our portfolio companies rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation to enforce their patents, copyrights or other intellectual property rights, protect their trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe or misappropriate a third party's patent or other proprietary rights, it could be required to pay damages to the third party, alter its products or processes, obtain a license from the third party and/or cease activities utilizing the proprietary rights, including making or selling products utilizing the proprietary rights. Any of the foregoing events could negatively affect both the portfolio company's ability to service our debt investment and the value of any related debt and equity securities that we own, as well as the value of any collateral securing our investment.

***We do not expect to control any of our portfolio companies.***

We do not control, or expect to control in the future, any of our portfolio companies, even though our debt agreements may contain certain restrictive covenants that limit the business and operations of our portfolio companies. We also do not maintain, or intend to maintain in the future, a control position to the extent we own equity interests in any portfolio company. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity of the investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and we may therefore, suffer a decrease in the value of our investments.

#### **Risks Related to Offerings Under This Prospectus**

***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 our debt securities may not receive all of the interest income to which they are entitled.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Price Range of Common Stock and Distributions."

***We cannot assure you that the market price of shares of our common stock will not decline.***

Prior to our IPO, there was no public trading market for our common stock. We cannot predict the prices at which our common stock will trade. Shares of closed-end management investment companies have in the past frequently traded at discounts to their net asset values and our common stock has been and may continue to be discounted in the market. This characteristic of closed-end management investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we will generally not be able to sell additional shares of our common stock to the public at its market price without first obtaining the approval of our stockholders (including our unaffiliated stockholders) and our independent directors.

***Our common stock price may be volatile and may decrease substantially.***

The trading price of our common stock may fluctuate substantially and the liquidity of our common stock may be limited, in each case depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include the following:

- price and volume fluctuations in the overall stock market or in the market for BDCs from time to time;
- investor demand for our shares of common stock;

- significant volatility in the market price and trading volume of securities of registered closed-end management investment companies, BDCs or other financial services companies;
- our inability to raise capital, borrow money or deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs or BDCs;
- losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results;
- changes in the value of our portfolio of investments;
- general economic conditions, trends and other external factors;
- departures of key personnel; or
- loss of a major source of funding.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

***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.***

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies frequently trade at a discount to their net asset value and our stock may also be discounted in the market. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. In addition, if our common stock trades below its net asset value, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval of our stockholders and our independent directors.

***We currently invest a portion of our capital in high-quality short-term investments, which generate lower rates of return than those expected from investments made in accordance with our investment objective.***

We currently invest a portion of the net proceeds of our capital in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once these proceeds are fully invested in accordance with our investment objective.

***Investing in shares of our common stock may involve an above average degree of risk.***

The investments we make in accordance with our investment objective may result in a higher amount of risk, volatility or loss of principal than alternative investment options. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for investors with lower risk tolerance.

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

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

***Anti-takeover provisions in our charter documents and other agreements and certain provisions of the DGCL could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Delaware General Corporation Law (the “DGCL”), our certificate of incorporation and our bylaws contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. Among other things, our certificate of incorporation and bylaws:

- provide for a classified board of directors, which may delay the ability of our stockholders to change the membership of a majority of our Board;
- authorize the issuance of “blank check” preferred stock that could be issued by our Board to thwart a takeover attempt;
- do not provide for cumulative voting;
- provide that vacancies on our Board, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit the calling of special meetings of stockholders;
- provide that our directors may be removed only for cause;
- require supermajority voting to effect certain amendments to our certificate of incorporation and our bylaws; and
- require stockholders to provide advance notice of new business proposals and director nominations under specific procedures.

These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. Our WestLB Facility also contains a covenant that prohibits us from merging or consolidating with any other person or selling all or substantially all of our assets without the prior written consent of WestLB. If we were to engage in such a transaction without such consent, WestLB could accelerate our repayment obligations under, and/or terminate, our WestLB Facility. In addition, it is a default under our Wells Facility if (i) a person or group of persons (within the meaning of the Exchange Act) acquires beneficial ownership of 20% or more of our issued and outstanding stock or (ii) during any twelve month period individuals who at the beginning of such period constituted our Board cease for any reason, other than death or disability, to constitute a majority of the directors in office. If either event were to occur, Wells could accelerate our repayment obligations under, and/or terminate, our Wells Facility.

***If we elect to issue preferred stock, holders of any such preferred stock will have the right to elect members of our Board and have class voting rights on certain matters.***

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

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

In the event we issue subscription rights, stockholders who do not fully exercise their rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. Such dilution is not currently determinable because it is not known what proportion of the shares will be purchased as a result of such rights offering. Any such dilution will disproportionately affect nonexercising stockholders. If the subscription price per share is substantially less than the current net asset value per share, this dilution could be substantial.

In addition, if the subscription price is less than our net asset value per share, our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of such rights offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

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

If the public offering price for any offering of shares of our common stock is higher than the book value per share of our outstanding common stock, investors purchasing shares of common stock in any such offering pursuant to this prospectus will pay a price per share that exceeds the tangible book value per share after such offering.

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

The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. See “Sales of Common Stock Below Net Asset Value.”

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

All dividends payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan will experience dilution over time.

***The trading market or market value of our publicly issued debt securities that we may issue may fluctuate.***

Upon issuance, any publicly issued debt securities that we may issue will not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or, if developed, will be maintained. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;

- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

***Terms relating to redemption may materially adversely affect your return on the debt securities that we may issue.***

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if such debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

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

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of debt securities that we may issue. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for any publicly issued debt securities that we may issue.

***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.***

Sales of substantial amounts of our common stock, or the availability of shares for sale, including those registered pursuant to this Registration Statement, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future operating results, including the performance of our existing 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 because 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 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, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “position,” “assume,” “plan,” “potential,” “project,” “outlook,” “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve” and similar expressions, or future or conditional verbs such as “will,” “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 anticipated in forward-looking statements and future results could differ materially from historical performance.

## **USE OF PROCEEDS**

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of our securities for investment in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We estimate that it will take up to 6 months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal. Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See “Regulation — Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective. We will not receive any proceeds from the resale of our common stock by the selling stockholders.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on NASDAQ, under the symbol “HRZN.” The following table sets forth, for each fiscal quarter since our IPO, the range of high and low sales prices of our common stock as reported on NASDAQ, the sales price as a percentage of our net asset value and the distributions declared by us for each fiscal quarter.

	Net Asset Value(1)	Closing Sales Price		Premium/ discount of High Sales Price to Net Asset Value(2)	Premium/ Discount of Low Sales Price to Net Asset Value(2)	Cash Distributions per Share(3)
		High	Low			
<b>Year ended December 31, 2011</b>						
Fourth Quarter(4)	\$ *	\$16.27	\$14.40	*%	*%	\$ *
Third Quarter	\$ 17.36	\$16.25	\$13.88	94%	80%	\$ 0.45
Second Quarter	\$ 17.40	\$16.17	\$15.21	93%	87%	\$ 0.40
First Quarter	\$ 17.23	\$16.25	\$14.90	94%	86%	\$ 0.33
<b>Year ended December 31, 2010</b>						
Fourth Quarter(5)	\$ 16.75	\$15.59	\$13.83	93%	83%	\$ 0.22

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

(2) Calculated as the respective high or low sales price divided by net asset value.

(3) Represents the distribution declared for the specified quarter. 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 are automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See “Dividend Reinvestment Plan.”

(4) From October 1, 2011 to December 13, 2011.

(5) From October 29, 2010 (initial public offering) to December 31, 2010.

\* Not yet determined at the time of filing.

The last reported price for our common stock on December 13, 2011 was \$15.89 per share. As of December 13, 2011, we had four stockholders of record, which does not include stockholders for whom shares are held in nominee or “street” name.

Shares of BDCs may trade at a market price that is less than the net asset value that is attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our Board. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a return of capital to our common stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a dividend payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

To maintain RIC status, we must, among other things, meet the Annual Distribution Requirement. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Distributions of any such carryover taxable income must be made through a dividend declared prior to filing the final tax return related to the year in which such taxable income was generated in order to count towards the satisfaction of the Annual



Distribution Requirement in the year in which such income was generated. We may, in the future, make actual distributions to our stockholders of our net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See “Material U.S. Federal Income Tax Considerations.”

In January 2010, the Internal Revenue Service (the “IRS”) extended a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared on or before December 31, 2012 with respect to a taxable year ending on or before December 31, 2011 and (3) each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which must be at least 10% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder electing to receive cash receive less than 10% of his or her entire distribution in cash. We have not elected to distribute stock as a dividend but reserve the right to do so.

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% (or, for our taxable years beginning in 2011, 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. 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.

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 are 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 receives cash distributions. Although distributions paid in the form of additional shares of our common stock are generally subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan do not receive any corresponding cash distributions with which to pay any such applicable taxes.

**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 registration statement on Form N-2. 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. Our actual results could differ materially from those anticipated by forward-looking information due to factors discussed under “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” appearing elsewhere herein.*

**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. 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 Venture Loans to companies backed by established venture capital and private equity firms in our Target Industries. 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 operation 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 September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
	# of Investments	Fair Value	% of Total Portfolio	# of Investments	Fair Value	% of Total Portfolio
	(\$ in thousands)					
Term loans	35	\$170,187	94.5%	31	\$127,949	93.5%
Revolving loans	1	2,933	1.6%	—	—	—
Equipment loans	1	1,282	0.7%	1	2,285	1.6%
Total loans	37	174,402	96.8%	32	130,234	95.1%
Warrants	48	5,091	2.8%	43	6,225	4.6%
Equity	2	693	0.4%	2	351	0.3%
Total		\$180,186	100.0%		\$136,810	100.0%

Total portfolio investment activity for the three and nine month periods ended September 30, 2011 and 2010 was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(\$ in thousands)			
Beginning portfolio	\$ 186,029	\$ 143,008	\$ 136,810	\$ 113,878
New loan funding	7,000	15,000	86,833	75,517
Less refinanced balances	—	—	(8,677)	(10,909)
Net new loan funding	7,000	15,000	78,156	64,608
Principal and stock payments received on investments	(8,559)	(11,278)	(22,666)	(28,104)
Early pay-offs	(4,315)	(9,777)	(9,908)	(13,231)
Accretion of loan fees	527	451	1,356	934
New loan fees	(40)	(134)	(967)	(651)
New equity investments	—	79	577	79
Net depreciation on investments	(456)	1,654	(3,172)	1,490
Ending portfolio	<u>\$ 180,186</u>	<u>\$ 139,003</u>	<u>\$ 180,186</u>	<u>\$ 139,003</u>

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 debt investments by industry sector as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Life Science				
Biotechnology	\$ 28,118	16.1%	\$ 30,470	23.4%
Medical Device	26,499	15.2%	19,572	15.0%
Technology				
Consumer-related Technologies	2,574	1.5%	4,460	3.4%
Networking	1,282	0.7%	2,285	1.8%
Semiconductors	9,739	5.6%	—	0.0%
Software	23,719	13.6%	8,745	6.7%
Data Storage	4,929	2.8%	7,912	6.1%
Communications	5,648	3.2%	7,591	5.9%
Cleantech				
Energy Efficiency	25,479	14.6%	16,570	12.7%
Waste Recycling	4,889	2.8%	2,363	1.8%
Healthcare Information and Services				
Diagnostics	22,584	13.0%	20,472	15.7%
Other Healthcare Related Services and Technologies	18,942	10.9%	9,794	7.5%
Total	<u>\$174,402</u>	<u>100.0%</u>	<u>\$130,234</u>	<u>100.0%</u>

The largest loans may vary from year to year as new loans are recorded and repaid. Our five largest loans represented approximately 27% and 31% of total loans outstanding as of September 30, 2011 and December 31, 2010, respectively. No single loan represented more than 10% of our total loans as of September 30, 2011 and December 31, 2010.

As of September 30, 2011 and December 31, 2010, interest receivable was \$2.5 million and \$1.9 million, respectively, which represents one month of accrued interest income on loans. The increase in 2011 was due to a larger loan portfolio relative to 2010.

#### 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. The following table shows the classification of our loan portfolio by credit rating as of September 30, 2011 and December 31, 2010:

Credit Rating	September 30, 2011		December 31, 2010	
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio
	(\$ in thousands)			
4	\$ 34,161	19.6%	\$ 29,054	22.3%
3	126,168	72.3%	94,200	72.3%
2	14,073	8.1%	6,980	5.4%
1	—	—	—	—
Total	<u>\$174,402</u>	<u>100.0%</u>	<u>\$130,234</u>	<u>100.0%</u>

As of September 30, 2011 and December 31, 2010, our loan portfolio had a weighted average credit rating of 3.2. As of September 30, 2011 and December 31, 2010, no investments were on non-accrual status.

#### 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 set forth below, the results of operations described below may not be indicative of the results we report in future periods.

## Consolidated Results of Operations for the Three Months Ended September 30, 2011 and 2010

Consolidated operating results for the three months ended September 30, 2011 and 2010 are as follows:

	For the Three Months Ended September 30,	
	2011	2010
	(\$ in thousands)	
Total investment income	\$ 6,441	\$ 5,189
Total expenses	3,448	1,932
Net investment income	2,993	3,257
Net realized loss on investments	(17)	—
Net unrealized (depreciation) appreciation on investments	(217)	1,711
Credit for loan losses	—	320
Net increase in net assets resulting from operations	<u>\$ 2,759</u>	<u>\$ 5,288</u>
Average debt investments, at fair value	<u>\$180,951</u>	<u>\$137,867</u>
Average borrowings outstanding	<u>\$ 80,871</u>	<u>\$ 91,640</u>

Net investment income for the three months ended September 30, 2011 was \$3.0 million or \$0.39 per share. Excluding the impact of the reduction in the second part of the incentive fee expense of \$0.2 million, net investment income totaled \$2.8 million or \$0.37 per share.

### *Investment Income*

Investment income increased by \$1.3 million, or 24.1%, for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. For the three months ended September 30, 2011, total investment income consisted primarily of \$6.1 million in interest income from investments, which included \$0.5 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 prepayment fees collected from our portfolio companies. For the three months ended September 30, 2010, total investment income consisted primarily of \$5.0 million in interest income from investments, which included \$0.5 million in income from the amortization of discounts and origination fees on investments. For the three months ended September 30, 2011 and 2010, our dollar-weighted average annualized yield on average loans was approximately 14.2% and 15.0%, 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 27% and 31% of investment income for the three months ended September 30, 2011 and 2010, respectively.

### *Expenses*

Total expenses increased by \$1.5 million, or 78.5%, to \$3.4 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees and 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 for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 primarily due to the end of our WestLB Facility's revolving term and the scheduled amortization of the remaining balance.

Effective with the completion of our IPO 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 three months ended September 30, 2011 increased by approximately \$0.4 million compared to the three months ended September 30, 2010 primarily due to the higher management fee base. Incentive fees for the three months ended September 30, 2011 totaled

approximately \$0.6 million compared to no incentive fees for the three months ended September 30, 2010. The incentive fees for the three months ended September 30, 2011 consisted of approximately \$0.7 million for part one of the incentive fee offset by a reduction of previously accrued part two incentive fees. In connection with the Administration Agreement, we incurred \$0.4 million of administrative expenses for the three months ended September 30, 2011. We did not pay an administrative servicing fee for the three months ended September 30, 2010.

Professional fees and general and administrative expenses include legal and audit fees, insurance premiums, and miscellaneous other expenses. These expenses for the three months ended September 30, 2011 increased by approximately \$0.6 million compared to the three months ended September 30, 2010 primarily due to the increased cost of being a public company and the expensing of \$0.2 million of previously capitalized costs related to our efforts to obtain a license to operate a SBIC.

***Net Realized Gain (Loss) and Net Unrealized Appreciation (Depreciation)***

Realized gains or losses 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 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.

**Consolidated Results of Operations for the Nine Months Ended September 30, 2011 and 2010**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Total investment income	\$ 17,871	\$ 13,250
Total expenses	10,670	5,372
Net investment income	7,201	7,878
Net realized gain (loss) on investments	5,544	(2)
Net unrealized (depreciation) appreciation on investments	(2,535)	1,549
Credit for loan losses	—	739
Net increase in net assets resulting from operations	<u>\$ 10,210</u>	<u>\$ 10,164</u>
Average debt investments, at fair value	<u>\$162,623</u>	<u>\$123,298</u>
Average borrowings outstanding	<u>\$ 82,606</u>	<u>\$ 78,195</u>

Net investment income for the nine months ended September 30, 2011 was \$7.2 million or \$0.95 per share. Excluding the impact of the capital gains incentive fee expense of \$0.7 million, net investment income totaled \$7.9 million or \$1.04 per share.

***Investment Income***

Investment income increased by \$4.6 million, or 34.9%, for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. For the nine months ended September 30, 2011, total investment income consisted primarily of \$16.9 million in interest income from investments, which included \$1.3 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. For the nine months ended September 30, 2010, total investment income consisted primarily of \$12.9 million in interest income from investments, which included \$0.9 million in income from the amortization of discounts and

origination fees on investments. For the nine months ended September 30, 2011 and 2010, our dollar-weighted average annualized yield on average loans was approximately 14.6% and 14.3%, 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 25% and 19% of investment income for the nine months ended September 30, 2011 and 2010, respectively.

#### ***Expenses***

Total expenses increased by \$5.3 million, or 98.6%, to \$10.6 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. 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 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to the expiration of our WestLB Facility's revolving term and the amortization of the remaining balance.

Effective with the completion of our IPO 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 nine months ended September 30, 2011 increased by approximately \$1.4 million compared to the nine months ended September 30, 2010 primarily due to the higher management fee base. Incentive fees for the nine months ended September 30, 2011 totaled approximately \$2.7 million compared to no incentive fees for the nine months ended September 30, 2010. The incentive fees for the nine months ended September 30, 2011 consisted of approximately \$2.0 million and \$0.7 million for part one and part two of the incentive fee, respectively. In connection with the Administration Agreement, we incurred \$0.9 million of administrative expenses for the nine months ended September 30, 2011. We did not pay an administrative servicing fee for the nine months ended September 30, 2010.

Professional fees and general and administrative expenses include legal and audit fees, insurance premiums and miscellaneous other expenses. These expenses for the nine months ended September 30, 2011 increased by approximately \$1.5 million compared to the nine months ended September 30, 2010 primarily due to the increased cost of being a public company and the expensing of previously capitalized costs related to our efforts to obtain a license to operate a SBIC.

#### ***Net Realized Gain (Loss) and Net Unrealized Appreciation (Depreciation)***

Realized gains or losses 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. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment fair values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

During the nine months ended September 30, 2011, we had \$5.5 million in net realized gain on investments. Net realized gain on investments resulted primarily from the sale of stock through the exercise of warrants in portfolio companies.

#### ***Credit for Loan Losses***

For the three and nine months ended September 30, 2010, the credit for loan losses was \$0.3 million and \$0.7 million, respectively. The loan portfolio had a weighted average credit rating of 3.1 as of September 30, 2010. 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.

**Consolidated Results of Operations for the Years Ended December 31, 2010 and 2009, and the Period from March 4, 2008 (Inception) to December 31, 2008**

Compass Horizon, our predecessor for accounting purposes, was formed as a Delaware limited liability company in January 2008 and had limited operations through March 3, 2008. As a result, there is no period with which to compare our results of operations for the period from January 1, 2008 through March 3, 2008 or for the period from March 4, 2008 through December 31, 2008.

Consolidated operating results for the years ended December 31, 2010 and 2009, and the period from March 4, 2008 (inception) to December 31, 2008 are as follows:

	<u>2010</u>	<u>2009</u> (\$ in thousands)	<u>2008</u>
Total investment income	\$ 18,207	\$ 15,326	\$ 7,021
Total expenses	7,823	6,769	4,031
Net investment income	10,384	8,557	2,990
Net realized gains	680	138	22
Net unrealized appreciation (depreciation) on investments	2,930	892	(73)
Credit (provision) for loan losses	739	(274)	(1,650)
Net income	<u>\$ 14,733</u>	<u>\$ 9,313</u>	<u>\$ 1,289</u>
Average debt investments, at fair value	<u>\$124,027</u>	<u>\$109,561</u>	<u>\$63,111</u>
Average borrowings outstanding	<u>\$ 77,174</u>	<u>\$ 70,582</u>	<u>\$37,010</u>

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.

***Investment Income***

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. Other investment income was primarily comprised of loan prepayment fees collected from our portfolio companies and increased primarily due to a higher number of prepayments in 2010.

Investment income increased by \$8.3 million, or 118.3%, for the year ended December 31, 2009 as compared to the period from March 4, 2008 (inception) to December 31, 2008. For the year ended December 31, 2009, total investment income consisted primarily of \$14.9 million in interest income from investments, which included \$1.0 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 (i) the increased average size of the loan portfolio and (ii) there being a full 12 months of income in 2009 compared to only 10 months in 2008 in light of when we commenced operations. Other investment income was primarily comprised of loan prepayment fees collected from our portfolio companies.

For the years ended December 31, 2010, December 31, 2009 and the ten month period ended December 31, 2008, our dollar-weighted average annualized yield on average loans was approximately 14.6%, 13.9% and 12.7%, respectively. We compute the yield on average loans as (i) total investment interest and other investment income divided by (b) average gross loans receivable. We used month end loan balances during the period to compute average loans receivable. Since we commenced operations in March 2008, the results for the period ended December 31, 2008 were annualized.



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 22%, 23% and 21% of investment income for the years ended December 31, 2010, December 31, 2009 and the period from March 4, 2008 (inception) to December 31, 2008, respectively.

### ***Expenses***

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 expenses increased by \$2.7 million, or 67.9%, to \$6.8 million for the year ended December 31, 2009 as compared to the period from March 4, 2008 to December 31, 2008.

Total operating expenses for each period consisted principally of management fees and interest expense and, to a lesser degree, professional fees and general and administrative expenses. Interest expense, which includes the amortization of debt issuance costs, increased in 2010 from 2009 primarily from higher average outstanding debt balances on the WestLB Facility. Interest expense increased in 2009 from the ten months ended December 31, 2008 primarily due to higher average outstanding debt balances on the WestLB Facility, partially offset by lower rates charged on the WestLB Facility due to a lower level of the WestLB Facility's index rate, one-month LIBOR.

Effective with the completion of our IPO in October 2010, we now 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. Management fee expense in 2010 increased compared to 2009 primarily due to an increase in the average loan portfolio in 2010 from 2009 and increased in 2009 compared to the ten months ended December 31, 2008 due to a full twelve months of expense in 2009 compared to only ten months in 2008. Incentive fees for the period since our IPO totaled approximately \$414,000 compared to no incentives fees prior to the IPO.

In connection with the Administrative Agreement, we have incurred \$88,000 for the period since our IPO through December 31, 2010. We did not pay an administrative servicing fee prior to our IPO.

Professional fees and general and administrative expenses include legal, accounting fees, insurance premiums and miscellaneous other expenses. These expenses increased in 2010 from 2009 primarily from the increased cost as a public company. These expenses increased in 2009 from the ten months ended December 31, 2008 primarily because of the longer period in 2009.

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

During the years ended December 31, 2010 and 2009, we had \$0.7 million and \$0.1 million in net realized gains on investments, respectively. During the same periods, we had \$2.9 million and \$0.9 million in unrealized appreciation on investments, respectively. Net realized gain on warrants resulted from the sale of stock through the exercise of warrants in portfolio companies. For these periods, the net increase in unrealized appreciation on investments was primarily from our warrant investments. Net unrealized appreciation on warrants is the difference between the net changes in warrant fair values from the prior determination date and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. The increase in net unrealized appreciation on warrants in 2010 and 2009 is primarily due to an increase in the enterprise value of a number of private companies for which we hold warrants. In addition, the increased net appreciation on warrants is due to the increase in the share value of the public company warrants held.

### ***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 and the period from March 4, 2008 to December 31, 2008 the provision for loan losses was \$0.3 million and \$1.6 million, respectively. The credit rose 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." The decrease in the provision for loan losses in 2009 compared to 2008 was due to less significant loan growth in 2009. As 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 September 30, 2011 and December 31, 2010, we had cash and cash equivalents of \$32.6 million and \$76.8 million, respectively. Cash and cash equivalents are available to fund new investments, reduce borrowings under the Credit Facilities, pay operating expenses and pay dividends. To date, our primary sources of capital have been from our IPO, use of the Credit Facilities and the private placement for \$50 million of equity capital completed on March 4, 2008.

The WestLB Facility had a three year initial revolving term and on March 3, 2011 the revolving term ended. The balance as of September 30, 2011 of \$66 million will be amortized based on loan investment payments received through March 3, 2015.

As of September 30, 2011, we had available borrowing capacity of approximately \$59.2 million under our Wells Facility, subject to existing terms and advance rates.

Our operating activities used cash of \$32.4 million for the nine months ended September 30, 2011, and our financing activities used cash of \$11.8 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 \$15.5 million for the nine months ended September 30, 2010, and our financing activities provided net cash proceeds of \$24.8 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from our availability under our WestLB Facility.

Our operating activities used cash of \$8 million for the year ended December 31, 2010 and our financing activities provided net cash proceeds of \$75 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 \$11 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 operating activities used cash of \$90 million for the 10 month period ended December 31, 2008 and our financing activities provided net cash proceeds of \$110 million for the same period. Our operating activities used cash primarily for investing in portfolio companies that was provided primarily from proceeds from an equity private placement and draws under the WestLB Facility.

Our primary use of available funds is investments in portfolio companies and cash distributions to holders of our common stock. We seek to opportunistically raise additional 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 are required to meet an asset coverage ratio of 200%. This requirement limits the amount that we may borrow.

### ***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% (or, for our taxable years beginning in 2011, 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 BDC under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including the possible loss of our qualification as a RIC. We cannot assure stockholders that they will receive any distributions.

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

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

### ***Current Borrowings***

We, through our wholly-owned subsidiary, Credit I, entered into the WestLB Facility. Per this agreement, base rate borrowings bear interest at one-month LIBOR (0.24% as of September 30, 2011 and 0.26% as of December 31, 2010) plus 2.50%. The rates were 2.74% and 2.76% as of September 30, 2011 and December 31, 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 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. Per this agreement, the interest rate is based upon the one-month LIBOR plus a spread of 4%, with a LIBOR floor of 1%. The rate was 5% as of September 30, 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 and warrants held by Credit II. The Wells Facility contains covenants that, among other things, require the 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.

### ***Interest Rate Swaps and Hedging Activities***

In 2008, we entered into two interest rate swap agreements with WestLB, fixing the rate of \$10 million at 3.58% and \$15 million at 3.2% on the first advances of a like amount of variable rate WestLB Facility borrowings.

As of September 30, 2011, only the \$10 million interest rate swap was still outstanding, which expired in October 2011.

### Contractual Obligations and Off-Balance Sheet Arrangements

A summary of our significant contractual payment obligations as of September 30, 2011 is as follows:

Contractual Obligations	Payments due by period (in thousands)				More than 5 years
	Total	Less than 1 year	1 - 3 years	3 - 5 years	
Borrowings	\$ 81,885	\$36,278	\$ 45,607	\$ —	\$ —
Unfunded commitments	18,667	9,834	8,833	—	—
Total contractual obligations	<u>\$100,552</u>	<u>\$46,112</u>	<u>\$ 54,440</u>	<u>\$ —</u>	<u>\$ —</u>

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of September 30, 2011, we had unfunded commitments of approximately \$18.7 million. These commitments are 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 Credit Facilities, we have certain commitments pursuant to the 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 any administrative staff. See Note 3 to Consolidated Financial Statements for additional information regarding the Investment Management Agreement and the Administration Agreement.

### 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 GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our significant accounting policies in the notes to our consolidated financial statements.

We have identified the following items as critical accounting policies.

#### *Valuation of Investments*

Investments are recorded at fair value. Our Board determines the fair value of our portfolio investments. 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.

See Note 5 to Consolidated Financial Statements for further information regarding fair value.

### ***Income Recognition***

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

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

Certain loan agreements also require the borrower to make an 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 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 to operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, we are required to meet certain source of income and asset diversification requirements and we must timely distribute to our stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which generally relieves 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 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. For the nine months ended September 30, 2011, no amount was recorded for U.S. federal excise tax.

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 September 30, 2011 and December 31, 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 nine months ended September 30, 2010.

#### **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 all at fixed rates and we expect that our loans in the future will also have primarily fixed interest rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index and typically have interest rates that are fixed at the time of the loan funding and remain fixed for the term of the loan.

Assuming that the balance sheet as of September 30, 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 balance sheet 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.

The Credit Facilities have floating interest rate provisions 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 if there is not a corresponding increase in interest income generated by floating rate assets in our investment portfolio.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of September 30, 2011, December 31, 2010, December 31, 2009 and December 31, 2008. The information contained in the table for the years ended December 31, 2010 and 2009 and the period from March 4, 2008 (inception) to December 31, 2008 has been derived from our audited financial statements and the information contained in the table in respect of September 30, 2011 has been derived from unaudited financial data. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Current Borrowings” for more detailed information regarding the senior securities.

Class and Year	<b>Total Amount Outstanding Exclusive of Treasury Securities(1)</b> <b>(dollar amounts in millions)</b>	<b>Asset Coverage per Unit(2)</b>	<b>Involuntary Liquidation Preference per Unit(3)</b>	<b>Average Market Value per Unit(4)</b>
<b>Credit Facilities</b>				
2011 (as of September 30, 2011)	\$ 81.9	\$ 2,617	—	N/A
2010	\$ 87.4	\$ 2,455	—	N/A
2009	\$ 64.2	\$ 1,927	—	N/A
2008	\$ 63.7	\$ 1,782	—	N/A

(1) Total amount of senior securities outstanding at the end of the period presented.

(2) Asset coverage per unit is the ratio of the total carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.

(3) The amount of which such class of senior security would be entitled upon the voluntary liquidation of the issuer in preference to any security junior to it. The “—” in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of securities.

(4) Not applicable because senior securities are not registered for public trading.



## **BUSINESS**

### **General**

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries. We were formed on March 16, 2010 as a Delaware corporation for the purpose of acquiring, continuing and expanding the business of our wholly-owned subsidiary, Compass Horizon and operating as an externally managed BDC under the 1940 Act. Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans to companies backed by established venture capital and private equity firms in our Target Industries. 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 depends 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 RIC under Subchapter M of the Code. As a RIC, we generally do 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 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, had repayment terms of between 30 and 48 months and bore current pay interest at annual interest rates of between 10% and 14%.

### **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 employs 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-backed 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 and generally our exposure is less than 25% of the enterprise value and we obtain pricing enhancements in the form of warrants and other "success-based" fees that build long-term asset appreciation in our portfolio. These methods reduce the downside risk of Venture Lending. Enterprise value lending requires an in-depth understanding of the companies and markets served. We believe that this in-depth understanding of how venture capital and private equity-backed companies in our Target Industries grow in value, finance that growth over time and various business cycles can be carefully analyzed by Venture Lenders who have substantial experience, relationships and knowledge within the markets they serve. We believe the experience that our Advisor possesses gives us enhanced capabilities in making these qualitative enterprise value evaluations, which we believe can produce a high quality Venture Loan portfolio with enhanced returns for our stockholders.
- *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, 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 and Wells. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."
- *Customized Loan Documentation Process.* Our Advisor employs an internally managed documentation process that assures that each loan transaction is documented using our "enterprise value" loan documents specifically tailored to each transaction. Our Advisor uses experienced in-house senior legal counsel to oversee the documentation and negotiation of each of our transactions.
- *Active Portfolio Management.* Because many of our portfolio companies are privately held, development-stage companies in our Target Industries, our Advisor employs a "hands on" approach to its portfolio management processes and procedures. Our Advisor requires the private portfolio companies to provide monthly financial information, and our Advisor participates in quarterly discussions with the management and investors of our portfolio companies. Our Advisor prepares monthly management reporting and internally rates each portfolio company.
- *Portfolio Composition.* Monitoring the composition of the portfolio is an important component of the overall growth and portfolio management strategy. Our Advisor monitors the portfolio regularly to avoid undue focus in any sub-industry, stage of development or geographic area. By regularly monitoring the portfolio for these factors we attempt to reduce the risk of down market cycles associated with any particular industry, development stage or geographic area.

### **Market Opportunity**

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include communications, networking, 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:

- *Higher Interest Rates.* Venture Loans typically bear interest at rates that exceed the rates that would be available to portfolio companies if they could borrow in traditional commercial financing transactions. We believe these rates provide a risk-adjusted return to lenders compared with other types of debt investing and provide a significantly less expensive alternative to equity financing for development-stage companies.

- *Loan Support Provided by Cash Proceeds from Equity Capital Provided by Venture Capital and Private Equity Firms.* In many cases, a Venture Lender makes a Venture Loan to a portfolio company in conjunction with, or immediately after, a substantial venture capital or private equity investment in the portfolio company. This equity capital investment supports the loan by initially providing a source of cash to fund the portfolio company's debt service obligations. In addition, because the loan ranks senior in priority of payment to the equity capital investment, the portfolio company must repay that debt before the equity capital investors realize a return on their investment. If the portfolio company subsequently becomes distressed, its venture capital and private equity investors will likely have an incentive to assist it in avoiding a payment default, which could lead to foreclosure on the secured assets. We believe that the support of venture capital and private equity investors increases the likelihood that a Venture Loan will be repaid.
- *Relatively Rapid Amortization of Loans.* Venture Loans typically require that interest payments begin within one month of closing, and principal payments begin within twelve months of closing, thereby returning capital to the lender and reducing the capital at risk with respect to the investment. Because Venture Loans are typically made at the time of, or soon after, a portfolio company completes a significant venture capital or private equity financing, the portfolio company usually has sufficient funds to begin making scheduled principal and interest payments even if it is not then generating revenue and/or positive cash flow. If a portfolio company is able to increase its "enterprise value" during the term of the loan (which is typically between 24 and 48 months), the lender may also benefit from a reduced loan-to-value ratio, which reduces the risk of the loan.
- *Senior Ranking to Equity and Collateralization.* A Venture Loan is typically secured by some or all of the portfolio company's assets, thus making the loan senior in priority to the equity invested in the portfolio company. In many cases, if a portfolio company defaults on its loan, the value of this collateral will provide the lender with an opportunity to recover all or a portion of its investment. Because holders of equity interests in a portfolio company will generally lose their investments before the Venture Lender experiences losses, we believe that the likelihood of losing all of our invested capital in a Venture Loan is lower than would be the case with an equity investment.
- *Potential Equity Appreciation Through Warrants.* Venture Lenders are typically granted warrants in portfolio companies as additional consideration for making Venture Loans. The warrants permit the Venture Lender to purchase equity securities of the portfolio companies at the same price paid by the portfolio company's investors for such preferred stock in the most recent or next equity round of the portfolio company's financing. Historically, warrants granted to Venture Lenders have generally had a term of ten years and been in dollar amounts equal to between 5% and 20% of the principal loan amount. Warrants provide Venture Lenders with an opportunity to participate in the potential growth in value of the portfolio company, thereby increasing the potential return on investment.

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

- *Venture Loans are Typically Less Dilutive than Venture Capital and Private Equity Financing.* Venture Loans allow a company to access the cash necessary to implement its business plan without diluting the existing investors in the company. Typically, the warrants or other equity securities issued as part of a Venture Lending transaction result in only minimal dilution to existing investors as compared to the potential dilution of a new equity round of financing.
- *Venture Loans Extend the Time Period During Which a Portfolio Company Can Operate Before Seeking Additional Equity Financing.* By using a Venture Loan, development-stage companies can postpone the need for their next round of equity financing, thereby extending their cash available to fund operations. This delay can provide portfolio companies with additional time to improve technology, achieve development milestones and, potentially, increase the company's valuation before seeking more equity investments.
- *Venture Loans Allow Portfolio Companies to Better Match Cash Sources with Uses.* Debt is often used to fund infrastructure costs, including office space and laboratory equipment. The use of debt to fund infrastructure costs allows a portfolio company to spread these costs over time, thereby conserving cash

at a stage when its revenues may not be sufficient to cover expenses. Similarly, working capital financing may be used to fund selling and administrative expenses ahead of anticipated corresponding revenue. In both instances, equity capital is preserved for research and development expenses or future expansion.

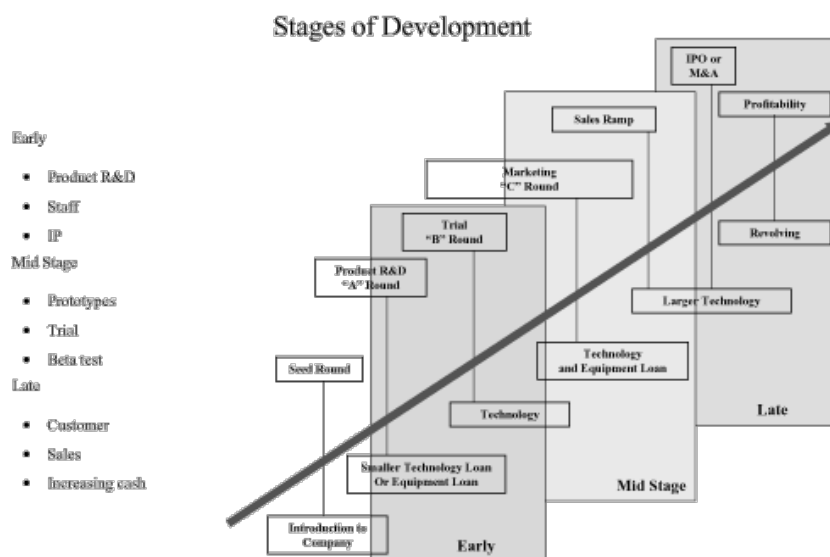
### **Competitive Strengths**

We believe that we, together with our Advisor, possess significant competitive strengths, including:

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

## Stages of Development of Venture Capital and Private Equity-backed Companies

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



### Investment Criteria

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

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

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

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

*Operating Plan and Cash Resources.* We generally require that a prospective portfolio company, in addition to having sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. Our

review of the operating plan will take into consideration existing cash, cash burn, cash runway and the milestones necessary for the company to achieve cash flow positive operations or to access additional equity from the investors.

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

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

## **Investment Process**

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

*Origination.* Our Advisor's loan origination process begins with its industry-focused regional managing directors who are responsible for identifying, contacting and screening prospects. The managing directors meet with key decision makers and deal referral sources such as venture capital and private equity firms and management teams, legal firms, accounting firms, investment banks and other lenders to source prospective portfolio companies. We believe our brand name and management team are well known within the Venture Lending community, as well as by many repeat entrepreneurs and board members of prospective portfolio companies. These broad relationships, which reach across the Venture Lending industry, give rise to a significant portion of our Advisor's deal origination.

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

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

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

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

*Due Diligence.* The due diligence process includes a formal visit to the prospective portfolio company's location and interviews with the prospective portfolio company's senior management team including its Chief Executive Officer, Chief Financial Officer, Chief Scientific or Technology Officer, principal marketing or sales professional and other key managers. The process includes contact with key analysts that affect the prospective

portfolio company's business, including analysts that follow the technology market, through leaders in our Target Industries and important customers or partners, if any. Outside sources of information are reviewed, including industry publications, scientific and market articles, Internet publications, publicly available information on competitors or competing technologies and information known to our Advisor's investment team from their experience in the technology markets.

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

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

*Investment Committee.* Our Board delegates authority for all investment decisions to our Advisor's investment committee.

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

*Loan Closing and Funding.* Approved investments are documented and closed by our Advisor's in-house legal and loan administration staff. Loan documentation is based upon standard templates created by our Advisor and is customized for each transaction to reflect the specific deal terms. The transaction documents typically include a loan and security agreement, warrant agreement and applicable perfection documents, including Uniform Commercial Code financing statements, and, as applicable, may also include a landlord agreement, patent and trademark security grants, a subordination agreement and other standard agreements for commercial loans in the Venture Lending industry. Funding requires final approval by our Advisor's General Counsel, Chief Executive Officer or President, Chief Financial Officer and Chief Credit Officer.

*Portfolio Management and Reporting.* Our Advisor maintains a "hands on" approach to maintain communication with our portfolio companies. At least quarterly, our Advisor contacts our portfolio companies for operational and financial updates by phone and performs reviews on an annual basis. Our Advisor may contact portfolio companies deemed to have greater credit risk on a monthly basis. Our Advisor requires all private companies to provide financial statements on a monthly basis. For public companies, our Advisor typically relies on publicly reported quarterly financials. Our Advisor also typically receives copies of bank and security statements, as well as any other information required to verify reported financial information. Among other things, this allows our Advisor to identify any unexpected developments in the financial performance or condition of the portfolio company.

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

Our Advisor closely monitors portfolio companies rated a 1 or 2 for adverse developments. In addition, our Advisor has regular contact with the management, board of directors and major equity holders of these portfolio



companies in order to discuss strategic initiatives to correct the deterioration of the portfolio company (e.g., cost reductions, new equity issuance or strategic sale of the business).

The table below describes each rating level:

**Rating**

- 4 The portfolio company has performed in excess of our expectations at underwriting as demonstrated by exceeding revenue milestones, clinical milestones or other operating metrics or as a result of raising capital well in excess of our underwriting assumptions. Generally the portfolio company displays one or more of the following: its enterprise value greatly exceeds our loan balance; it has achieved cash flow positive operations or has sufficient cash resources to cover the remaining balance of the loan; there is strong potential for warrant gains from our warrants; and there is a high likelihood that the borrower will receive favorable future financing to support operations. Loans rated 4 are the lowest risk profile in our portfolio and there is no expected risk of principal loss.
- 3 The portfolio company has performed to our expectations at underwriting as demonstrated by hitting revenue milestones, clinical milestones or other operating metrics. It has raised, or is expected to raise, capital consistent with our underwriting assumptions. Generally the portfolio company displays one or more of the following: its enterprise value comfortably exceeds our loan balance; it has sufficient cash resources to operate per its plan; it is expected to raise additional capital as needed; and there continues to be potential for warrant gains from our warrants. All new loans are rated 3 when approved and thereafter 3 rated loans represent a standard risk profile, with no loss currently expected.
- 2 The portfolio company has performed below our expectations at underwriting as demonstrated by missing revenue milestones, delayed clinical progress or otherwise failing to meet projected operating metrics. It may have raised capital in support of the poorer performance but generally on less favorable terms than originally contemplated at the time of underwriting. Generally the portfolio company displays one or more of the following: its enterprise value exceeds our loan balance but at a lower multiple than originally expected; it has sufficient cash to operate per its plan but liquidity may be tight; and it is planning to raise additional capital but there is uncertainty and the potential for warrant gains from our warrants are possible, but unlikely. Loans rated 2 represent an increased level of risk. While no loss is currently anticipated for a 2 rated loan, there is potential for future loss of principal.
- 1 The portfolio company has performed well below plan as demonstrated by materially missing revenue milestones, delayed or failed clinical progress or otherwise failing to meet operating metrics. The portfolio company has not raised sufficient capital to operate effectively or retire its debt obligation to us. Generally the portfolio company displays one or more of the following: its enterprise value may not exceed our loan balance; it has insufficient cash to operate per its plan and liquidity may be tight; and there are uncertain plans to raise additional capital or the portfolio company is being sold under distressed conditions. There is no potential for warrant gains from our warrants. Loans rated 1 are generally put on non-accrual and represent a high degree of risk of loss. The fair value of 1 rated loans is reduced to the amount that is expected to be recovered from liquidation of the collateral.

For a discussion of the ratings of our existing portfolio, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Loan Portfolio Asset Quality.”

**Managerial Assistance**

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

We may receive fees for these services, though we may reimburse our Advisor for its expenses related to providing such services on our behalf.

**Competition**

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 and other resources than we do. We believe we compete effectively with these entities primarily on the basis of the experience, industry knowledge and contacts of our Advisor's investment professionals, its responsiveness and efficient investment analysis and decision-making processes, its creative financing products and its customized investment terms. We do not intend to compete primarily on the interest rates we offer and believe that some competitors make loans with rates that are comparable or lower than our rates. For additional information concerning the competitive risks see "Risk Factors — Risks Related to Our Business and Structure — We operate in a highly competitive market for investment opportunities, and if we are not able to compete effectively, our business, results of operations and financial condition may be adversely affected and the value of your investment in us could decline."

**Employees**

We do not have any employees. Each of our executive officers described under "Management" is an employee of our Advisor. The day-to-day investment operations are managed by our Advisor. As of September 30, 2011, our Advisor had 16 employees, including investment and portfolio management professionals, operations and accounting professionals, legal counsel and administrative staff. In addition, we reimburse our Advisor for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, including our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs.

**Properties**

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

**Legal Proceedings**

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

## PORTFOLIO COMPANIES

The following table sets forth certain information as of September 30, 2011 for each portfolio company in which we had a debt or equity investment. Other than these investments, our only relationships with our portfolio companies involve the managerial assistance we may separately provide to our portfolio companies, such services being ancillary to our investments, and the board observer or participation rights we may receive in connection with our investment. We do not “control” and are not an “affiliate” of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would “control” a portfolio company if we owned more than 25% of its voting securities and would be an “affiliate” of a portfolio company if we owned 5% or more of its voting securities.

The following table sets forth certain information for each portfolio company in which we had an investment as of September 30, 2011.

Name and Address of Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
<b>Debt Investments</b>						
<b>Debt Investments — Life Science</b>						
ACT Biotech Corporation 717 Market Street, Suite 650 San Francisco, CA 94103	Biotechnology	Term Loan(1)	13.10%	\$12/1/2013	\$ 905	905
		Term Loan(1)	13.01%	12/1/2013	905	905
		Term Loan(1)	13.01%	12/1/2013	1,371	1,371
Ambit Biosciences Corporation 4215 Sorrento Valley Blvd. San Diego, CA 92121	Biotechnology	Term Loan(1)	12.25%	10/1/2013	5,066	5,066
Anacor Pharmaceuticals, Inc.(5) 1020 East Meadow Circle Palo Alto, CA 94303	Biotechnology	Term Loan(2)	9.41%	4/1/2015	3,206	3,206
GenturaDx, Inc. 24590 Clawiter Road Hayward, CA 94545	Biotechnology	Term Loan(2)	11.25%	4/1/2014	1,903	1,903
N30 Pharmaceuticals, LLC 3122 Sterling Circle, Suite 200 Boulder, CO 80301	Biotechnology	Term Loan(1)	11.25%	9/1/2014	2,412	2,412
Pharmasset, Inc.(5) 303-A College Road East Princeton, NJ 08540	Biotechnology	Term Loan(1)	12.00%	1/1/2012	379	379
		Term Loan(1)	12.50%	10/1/2012	1,453	1,453
Revence Therapeutics, Inc. 7555 Gateway Blvd. Newark, CA 94560	Biotechnology	Convertible Note(1)	8.00%	2/10/2013	62	62
Supernus Pharmaceuticals, Inc. 1550 East Gude Drive Rockville, MD 20850	Biotechnology	Term Loan(2)	11.00%	8/1/2014	2,947	2,947
Tranzyme, Inc.(5) 4819 Emperor Blvd., Suite 400 Durham, NC 27703	Biotechnology	Term Loan(1)	10.75%	1/1/2014	4,538	4,538
Xcovery Holding Company, LLC 505 S. Flagler Drive, Suite 1330 West Palm Beach, FL 33401	Biotechnology	Term Loan(2)	12.00%	10/1/2013	1,494	1,494
		Term Loan(2)	12.00%	7/1/2014	1,477	1,477
Concentric Medical, Inc. 301 East Evelyn Avenue Mountain View, CA 94041	Medical Device	Term Loan(1)	12.04%	9/1/2013	6,676	6,676
OraMetrix, Inc. 2350 Campbell Creek Blvd., Suite 400 Richardson, TX 75082	Medical Device	Term Loan(1)	11.50%	4/1/2014	4,669	4,669
PixelOptics, Inc. 5241 Valleypark Drive Roanoke, VA 24019	Medical Device	Term Loan(2)	10.75%	11/1/2014	9,910	9,910
Tengion, Inc.(5) 2900 Potshop Lane, Suite 100 East Norriton, PA 19403	Medical Device	Term Loan(2)	11.75%	1/1/2014	4,948	4,588
ViOptix, Inc. 47224 Misson Fall Ct. Fremont, CA 94539	Medical Device	Term Loan(1)	13.55%	11/1/2011	656	656
Total Debt Investments — Life Science					<u>54,977</u>	<u>54,617</u>

Name and Address of Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
<b>Debt Investments — Technology</b>						
OpenPeak, Inc. 1750 Clint Moore Road Boca Raton, FL 33487	Communications	Term Loan(1)	11.86%	\$12/1/2013	\$ 6,016	5,647
Starcite, Inc. 1600 Market Street, 27th Floor Philadelphia, PA 19103	Consumer-related Technologies	Term Loan(1)	12.05%	9/1/2012	1,604	1,604
Tagged, Inc. 840 Battery Street, 2nd Floor San Francisco, CA 94111	Consumer-related Technologies	Term Loan(1) Term Loan(1)	12.78% 11.46%	5/1/2012 8/1/2012	671 300	671 300
Xtera Communications, Inc. 500 W. Bethany Drive, Suite 100 Allen, TX 75013	Semiconductors	Term Loan(2)	11.50%	12/1/2014	9,739	9,739
Vette Corp. 14 Manchester Square, Suite 210 Portsmouth, NH 03801	Data Storage	Term Loan(1)	11.75%	7/1/2014	4,928	4,928
IntelePeer, Inc. 2855 Campus Drive, Suite 200 San Mateo, CA 94403	Networking	Term Loan(1) Term Loan(1) Term Loan(1)	12.43% 12.33% 12.33%	4/1/2012 6/1/2012 10/1/2012	238 315 729	238 315 729
Construction Software Technologies, Inc. 4500 Lake Forest Drive, Suite 502 Cincinnati, OH 45202	Software	Term Loan(2) Term Loan	11.75% 11.75%	12/1/2014 6/1/2014	3,940 1,969	3,940 1,969
Courion Corporation 1900 West Park Drive, 1st Floor Westborough, MA 01581	Software	Term Loan(1)	11.45%	9/1/2014	6,889	6,889
Recondo Technology, Inc. 6312 South Fiddlers Green Cir., Suite 600 East Greenwood Village, CO 80111	Software	Term Loan	11.50%	4/1/2015	1,923	1,923
Seapass Solutions, Inc. 90 Park Avenue, Suite 1720 New York, NY 10016	Software	Term Loan(2)	11.75%	11/1/2014	4,924	4,924
StreamBase Systems, Inc. 181 Spring Street Lexington, MA 02421	Software	Term Loan(1) Term Loan(1)	12.51% 12.50%	11/1/2013 6/1/2014	3,115 960	3,115 960
Total Debt Investments — Technology					<u>48,260</u>	<u>47,891</u>
<b>Debt Investments — Cleantech</b>						
Cereplast, Inc.(5) 300 North Continental Blvd., Suite 100 El Segundo, CA 90245	Waste Recycling Waste Recycling	Term Loan(1) Term Loan(1)	12.00% 12.00%	4/1/2014 6/1/2014	2,448 2,441	2,448 2,441
Enphase Energy, Inc. 201 1st Street, Suite 300 Petaluma, CA 94952	Energy Efficiency	Term Loan(1) Term Loan Term Loan	12.60% 10.75% 10.75%	10/1/2013 4/1/2015 4/1/2015	5,697 1,968 2,938	5,697 1,968 2,938
Satcon Technology Corporation(5) 27 Drydock Avenue Boston, MA 02210	Energy Efficiency	Term Loan(1)	12.58%	1/1/2014	8,521	8,521
Tigo Energy, Inc. 420 Blossom Hill Road Los Gatos, CA 95032	Energy Efficiency	Term Loan(1) Revolver(2)	11.00% 10.75% (Prime + 7.50)%	8/1/2014 1/1/2014	3,422 2,933	3,422 2,933
Total Debt Investments — Cleantech					<u>30,368</u>	<u>30,368</u>
<b>Debt Investments — Healthcare information and services</b>						
BioScale, Inc. 4 Maguire Road Lexington, MA 02421	Diagnostics	Term Loan(1) Term Loan(1)	12.00% 11.51%	8/1/2012 1/1/2014	1,351 4,941	1,351 4,941
Precision Therapeutics, Inc. 2516 Jane Street Pittsburgh, PA 15203	Diagnostics	Term Loan	10.25%	12/1/2014	6,952	6,952
Radisphere National Radiology Group, Inc. 23625 Commerce Park, Suite 204 Beachwood, OH 44122	Diagnostics	Term Loan(1)	12.75%	1/1/2014	9,340	9,340

Name and Address of Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
Aperio Technologies, Inc. 1360 Park Center Drive Vista, CA 92081	Other Healthcare	Term Loan	9.64%	\$ 5/1/2015	\$ 4,929	4,929
Patientkeeper, Inc. 880 Winter Street, Suite 300 Waltham, MA 02451	Other Healthcare	Term Loan	10.50%	12/1/2014	5,222	5,222
Singulex, Inc. 1650 Harbor Bay Parkway, Suite 200 Alameda, CA 94502	Other Healthcare	Term Loan(1) Term Loan(1)	11.00% 11.00%	3/1/2014 3/1/2014	2,968 1,978	2,968 1,978
Talyst, Inc. 11100 NE 8th Street, Suite 600 Bellevue, WA 98004	Other Healthcare	Term Loan(1) Term Loan(1)	12.10% 12.05%	12/1/2013 12/1/2013	1,924 1,921	1,924 1,921
Total Debt Investment — Healthcare information and services					<u>41,526</u>	<u>41,526</u>
<b>Total Debt Investments</b>					<b><u>175,131</u></b>	<b><u>174,402</u></b>
<b>Warrant Investments</b>						
<b>Warrants — Life Science</b>						
ACT Biotech Corporation 717 Market Street, Suite 650 San Francisco, CA 94103	Biotechnology	Preferred Stock Warrants(1)	—	—	58	67
Ambit Biosciences, Inc. 4215 Sorrento Valley Blvd. San Diego, CA 92121	Biotechnology	Preferred Stock Warrants(1)	—	—	143	98
Anacor Pharmaceuticals, Inc.(5) 1020 East Meadow Circle Palo Alto, CA 94303	Biotechnology	Common Stock Warrants(2)	—	—	42	22
Anesiva, Inc.(5) 650 Gateway Boulevard South San Francisco, CA 94080	Biotechnology	Common Stock Warrants(1)	—	—	18	—
GenturaDx, Inc. 24590 Clawiter Road Hayward, CA 94545	Biotechnology	Preferred Stock Warrants(2)	—	—	63	60
N30 Pharmaceuticals, LLC 3122 Sterling Circle, Suite 200 Boulder, CO 80301	Biotechnology	Preferred Stock Warrants(1)	—	—	59	46
Novalar Pharmaceuticals, Inc. 12555 High Bluff Drive, Suite 300 San Diego, CA 92130	Biotechnology	Preferred Stock Warrants(1)	—	—	69	—
Revanche Therapeutics, Inc. 7555 Gateway Blvd. Newark, CA 94560	Biotechnology	Preferred Stock Warrants(1)	—	—	224	489
Supernus Pharmaceuticals, Inc. 1550 East Gude Drive Rockville, MD 20850	Biotechnology	Preferred Stock Warrants(2)	—	—	16	15
Tranzyme, Inc.(5) 4819 Emperor Blvd., Suite 400 Durham, NC 27703	Biotechnology	Common Stock Warrants(1)	—	—	1	—
Concentric Medical, Inc. 301 East Evelyn Avenue Mountain View, CA 94041	Medical Device	Preferred Stock Warrants(1)	—	—	84	875
EnteroMedics, Inc.(5) 2800 Patton Road Saint Paul, MN 55113	Medical Device	Common Stock Warrants(1)	—	—	347	2
OraMetrix, Inc. 2350 Campbell Creek Blvd., Suite 400 Richardson, TX 75082	Medical Device	Preferred Stock Warrants(1)	—	—	78	67
PixelOptics, Inc. 5241 Valleypark Drive Roanoke, VA 24019	Medical Device	Preferred Stock Warrants(2)	—	—	96	46
Tengion, Inc.(5) 2900 Potshop Lane, Suite 100 East Norriton, PA 19403	Medical Device	Common Stock Warrants(2)	—	—	62	—

Name and Address of Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
ViOptix, Inc. 47224 Misson Fall Ct. Fremont, CA 94539	Medical Device	Preferred Stock Warrants(1)	—	\$ —	\$ 13	—
Total Warrants — Life Science					<u>1,373</u>	<u>1,787</u>
<b>Warrants — Technology</b>						
OpenPeak, Inc. 1750 Clint Moore Road Boca Raton, FL 33487	Communications	Preferred Stock Warrants(1)	—	—	89	—
Everyday Health, Inc. 45 Main Street Brooklyn, NY 11201	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	69	116
SnagAJob.com, Inc. 4880 Cox Road, Suite 200 Glenn Allen, VA 23060	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	23	270
Starcite, Inc. 1600 Market Street, 27th Floor Philadelphia, PA 19103	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	24	27
Tagged, Inc. 840 Battery Street, 2nd Floor San Francisco, CA 94111	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	17	27
Xtera Communications, Inc. 500 W. Bethany Drive, Suite 100 Allen, TX 75013	Semiconductors	Preferred Stock Warrants	—	—	206	242
Vette Corp. 14 Manchester Square, Suite 210 Portsmouth, NH 03801	Data Storage	Preferred Stock Warrants(1)	—	—	75	48
XIOtech, Inc. 6455 Flying Cloud Drive Eden Prairie, MN 55344	Data Storage	Preferred Stock Warrants(1)	—	—	22	80
Cartera Commerce, Inc. One Cranberry Hill, Suite 203 Lexington, MA 02421	Internet and media	Preferred Stock Warrants(1)	—	—	16	30
Grab Networks, Inc. 21000 Atlantic Boulevard Dulles, VA 20166	Networking	Preferred Stock Warrants(1)	—	—	74	—
IntelePeer, Inc. 2855 Campus Drive, Suite 200 San Mateo, CA 94403	Networking	Preferred Stock Warrants(1)	—	—	39	524
Motion Computing, Inc. 8601 RR 2222, Building II Austin, TX 78730	Networking	Preferred Stock Warrants(1)	—	—	7	334
Impinj, Inc. 701 N. 34th Street, Suite 300 Seattle, WA 8103	Semi-conductor	Preferred Stock Warrants(1)	—	—	7	—
Clarabridge, Inc. 11400 Commerce Park Drive, Suite 500 Reston, VA 20191	Software	Preferred Stock Warrants(1)	—	—	27	24
Construction Software Technologies, Inc. 4500 Lake Forest Drive, Suite 502 Cincinnati, OH 45202	Software	Preferred Stock Warrants(2)	—	—	45	44
Courion Corporation 1900 West Park Drive, 1st Floor Westborough, MA 01581	Software	Preferred Stock Warrants(1)	—	—	85	100
DriveCam, Inc. 8911 Balboa Ave. San Diego, CA 92123	Software	Preferred Stock Warrants(1)	—	—	20	7
Netuitive, Inc. 12700 Sunrise Valley Drive Reston, VA 20191	Software	Preferred Stock Warrants(1)	—	—	27	21

Name and Address of Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
Recondo Technology, Inc. 6312 South Fiddlers Green Cr., Suite 600 East Greenwood Village, CO 80111	Software	Preferred Stock Warrants(1)	—	\$ —	\$ 47	47
Seapass Solutions, Inc. 90 Park Avenue, Suite 1720 New York, NY 10016	Software	Preferred Stock Warrants(2)	—	—	43	42
StreamBase Systems, Inc. 181 Spring Street Lexington, MA 02421	Software	Preferred Stock Warrants(1)	—	—	67	68
<b>Total Warrants — Technology</b>					<u>1,029</u>	<u>2,051</u>
<b>Warrants — Cleantech</b>						
Cereplast, Inc.(5) 300 North Continental Blvd., Suite 100 El Segundo, CA 90245	Waste Recycling	Common Stock Warrants(1)	—	—	112	28
Enphase Energy, Inc. 201 1st Street, Suite 300 Petaluma, CA 94952	Energy Efficiency	Preferred Stock Warrants(1)	—	—	175	136
Satcon Technology Corporation(5) 27 Drydock Avenue Boston, MA 02210	Energy Efficiency	Common Stock Warrants(1)	—	—	285	5
Tigo Energy, Inc. 420 Blossom Hill Road Los Gatos, CA 95032	Energy Efficiency	Preferred Stock Warrants(1)	—	—	101	79
<b>Total Warrants — Cleantech</b>					<u>673</u>	<u>248</u>
<b>Warrants — Healthcare information and services</b>						
BioScale, Inc. 4 Maguire Road Lexington, MA 02421	Diagnostics	Preferred Stock Warrants(1)	—	—	54	62
Precision Therapeutics, Inc. 2516 Jane Street Pittsburgh, PA 15203	Diagnostics	Preferred Stock Warrants	—	—	73	158
Radisphere National Radiology Group, Inc. 23625 Commerce Park, Suite 204 Beachwood, OH 44122	Diagnostics	Preferred Stock Warrants(1)	—	—	167	372
Aperio Technologies, Inc. 1360 Park Center Drive Vista, CA 92081	Other Healthcare	Preferred Stock Warrants	—	—	35	34
Patientkeeper, Inc. 880 Winter Street, Suite 300 Waltham, MA 02451	Other Healthcare	Preferred Stock Warrants	—	—	269	266
Singulex, Inc. 1650 Harbor Bay Parkway, Suite 200 Alameda, CA 94502	Other Healthcare	Preferred Stock Warrants(1)	—	—	40	31
Talyst, Inc. 11100 NE 8th Street, Suite 600 Bellevue, WA 98004	Other Healthcare	Preferred Stock Warrants(1)	—	—	100	82
<b>Total Warrants — Healthcare information and services</b>					<u>738</u>	<u>1,005</u>
<b>Total Warrants</b>					<u>3,813</u>	<u>5,091</u>
<b>Equity</b>						
Insmid Incorporated(5) 4851 Lake Brook Drive Glen Allen, VA 23058	Biotechnology	Common Stock(1)	—	—	227	169

Name and Address of Portfolio Company	Sector	Type of Investment <sup>(3)</sup>	Interest Rate <sup>(4)</sup>	Maturity	Cost of Investment <sup>(6)</sup>	Fair Value
Overture Networks Inc. 507 Airport Blvd., Building 111 Morrisville, NC 27650	Communications	Preferred Stock <sup>(1)</sup>	—	\$ —	\$ 480	524
<b>Total Equity</b>					<u>707</u>	<u>693</u>
<b>Total Investment Assets</b>					<u>\$ 179,651</u>	<u>\$ 180,186</u>
<b>Investment Liabilities</b>						
<b>Derivative Agreement</b>						
WestLB, AG		Interest rate swap — pay fixed/receive floating, Notional Amount \$10 million	3.58%	10/14/2011	—	13
<b>Total Investment Liabilities</b>					<u>\$ —</u>	<u>\$ 13</u>

- (1) Has been pledged as collateral under the WestLB Facility.
- (2) Has been pledged as collateral under the Wells Facility.
- (3) All investments are less than 5% ownership of the class and ownership of the portfolio company.
- (4) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company's debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment, such as deferred interest, commitment fees or prepayment fees. The majority of the debt investments are at fixed rates for the term of the loan. For each debt investment, we have provided the current interest rate in effect as of September 30, 2011.
- (5) Portfolio company is a public company.
- (6) For debt investments, represents principal balance less unearned income.



## MANAGEMENT

Our business and affairs are managed under the direction of our Board. Our Board consists of seven members, four of whom are not “interested persons” of our Company or of our Advisor as defined in Section 2(a)(19) of the 1940 Act and are “independent” as determined by our Board, consistent with the rules of NASDAQ. We refer to these individuals as our “independent directors.” Our Board elects our officers, who serve at the discretion of our Board.

### Board of Directors and Executive Officers

Our directors are divided into three classes. Each class of directors holds office for a three-year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. This classification of our Board may have the effect of delaying or preventing a change in control of our management. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualified. Our Board may elect directors to fill vacancies that are created either through an increase in the number of directors or due to the resignation, removal or death of any director.

### Directors

Information regarding our Board is set forth below. We have divided the directors into two groups — independent directors and interested directors. Interested directors are “interested persons” of the company as defined in Section 2(a)(19) of the 1940 Act.

<u>Interested Director Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Expiration of Current Term</u>
Robert D. Pomeroy, Jr.(1)	60	Chief Executive Officer and Chairman of the Board	2010	2013
Gerald A. Michaud(1)	59	President and Director	2010	2012
David P. Swanson(2)	38	Director	2010	2014

<u>Independent Director Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Expiration of Current Term</u>
James J. Bottiglieri	55	Director	2010	2014
Edmund V. Mahoney	60	Director	2010	2012
Brett N. Silvers	56	Director	2010	2012
Christopher B. Woodward	62	Lead Independent Director	2010	2013

(1) Interested person of the Company due to his position as an officer of the Company.

(2) Interested person of the Company due to his indirect ownership in the Advisor.

The address for each of Mr. Pomeroy and Mr. Michaud and each of the independent directors is c/o Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032. The address for Mr. Swanson is Compass Group Management LLC, 61 Wilton Road, 2nd Floor, Westport, Connecticut 06880.

## Executive Officers Who Are Not Directors

Information regarding our executive officers who are not directors is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Christopher M. Mathieu	46	Senior Vice President, Chief Financial Officer and Treasurer
John C. Bombara	47	Senior Vice President, General Counsel, Chief Compliance Officer and Secretary
Daniel S. Devorsetz	41	Senior Vice President and Chief Credit Officer

The address for each executive officer is c/o Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032.

## Biographical Information

### *Interested Directors*

*Robert D. Pomeroy, Jr., Chief Executive Officer and Chairman of the Board of Directors.* Mr. Pomeroy co-founded our Advisor in May 2003 and has been a managing member of our Advisor and its Chief Executive Officer since its inception. Mr. Pomeroy was President of GATX Ventures, Inc. (a subsidiary of GATX Corporation engaged in the venture lending business) from July 2000 to April 2003, with full profit and loss responsibility including managing a staff of 39 and chairing the investment committee with credit authority. GATX Ventures, Inc. had total assets of over \$270 million. Before joining GATX Ventures in July 2000, Mr. Pomeroy was Executive Vice President of Transamerica Business Credit (a subsidiary of Transamerica Corporation engaged in the venture lending business) and a co-founder of its Transamerica Technology Finance division. Mr. Pomeroy was the general manager of Transamerica Technology Finance from September 1996 to July 2000, with full profit and loss responsibility, credit authority and responsibility for a staff of 50 and over \$480 million in assets. Prior to co-founding Transamerica Technology Finance in September 1996, Mr. Pomeroy served from January 1989 to August 1996 as Senior Vice President and chaired the investment committee of Financing for Science International, Inc., a publicly traded venture financing and healthcare leasing company that was acquired by Finova Capital Corporation in August 1996. Mr. Pomeroy started his career with Crocker Bank in 1974 and has over 35 years of diversified lending and leasing experience. Mr. Pomeroy earned both a Master of Business Administration and a Bachelor of Science degree from the University of California at Berkeley.

*Gerald A. Michaud, President and Director.* Mr. Michaud co-founded our Advisor in May 2003 and has been a managing member of our Advisor and its President since its inception. From July 2000 to May 2003, Mr. Michaud was Senior Vice President of GATX Ventures, Inc. and its senior business development executive. From September 1996 to July 2000, Mr. Michaud was Senior Vice President of Transamerica Business Credit and a co-founder of its Transamerica Technology Finance division. Mr. Michaud was the senior business development executive for Transamerica Technology Finance with oversight of more than \$700 million in loans funded. From May 1993 to September 1996, Mr. Michaud served as a Vice President of Financing for Science International, Inc. Prior to 1993, Mr. Michaud founded and served as President of Venture Leasing and Capital. Mr. Michaud attended Northeastern University, Rutgers University and the University of Phoenix, completed a commercial credit training program with Shawmut Bank and has taken executive courses at Harvard Business School.

*David P. Swanson, Director.* Mr. Swanson has been a partner in The Compass Group since December 2005 and has been with The Compass Group and its affiliates since August 2001, serving as a Vice President from August 2001 to December 2003 and a Principal from December 2003 to December 2005. He is a member of the board of directors of AFM Holding Corporation, Liberty Safe Holding Corporation and CamelBak Acquisition Corp. From August 1996 to July 1998, Mr. Swanson was with Goldman Sachs in the Financial Institutions and Distressed Debt practices. Mr. Swanson earned a Master of Business Administration from the Harvard Business School MBA program and a Bachelor of Arts degree in Economics from the University of Chicago, where he was elected Phi Beta Kappa.

### ***Independent Directors***

*James J. Bottiglieri, Director.* Mr. Bottiglieri has served as a director of Compass Diversified Holdings, Inc. (“CODI”) since December 2005, as well as its chief financial officer since its inception in November 2005. Mr. Bottiglieri has also been an executive vice president of CODI’s external manager since 2005. Previously, Mr. Bottiglieri was the senior vice president/controller of WebMD Corporation. Prior to that, Mr. Bottiglieri was with Star Gas Corporation and a predecessor firm to KPMG LLP. Mr. Bottiglieri is a graduate of Pace University. Mr. Bottiglieri serves as a director for a majority of CODI’s subsidiary companies.

*Edmund V. Mahoney, Director.* Mr. Mahoney is Vice President, Investments (Chief Investment Officer) of Vantis Life Insurance Company (“Vantis Life”) and is responsible for all of its investment and portfolio management activities. Prior to joining Vantis Life in 2009, Mr. Mahoney was Senior Vice President, Compliance of Hartford Investment Management Company from 1994 through 2009, an investment adviser registered with the SEC with nearly \$150 billion of assets under management. From 1986 through 1994, Mr. Mahoney was Assistant Vice President and Assistant Treasurer of Aetna Life and Casualty Company, responsible for international finance, foreign exchange risk management, cash management and leasing activities. From 1979 through 1984, Mr. Mahoney was assistant treasurer of Urban Investment and Development Company, a real estate development and management company located in Chicago, Illinois, responsible for the company’s risk management, commercial paper and construction loan programs. Mr. Mahoney earned a Bachelor of Arts degree from Colby College, a Master of Business Administration (with distinction) from Babson College and attended real estate finance related post graduate courses at The Wharton School of the University of Pennsylvania.

*Brett N. Silvers, Director.* Mr. Silvers has been the President and Chief Executive Officer of WorldBusiness Capital, Inc. since he founded it in 2003. He was previously the Chairman and Chief Executive Officer of First International Bancorp, Inc. (NASDAQ: FNCE) for 13 years, during which time he led the bank’s expansion, successful initial public offering and sale to a Fortune 100 Company. Mr. Silvers currently serves on the Industry Trade Advisory Committee on Small and Minority Business of the U.S. Department of Commerce/Office of the U.S. Trade Representative. He has also served on the Board of Regents of the University of Hartford, the Board of Directors of the Private Export Funding Corporation, the New England Advisory Council of the Federal Reserve Bank of Boston and the Advisory Committee of the Export-Import Bank of the United States. Mr. Silvers received his Bachelor of Arts in Political Science from Yale University and Master of Arts in Law and Diplomacy from The Fletcher School, Tufts University.

*Christopher B. Woodward, Lead Independent Director.* Mr. Woodward is a private investor and corporate finance business advisor. He has previously held several domestic and global management positions as a Director, Deputy Chief Executive Officer and acting Chief Financial Officer with Canterbury of New Zealand from 2000 through 2009, as Vice President-Corporate Finance with Montgomery Securities and its predecessors from 1983 through 1987 and as a senior finance and management executive with various other large and small public and private enterprises. Mr. Woodward began his career with Coopers & Lybrand (a predecessor firm to PricewaterhouseCoopers) where he was a Certified Public Accountant engaged in providing audit, tax and financial advisory services to various sized public and private companies across a number of industries from 1973 through 1980. During such time, he was involved in that firm’s early Silicon Valley practice as it assisted emerging, venture-backed growth companies. Mr. Woodward earned both Bachelor of Science and Master in Business Administration degrees from the Haas School at the University of California, Berkeley.

### ***Executive Officers who are not Directors***

*Christopher M. Mathieu, Senior Vice President, Chief Financial Officer and Treasurer.* Mr. Mathieu is an original member of the team that founded our Advisor in May 2003 and its Chief Financial Officer since inception. Mr. Mathieu has been involved in the accounting, finance and venture debt industries for more than 22 years. From July 2000 to May 2003, Mr. Mathieu was Vice President — Life Sciences of GATX Ventures, Inc. and the primary business development officer for the life science sector. From September 1996 to July 2000, Mr. Mathieu was Vice President — Life Sciences of Transamerica Business Credit’s Technology Finance division where, in addition to co-developing and implementing the business plan used to form the division, he was the primary business development officer responsible for the life science sector and was directly responsible for more than \$200 million

in loan originations. From March 1993 to September 1996, Mr. Mathieu was a Vice President, Finance at Financing for Science International, Inc. Prior to March 1993, Mr. Mathieu was a manager with the financial services group of KPMG working with both public and private banks and commercial finance companies. Mr. Mathieu graduated with honors from Western New England College with a Bachelor of Science in Business Administration degree in accounting and is a Certified Public Accountant, chartered in the State of Connecticut.

*John C. Bombara, Senior Vice President, General Counsel, Chief Compliance Officer and Secretary.* Mr. Bombara is an original member of the team that founded our Advisor in May 2003 and has been its Senior Vice President, General Counsel and Chief Compliance Officer since our Advisor's inception. Mr. Bombara handles all legal functions for our Advisor, including overseeing the negotiation and documentation of its investments. Mr. Bombara has more than 20 years of experience providing legal services to financial institutions and other entities and individuals. Prior to joining our company, Mr. Bombara served as in-house counsel for GATX Ventures, Inc. from December 2000 to May 2003 where he directed the legal operations of the GATX Ventures' east coast office in closing and managing its portfolio of debt and equity investments in technology and life science companies throughout the United States. Mr. Bombara also represented GATX Corporation's other venture lending units in Canada and Europe. In addition, Mr. Bombara was responsible for assisting and advising senior management, credit analysts and marketing directors with respect to appropriate deal structures, market trends, risk management and compliance with corporate policies and worked with co-participant's business personnel and counsel in facilitating and coordinating joint investments. Prior to joining GATX, Mr. Bombara was a partner at the business law firm of Pepe & Hazard, LLP. Mr. Bombara received his Bachelor of Arts degree from Colgate University and his Juris Doctor degree from Cornell Law School.

*Daniel S. Devorsetz, Senior Vice President and Chief Credit Officer.* Mr. Devorsetz joined our Advisor in October 2004 and has been its Senior Vice President and the Chief Credit Officer since such time. He is responsible for underwriting and portfolio management. Mr. Devorsetz has more than 15 years of financial services and lending experience, including spending the past 10 years in the venture lending industry. Prior to joining the team, from May 2003 to October 2004, Mr. Devorsetz was a Vice President in General Electric Capital Corporation's Life Science Finance Group, where he was primarily responsible for the underwriting and portfolio management of debt and equity investments to venture capital-backed life science companies. Prior to that, from December 2000 to May 2003, Mr. Devorsetz was a Credit Manager at GATX Ventures, Inc. concentrating on the high tech and software industries. He was also a member of GATX's international credit committee. From July 1999 to December 2000, Mr. Devorsetz was a Vice President and Director of Analysis for Student Loans with Citigroup. Mr. Devorsetz's previous experience includes tenures in private placement investment banking and securitizations at Advest, Inc. and Ironwood Capital. Mr. Devorsetz received his Bachelor of Science degree from Cornell University.

#### **Committees of the Board of Directors**

Our Board has the following board committees:

*Audit Committee.* The members of the audit committee are James J. Bottiglieri, Brett N. Silvers and Christopher B. Woodward, each of whom are independent for purposes of the 1940 Act and NASDAQ corporate governance listing standards. James J. Bottiglieri serves as the chairman of the audit committee and is an "audit committee financial expert" as defined under the SEC rules. The audit committee operates pursuant to a written charter approved by our Board that sets forth the responsibilities of the audit committee. The audit committee is responsible for selecting our independent accountants, reviewing the plans, scope and results of the audit engagement with our independent accountants, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. For the year ended December 31, 2010, the audit committee met one time.

*Nominating and Corporate Governance Committee.* The members of the nominating and corporate governance committee are James J. Bottiglieri, Brett N. Silvers and Edmund V. Mahoney, each of whom are independent for purposes of the 1940 Act and the NASDAQ corporate governance listing standards. Edmund V. Mahoney serves as the chairman of the nominating and corporate governance committee. The nominating and corporate governance committee operates pursuant to a written charter approved by our Board. The nominating and corporate governance committee is responsible for identifying, researching and nominating directors for election by

our stockholders, selecting nominees to fill vacancies on our Board or a committee of our Board, developing and recommending to our Board a set of corporate governance principles and overseeing the evaluation of our Board and our management. Our procedures for stockholder nominees for director are described under “Description of Common Stock That We May Issue — Anti-takeover Effects of Provisions of Our Certificate of Incorporation, Bylaws, the DGCL and Other Arrangements.” For the year ended December 31, 2010, the nominating and corporate governance committee met one time.

*Compensation Committee.* We do not have a compensation committee because our executive officers do not receive any direct compensation from us. Decisions regarding executive compensation, to the extent they arise, will be made by the independent directors on our Board.

### Compensation of Directors

The following table sets forth compensation received by our directors during the period from October 28, 2010 to December 31, 2010. No compensation was paid prior to our IPO, which includes the period from January 1, 2010 to October 28, 2010.

Name	Fees Earned or Paid in Cash(1)(2)	Total
<i>Interested Directors</i>		
Robert D. Pomeroy, Jr.	None	None
Gerald A. Michaud	None	None
David P. Swanson	None	None
<i>Independent Directors</i>		
James J. Bottiglieri	\$ 28,750	\$28,750
Edmund V. Mahoney	\$ 23,750	\$23,750
Brett N. Silvers	\$ 23,750	\$23,750
Christopher B. Woodward	\$ 26,250	\$26,250

(1) For a discussion of the independent directors’ compensation, see below.

(2) We do not maintain a stock or option plan, non-equity incentive plan or pension plan for our directors.

As compensation for serving on our Board, each of our independent directors receives an annual fee of \$35,000. Each member of the audit committee is paid an annual fee of \$7,500 and each member of each other committee is paid an annual fee of \$5,000. In addition, the chairman of the audit committee receives an additional annual fee of \$10,000 and each chairman of any other committee receives an additional annual fee of \$7,500 for their additional services, if any, in these capacities. Our lead independent director is also paid an annual fee of \$10,000. We reimburse all our directors for their reasonable out-of-pocket expenses incurred in attending our Board and committee meetings. No compensation is, or is expected to be, paid to directors who are “interested persons” of the Company, as such term is defined in the 1940 Act.

### Leadership Structure of the Board of Directors and its Role in Risk Oversight

Our Chief Executive Officer, Robert D. Pomeroy, Jr., is Chairman of our Board and an “interested person” under Section 2(a)(19) of the 1940 Act. Christopher B. Woodward is our lead independent director and presides over executive sessions of independent directors. Under our bylaws, our Board is not required to have an independent chairman. Many significant corporate governance duties of our Board are executed by committees of independent directors, each of which has an independent chairman. We believe that it is in the best interests of our stockholders for Mr. Pomeroy to lead our Board because of his broad experience. See “— Biographical Information — Interested Directors” for a description of Mr. Pomeroy’s experience. As a co-founder of our Advisor, Mr. Pomeroy has demonstrated a track record of achievement on strategic and operating aspects of our business. While our Board regularly evaluates alternative structures, we believe that, as a BDC, it is appropriate for one of our co-founders, Chief Executive Officer and a member of our Advisor’s investment committee to perform

the functions of Chairman of the Board, including leading discussions of strategic issues we expect to face. We believe the current structure of our Board provides appropriate guidance and oversight while also enabling ample opportunity for direct communication and interaction between management and our Board.

There are a number of significant risks facing us which are described under the heading “Risk Factors.” Our Board uses its judgment to create and maintain policies and practices designed to limit or manage the risks we face, including: (1) the establishment of board-approved policies and procedures designed to serve our interests, (2) the application of these policies uniformly to directors, management and third-party service providers, (3) the establishment of independent board committees with clearly defined risk oversight functions and (4) review and analysis by the Board of reports by management and certain third-party service providers. Accordingly, our Board has approved a code of ethics to promote ethical conduct and prohibit certain transactions that could pose significant risks to us. Our Board has established a related party transaction review policy, under which it monitors the risks related to certain transactions that present a conflict of interest on a quarterly basis. Our Board has also established and approved an investment valuation process to manage risks relating to the valuations of our investments and to ensure that our financial statements appropriately reflect the performance of our portfolio of assets. Additionally, through the delegated authority of our Board, the audit committee has primary oversight over risks relating to our internal controls over financial reporting and audit-related risks, while the nominating and corporate governance committee has primary oversight over risks relating to corporate governance and oversees the evaluation of our Board and our management. Under this oversight structure, our management team manages the risks facing us in our day-to-day operations. We caution you, however, that although our Board believes it has established an effective system of oversight, no risk management system can eliminate risks or ensure that particular events do not adversely affect our business.

#### **Directors’ Qualifications and Review of Director Nominees**

Our nominating and corporate governance committee of our Board makes recommendations to our Board regarding the size and composition of our Board. The nominating and corporate governance committee annually reviews with our Board the composition of our Board, as a whole, and recommends, if necessary, measures to be taken so that our Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity required for our Board, as a whole, and contains at least the minimum number of independent directors required by applicable laws and regulations. The nominating and corporate governance committee is responsible for ensuring that the composition of the members of our Board accurately reflects the needs of our business and, in furtherance of this goal, proposing the addition of members and the necessary resignation of members for purposes of obtaining the appropriate members and skills. Our directors should possess such attributes and experience as are necessary to provide a broad range of personal characteristics including diversity, management skills, financial skills and technological and business experience. Our directors should also be able to commit the requisite time for preparation and attendance at regularly scheduled Board and committee meetings, as well as be able to participate in other matters necessary to ensure good corporate governance is practiced.

In evaluating a director candidate, the nominating and corporate governance committee considers factors that are in our best interests and our stockholders’ best interests, including the knowledge, experience, integrity and judgment of each candidate; the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which our Board desires to have represented; each candidate’s ability to devote sufficient time and effort to his or her duties as a director; independence and willingness to consider all strategic proposals; any other criteria established by our Board and any core competencies or technical expertise necessary to staff our Board’s committees. In addition, the nominating and corporate governance committee assesses whether a candidate possesses the integrity, judgment, knowledge, experience, skills and expertise that are likely to enhance our Board’s ability to manage and direct our affairs and business, including, when applicable, to enhance the ability of committees of our Board to fulfill their duties. In addition, the nominating and corporate governance committee may consider self-and peer-evaluations provided by each current director to determine, among other things, that the directors work well together and operate together effectively.

In addition to fulfilling the above criteria, four of the seven directors named above are considered independent under NASDAQ rules (Mr. Pomeroy, Mr. Michaud and Mr. Swanson being the exception as Mr. Pomeroy and Mr. Michaud are employees of our Advisor and Mr. Swanson is an indirect owner of the Advisor), and the

nominating and corporate governance committee believes that all seven nominees are independent of the influence of any particular stockholder or group of stockholders whose interests may diverge from the interests of our stockholders as a whole.

Each director brings a strong and unique background and set of skills to our Board, giving our Board, as a whole, competence and experience in a wide variety of areas, including corporate governance and board service, executive management, finance, private equity, workout and turnaround situations, manufacturing and marketing. Set forth below are our conclusions with regard to our directors.

Mr. Pomeroy has more than 35 years of experience in diversified lending and leasing, including positions in sales, marketing, and senior management. He has held the positions as chief executive officer or general manager of each organization which he has led since 1996. His responsibilities have included: accountability for the overall profit and loss of the organization, credit authority and credit committee oversight, strategic planning, human resource oversight including hiring, termination and compensation, reporting compliance for his business unit, investor relations, fund raising and all aspects of corporate governance. Mr. Pomeroy founded and has operated our Advisor, a Venture Lending management company. Prior to founding our Advisor, Mr. Pomeroy was the Senior Vice President of Financing for Science International, Inc., Executive Vice President of Transamerica Business Credit and the General Manager of its Technology Finance Division and President of GATX Ventures, Inc. This experience has provided him with the extensive judgment, experience, skills and knowledge to make a significant contribution as Chairman of our Board and supporting its ability to govern our affairs and business.

Mr. Michaud has been President of our Advisor since its formation. He has extensive knowledge and expertise in venture lending and has developed, implemented and executed on marketing strategies and products targeted at the venture backed technology and life science markets for a period of over 20 years. In addition, he has extensive knowledge in the formation of compensation plans for key employees involved in the marketing of venture loans. He is a member of our Advisor's Credit Committee responsible for approving all investments made by us and oversight of our portfolio. He has held senior management positions with several venture lending organizations within public companies, including Transamerica Business Credit and GATX Ventures, Inc. As senior vice president and senior business development officer at Transamerica, he was responsible for more than \$700 million in loan transactions. This experience, particularly with respect to marketing and business development, has provided Mr. Michaud with the judgment, knowledge, experience, skills and expertise that are likely to enhance our Board's ability to manage and direct our affairs.

Mr. Swanson is a partner in The Compass Group and currently serves on the board of directors of three privately held companies. With additional experience and knowledge gained from other board positions on various committees on private portfolio companies, he has a broad base of experience and skills to bring to our Board. Mr. Swanson has gained extensive experience as a partner with The Compass Group in evaluating and structuring transactions, completing due diligence, executing and closing on acquisitions and structuring financings of operating companies, as well as taking privately held companies public. Prior to The Compass Group, he gained experience in investment banking, including capital raising and business strategy and execution. Mr. Swanson provides our Board with expertise in business and corporate governance matters and assists our Board in its ability to manage and direct our affairs.

Mr. Bottiglieri brings to our Board substantial experience in identifying, managing and resolving accounting, tax and other financial issues often encountered by public companies through his positions as the chief financial officer and a director of CODI, as well as a director for a majority of CODI's subsidiary companies, and as the senior vice president/controller of WebMD. In addition, as the chief financial officer and director of a public company, CODI, Mr. Bottiglieri has developed an extensive understanding of the various periodic reporting requirements and corporate governance compliance matters that assists our Board in managing and directing our affairs. This experience, particularly with respect to the areas of accounting and corporate governance, provides our Board with expertise that assists our Board in its ability to manage and direct our affairs.

Mr. Mahoney brings to our Board pertinent experience in portfolio management, as well as in-depth knowledge of investment advisor compliance, funds management and performance measurement and pricing of investments. In addition, through his past experiences he has unique knowledge of international finance, as well as risk management strategies for foreign exchange and property and casualty operations. This vast experience,

particularly in the areas of business, risk management and compliance matters that affect investment companies, enhances our Board's ability to manage and direct our affairs.

Mr. Silvers is a former chief executive officer and director of a public company and FDIC-insured bank. He brings to our Board extensive knowledge of domestic lending to small and midsize businesses. From his experience as the current chief executive officer of a commercial finance company, Mr. Silvers provides the Board with specialized expertise in U.S. government guaranteed lending. His government and regulatory experience, garnered through his roles as a member of important advisory committees, councils and boards of directors relevant to our business, complements our Board's oversight of our Company and enhances its ability to manage and direct our affairs.

Mr. Woodward brings to our Board a deep understanding of corporate finance, including experience with private placements, public offerings, venture capital investing, international management and financial advising and restructuring. Additionally, as a practicing CPA with a leading firm, Mr. Woodward gained extensive accounting and audit experience. Mr. Woodward's financial and accounting expertise enhances the Board's oversight of our company and its ability to manage and direct our affairs.



## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Advisers Act. The investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment Management Agreement, we have agreed to pay the Advisor an annual management fee based on its adjusted gross assets as well as an incentive fee based on our investment performance.

Messrs. Pomeroy and Michaud control HTFM, our Advisor and Administrator.

We have also entered into the Administration Agreement with the Administrator. Under the Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our General Counsel and Secretary, Chief Compliance Officer, Chief Financial Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Administrator provides us with the office facilities and administrative services necessary to conduct our day-to-day operations.

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

In October 2010, we entered into a registration rights agreement with respect to 2,645,124 shares acquired by Compass Horizon Partners, LP and HTF-CHF Holdings LLC in connection with the exchange of membership interests in Compass Horizon for shares of our common stock. As a result and subject to the terms and conditions of the registration rights agreement, at any time following 365 days after the completion of our IPO the holders of a majority-in-interest of the shares subject to the registration rights agreement (including permitted transferees) can require up to a maximum of three times that we file a registration statement under the Securities Act relating to the resale of all or a part of the shares. In addition, the registration rights agreement also provides for piggyback registration rights with respect to any future registrations of the Company’s equity securities and the right to require us to register the resale of our shares on a “shelf” Form N-2 at any time following 365 days after the completion of the Company’s IPO. In connection with the IPO, Compass Horizon Partners, LP sold 1,340,000 shares. We are registering 1,305,124 shares pursuant to our contractual obligations under the registration rights agreement, as well as a total of 17,545 shares acquired by selling stockholders pursuant to our dividend reinvestment plan.

We believe that we derive substantial benefits from our relationship with our Advisor. Our Advisor may manage other investment vehicles (“Advisor Funds”) with the same investment strategy as us. The Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates may be precluded from co-investing in such investments. Accordingly, we may apply for exemptive relief which would permit us to co-invest subject to certain conditions, including, without limitation, approval of such investments by both a majority of our directors who have no financial interest in such transaction and a majority of directors who are not interested directors as defined in the 1940 Act.

## OUR ADVISOR

Our Advisor is located at 312 Farmington Avenue, Farmington, Connecticut 06032 and serves as our investment advisor pursuant to the Investment Management Agreement. Our Advisor is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our Board, our Advisor manages the day-to-day operations of, and provides investment advisory and management services to, us.

### Portfolio Management

The management of our investment portfolio is the responsibility of our Advisor's executive officers and its investment committee. The investment committee currently consists of Robert D. Pomeroy, Jr., Chief Executive Officer of our Advisor, Gerald A. Michaud, President of our Advisor, Daniel S. Devorsetz, Senior Vice President and Chief Credit Officer of our Advisor, and Kevin T. Walsh, Vice President and Senior Credit Officer of our Advisor. For more information regarding the business experiences of Messrs. Pomeroy, Michaud and Devorsetz, see "Management — Biographical Information — Interested Directors" and "Management — Biographical Information — Executive Officers who are not Directors."

Below is the biography for the portfolio manager whose biography has not been included elsewhere in this prospectus.

*Kevin T. Walsh, Vice President, Senior Credit Officer of Our Advisor.* Mr. Walsh has been the Senior Credit Officer of our Advisor since joining our Advisor in March 2006. Mr. Walsh is responsible for the underwriting of initial investments and the ongoing review of the portfolio accounts. Mr. Walsh has over 16 years of experience working with early stage, venture backed technology and life science companies. Prior to joining our Advisor in March 2006, Mr. Walsh was a Senior Vice President and Market Manager for Bridge Bank's Technology Banking and Capital Finance Divisions from September 2004 to March 2006 where he was responsible for new business generation as well as risk management activities within the Bank's asset-based lending sector. Prior to Bridge Bank, Mr. Walsh was a Vice President and Relationship Manager for Silicon Valley Bank in the Communication & Electronics Practice from September 1994 to June 2004. Mr. Walsh is a graduate of the California State University at Hayward, where he earned a Bachelor of Science degree in Business Administration.

The compensation of the members of the senior management committee of our Advisor are paid by our Advisor and includes an annual base salary, in certain cases an annual bonus based on an assessment of short-term and long-term performance and a portion of the incentive fee, if any, paid to our Advisor. In addition, Mr. Pomeroy and Mr. Michaud have equity interests in our Advisor and may receive distributions of profits in respect of those interests. See "Control Persons and Principal Stockholders" for information on ownership by portfolio managers of our securities.

## INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENTS

Our Advisor serves as our investment advisor and is registered as such under the Advisers Act. Our Advisor manages our day-to-day operations and also provides all administrative services necessary for us to operate.

### Investment Management Agreement

Under the terms of the Investment Management Agreement, our Advisor:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and
- closes, monitors and administers the investments we make, including the exercise of any voting or consent rights.

Our Advisor's services under the Investment Management Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired.

### Management Fee

Pursuant to the Investment Management Agreement, we pay our Advisor a fee for investment advisory and management services consisting of a base management fee and an incentive fee.

*Base Management Fee.* The base management fee is calculated at an annual rate of 2.00% of our gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage.

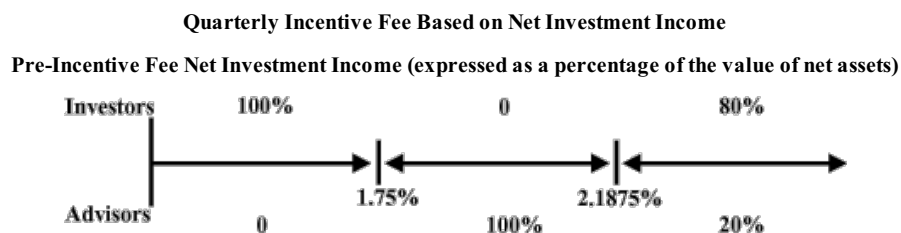
*Incentive Fee.* The incentive fee has two parts, as follows:

The first part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and fees for providing significant managerial assistance or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement, and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. The incentive fee with respect to our Pre-Incentive Fee Net Investment Income is 20.00% of the amount, if any, by which our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter exceeds a 1.75% (which is 7.00% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, 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," 100.00% 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 receives 20.00% of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply.

Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive Pre-Incentive Fee Net Investment Income in excess of the quarterly minimum hurdle rate, we pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses. Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2.00%

base management fee. These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the quarter for which the calculations are made.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:



**Percentage of Pre-Incentive Fee Net Investment Income allocated to first part of incentive fee**

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date), commencing on December 31, 2010, and equals 20% of our realized capital gains, if any, on a cumulative basis from the date of our election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less all previous amounts paid in respect of the capital gain incentive fee provided that the incentive fee determined as of December 31, 2010 was calculated for a period of shorter than twelve calendar months in order to take into account the realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of our election to be a BDC and ending December 31, 2010.

**Examples of Incentive Fee Calculation**

**Example 1: Income Related Portion of Incentive Fee for Each Fiscal Quarter**

*Alternative 1*

Assumptions:

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate<sup>(1)</sup> = 1.75%

Management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income – (management fee + other expenses)) = 0.55%

Pre-Incentive Fee Net Investment Income does not exceed hurdle rate; therefore, there is no income-related incentive fee.

*Alternative 2*

Assumptions:

Investment income (including interest, dividends, fees, etc.) = 2.80%

Hurdle rate<sup>(1)</sup> = 1.75%

Management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income – (management fee + other expenses)) = 2.10%

Incentive fee = 100.00% × Pre-Incentive Fee Net Investment Income (subject to “catch-up”)<sup>(4)</sup>

= 100.00% × (2.10% – 1.75%)

= 0.35%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, but does not fully satisfy the “catch-up” provision; therefore, the income related portion of the incentive fee is 0.35%.

*Alternative 3*

Assumptions:

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate<sup>(1)</sup> = 1.75%

Management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income – (management fee + other expenses)) = 2.30%

Incentive fee = 100.00% × Pre-Incentive Fee Net Investment Income (subject to “catch-up”)<sup>(4)</sup>

Incentive fee = 100.00% × “catch-up” + (20.00% × (Pre-Incentive Fee Net Investment Income – 2.1875%))

Catch up = 2.1875% – 1.75%  
= 0.4375%

Incentive fee = (100.00% × 0.4375%) + (20.00% × (2.30% – 2.1875%))  
= 0.4375% + (20.00% × 0.1125%)  
= 0.4375% + 0.0225%  
= 0.46%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, and fully satisfies the “catch-up” provision; therefore, the income related portion of the incentive fee is 0.46%.

(1) Represents 7.00% annualized hurdle rate.

(2) Represents 2.00% annualized base management fee.

(3) Excludes organizational and offering expenses.

(4) The “catch-up” provision is intended to provide our Advisor with an incentive fee of 20.00% on all Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.1875% in any fiscal quarter.

**Example 2: Capital Gains Portion of Incentive Fee**

*Alternative 1*

Assumptions:

Year 1: \$20 million investment made in Company A (“Investment A”), and \$30 million investment made in Company B (“Investment B”)

Year 2: Investment A sold for \$50 million and fair market value (“FMV”) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (No sales transaction)

Year 2: Capital gains incentive fee of \$6 million (\$30 million realized capital gains on sale of Investment A multiplied by 20%)

Year 3: None; \$5 million ((20% multiplied by (\$30 million cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous capital gains fee paid in Year 2))

Year 4: Capital gains incentive fee of \$200,000; \$6.2 million ((\$31 million cumulative realized capital gains multiplied by 20%) less \$6 million (capital gains incentive fee taken in Year 2))

## Alternative 2

### Assumptions:

Year 1: \$20 million investment made in Company A (“Investment A”), \$30 million investment made in Company B (“Investment B”) and \$25 million investment made in Company C (“Investment C”)

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

The capital gains incentive fee, if any, would be:

Year 1: None (no sales transaction)

Year 2: \$5 million capital gains incentive fee (20% multiplied by \$25 million (\$30 million realized capital gains on Investment A less unrealized capital depreciation on Investment B))

Year 3: \$1.4 million capital gains incentive fee<sup>(1)</sup> (\$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million capital gains incentive fee received in Year 2

Year 4: None (no sales transaction)

Year 5: None (\$5 million (20% multiplied by \$25 million (cumulative realized capital gains of \$35 million less realized capital losses of \$10 million)) less \$6.4 million cumulative capital gains incentive fee paid in Year 2 and Year 3<sup>(2)</sup>)

The hypothetical amounts of returns shown are based on a percentage of our total net assets and assume no leverage. There is no guarantee that positive returns will be realized and actual returns may vary from those shown in this example.

- (1) As illustrated in Year 3 of Alternative 1 above, if we were to be wound up on a date other than our fiscal year end of any year, we may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if we had been wound up on its fiscal year end of such year.
- (2) As noted above, it is possible that the cumulative aggregate capital gains fee received by the Investment Manager (\$6.4 million) is effectively greater than \$5 million (20.00% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation (\$25 million)).

### **Payment of our expenses**

All investment professionals and staff of our Advisor, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of its personnel allocable to such services, are provided and paid for by our Advisor. We bear all other costs and expenses of our operations and transactions, including, without limitation, those relating to:

- our organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firms);
- expenses, including travel expense, incurred by our Advisor or payable to third parties performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of all future offerings of our common stock and other securities, if any;
- the base management fee and any incentive management fee;

- distributions on our shares;
- administration fees payable under the Administration Agreement;
- the allocated costs incurred by Advisor as our Administrator in providing managerial assistance to those portfolio companies that request it;
- amounts payable to third parties relating to, or associated with, making investments;
- transfer agent and custodial fees;
- registration fees;
- listing fees;
- fees and expenses associated with marketing efforts;
- taxes;
- independent director fees and expenses;
- brokerage commissions;
- costs of preparing and filing reports or other documents with the SEC;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- our allocable portion of the fidelity bond;
- directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- indemnification payments;
- direct costs and expenses of administration, including audit and legal costs; and
- all other expenses incurred by us or the Administrator in connection with administering our business, such as the allocable portion of overhead under the Administration Agreement, including 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 our Chief Financial Officer and their respective staffs.

We reimburse our Advisor for costs and expenses incurred by our Advisor for office space rental, office equipment and utilities allocable to the performance by our Advisor of its duties under the Investment Management Agreement, as well as any costs and expenses incurred by our Advisor relating to any non-investment advisory, administrative or operating services provided by our Advisor to us or in the form of managerial assistance to portfolio companies that request it.

From time to time, our Advisor may pay amounts owed by us to third party providers of goods or services. We subsequently reimburse our Advisor for such amounts paid on our behalf.

Generally, our expenses are expensed as incurred in accordance with GAAP. To the extent we incur costs that should be capitalized and amortized into expense we also do so in accordance with GAAP, which may include amortizing such amount on a straight line basis over the life of the asset or the life of the services or product being performed or provided.

#### **Limitation of liability and indemnification**

The Investment Management Agreement provides that our Advisor and its officers, managers, partners, agents, employees, controlling persons and any other person or entity affiliated with our Advisor are not be liable to us for any act or omission by it in the supervision or management of our investment activities or for any loss sustained by us except for acts or omissions constituting willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations under the Investment Management Agreement. The Investment Management Agreement also provides for indemnification by us of our Advisor and its officers, managers, partners, agents, employees, controlling persons and any other person or entity affiliated with our Advisor for liabilities incurred by them

in connection with their services to us (including any liabilities associated with an action or suit by or in the right of us or our stockholders), but excluding liabilities for acts or omissions constituting willful misfeasance, bad faith or gross negligence or reckless disregard of their duties under the Investment Management Agreement subject to certain conditions.

#### **Board approval of the Investment Management Agreement**

Our Board held an in-person meeting on August 3, 2011, and considered and approved the Investment Management Agreement for another twelve month period. In its consideration of the Investment Management Agreement, our Board focused on information it had received relating to, among other things: (a) the nature, quality and extent of the advisory and other services to be provided to us by our Advisor; (b) comparative data with respect to advisory fees or similar expenses paid by other BDCs with similar investment objectives; (c) our projected operating expenses and expense ratio compared to BDCs with similar investment objectives; (d) any existing and potential sources of indirect income to our Advisor or the Administrator from their relationships with us and the profitability of those relationships; (e) information about the services to be performed and the personnel performing such services under the Investment Management Agreement; (f) the organizational capability and financial condition of our Advisor and its affiliates; (g) our Advisor's practices regarding the selection and compensation of brokers that may execute our portfolio transactions and the brokers' provision of brokerage and research services to our Advisor; and (h) the possibility of obtaining similar services from other third party service providers or through an internally managed structure.

Based on the information reviewed and the discussions related thereto, our Board, including a majority of the non-interested directors, concluded that the investment management fee rates are reasonable in relation to the services to be provided.

#### **Duration and termination**

The Investment Management Agreement was approved by our Board on October 25, 2010 and August 3, 2011. Unless terminated earlier as described below, it will continue in effect for a period of two years from its effective date. It will remain in effect from year to year thereafter if approved annually by our Board or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty by delivering notice of termination upon not more than 60 days' written notice to the other. See "Risk Factors — Risks Related to our Business and Structure — Our Advisor can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, results of operations or financial condition." We are dependent upon senior management personnel of our Advisor for our future success, and if our Advisor is unable to hire and retain qualified personnel or if our Advisor loses any member of its senior management team, our ability to achieve our investment objective could be significantly harmed.

#### **Administration Agreement**

We have entered into an Administration Agreement with the Administrator, to provide administrative services to us. For providing these services, facilities and personnel, we reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer and our Chief Financial Officer and their respective staffs.

From time to time, the Administrator may pay amounts owed by us to third-party providers of goods or services. We subsequently reimburse the Administrator for such amounts paid on our behalf.



**License Agreement**

We have entered into a license agreement with Horizon Technology Finance, LLC pursuant to which we were granted a non-exclusive, royalty-free right and license to use the service mark “Horizon Technology Finance.” Under this agreement, we have a right to use the “Horizon Technology Finance” service mark for so long as the Investment Management Agreement with our Advisor is in effect. Other than with respect to this limited license, we have no legal right to the “Horizon Technology Finance” service mark.

## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

No person is deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth certain information with respect to the beneficial and record ownership of our common stock as of December 13, 2011 by:

- each person known to us to own beneficially and of record more than 5% of the outstanding shares of our common stock;
- each of our directors and each of our executive officers; and
- all of our directors and executive officers as a group.

The percentage of common stock outstanding is based on 7,636,532 shares of common stock outstanding as of December 13, 2011.

Name of Beneficial Owner	Shares Owned	Percentage of Common Stock Outstanding
<b>Principal Stockholders</b>		
Compass Horizon Partners, LP <sup>(1)(3)</sup>	1,271,414	16.6%
HTF-CHF Holdings LLC <sup>(2)(3)</sup>	51,255	*%
Brown Advisory Holdings Incorporated <sup>(4)</sup>	393,065	5.1%
Silver Capital Management <sup>(5)</sup>	453,757	5.9%
<b>Directors and Executive Officers</b>		
Robert D. Pomeroy, Jr. <sup>(2)(6)</sup>	2,804	*%
Gerald A. Michaud <sup>(2)(6)</sup>	1,576	*%
David P. Swanson <sup>(6)</sup>	—	— %
James J. Bottiglieri <sup>(6)</sup>	3,166	*%
Edmund V. Mahoney <sup>(6)</sup>	—	— %
Brett N. Silvers <sup>(6)</sup>	—	— %
Christopher B. Woodward <sup>(6)</sup>	2,732	*%
Christopher M. Mathieu <sup>(2)(6)</sup>	1,055	*%
John C. Bombara <sup>(2)(6)</sup>	—	— %
Daniel S. Devorsetz <sup>(2)(6)</sup>	—	— %
All officers and directors as a group (10 persons)	62,588	*%

\* Less than 1%

- (1) Compass Horizon Partners, LP is the beneficial and record owner of 1,271,414 shares. Concorde Horizon Holdings LP is the limited partner of Compass Horizon Partners, LP and Navco Management, Ltd. is the general partner. Concorde Horizon Holdings LP and Navco Management, Ltd. are controlled by The Kattegat Trust, a Bermudian charitable trust, the trustee of which is Kattegat Private Trustees (Bermuda) Limited, a Bermudian trust company with its principal offices at 2 Reid Street, Hamilton HM 11, Bermuda.
- (2) HTF-CHF Holdings LLC is the record owner of 51,255 shares. Messrs. Pomeroy, Michaud, Mathieu, Bombara and Devorsetz own 33%, 33%, 15.5%, 9.3% and 6.2% of HTF-CHF Holdings LLC, respectively, each disclaiming beneficial ownership except to the extent of his pecuniary interest therein. The address for HTF-CHF Holdings LLC is 312 Farmington Avenue, Farmington, Connecticut 06032.
- (3) Compass Horizon Partners, LP and HTF-CHF Holdings LLC are also selling stockholders under this registration statement.
- (4) Based upon information contained in the Schedule 13G filed March 10, 2011. Pursuant to the Schedule 13G, Brown Advisory Holdings Incorporated is the beneficial owner of the common stock, such shares being owned by investment companies and other managed accounts of direct/indirect subsidiaries of Brown Advisory Holdings Incorporated. The address for Brown Advisory Holdings Incorporated is 901 South Bond Street, Ste. 400, Baltimore, Maryland, 21321.
- (5) Based upon information contained in the Schedule 13G/A filed February 14, 2011. Pursuant to the Schedule 13G/A, such securities are held by certain private funds managed by Silver Capital Management LLC. The address for Silver Capital Management LLC is 767 Third Avenue, 32nd Floor, New York, New York 10017.

(6) The address for each executive officer and director is c/o Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032. Each executive officer and director is the beneficial owner of the shares listed.

The following table sets forth the dollar range of our securities beneficially owned by our directors and employees primarily responsible for the day-to-day management of our investment portfolio as of December 13, 2011.

<u>Name</u>	<u>Dollar Range of Equity Securities in the Company(1)(2)</u>	<u>Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Director in Family of Investment Companies</u>
<b><i>Independent Directors</i></b>		
James J. Bottiglieri	\$10,001-\$50,000	\$10,001-\$50,000
Edmund V. Mahoney	None	None
Brett N. Silvers	None	None
Christopher B. Woodward	\$10,001-\$50,000	\$10,001-\$50,000
<b><i>Interested Directors</i></b>		
Robert D. Pomeroy, Jr.	Over \$100,000	Over \$100,000
Gerald A. Michaud	Over \$100,000	Over \$100,000
David P. Swanson	None	None
<b><i>Portfolio Management Employees</i></b>		
Christopher M. Mathieu	Over \$100,000	Over \$100,000
John C. Bombara	\$50,001-\$100,000	\$50,001-\$100,000
Daniel S. Devorsetz	\$50,001-\$100,000	\$50,001-\$100,000
Kevin T. Walsh	None	None

(1) Dollar ranges are as follows: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or over \$100,000.

(2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$15.89 on December 13, 2011, on the NASDAQ. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

## **DETERMINATION OF NET ASSET VALUE**

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares of common stock outstanding at the date as of which the determination is made. We conduct the valuation of our assets, pursuant to which our net asset value is determined, at all times consistent with GAAP and the 1940 Act.

In calculating the fair value of our total assets, investments for which market quotations are readily available are valued at such market quotations, which are generally obtained from an independent pricing service or one or more broker-dealers or market makers. However, debt investments with remaining maturities within 60 days that are not credit impaired are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

We value our investments at fair value which is the market value of our investments. There is no readily available market value for many of our portfolio investments, and we value those debt and equity securities that are not publicly traded or whose market value is not ascertainable at fair value as determined in good faith by our Board in accordance with our valuation policy. Our Board employs an independent third party valuation firm to assist in determining fair value.

The types of factors that our Board may take into account in determining fair value include: comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company considers the pricing indicated by the external event to corroborate the private equity valuation.

With respect to investments for which market quotations are not readily available or for which no indicative prices from pricing services or brokers or dealers have been received, our Board undertakes a multi-step valuation process each quarter, as described below:

- the quarterly valuation process begins with each portfolio company or investment being initially valued by our Advisor's investment professionals responsible for monitoring the investment;
- preliminary valuation conclusions are then documented and discussed with our Advisor's senior management;
- a third-party valuation firm is engaged by, or on behalf of, our Board to conduct independent appraisals of all investments at least once annually after reviewing our Advisor's preliminary valuations; and
- our Board then discusses the valuations and determines in good faith the fair value of each investment in the portfolio based on the analysis and recommendations of our Advisor and, when determined by our Board, an independent valuation firm.

Due to the inherent uncertainty in determining the fair value of investments that do not have a readily observable fair value, and the subjective judgments and estimates involved in those determinations, the fair value determinations by our Board, even though determined in good faith, may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

### **Determinations in connection with offerings**

In connection with offerings of shares of our common stock, our Board or one of its committees is required to make the determination that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made, unless we have stockholder approval to sell our common stock at an offering price per share less any underwriting commissions or discounts below the net asset

value per share of our common stock at such time. Our Board or an applicable committee of our Board considers the following factors, among others, in making such determination:

- the net asset value of our common stock most recently disclosed by us in the most recent periodic report that we filed with the SEC;
- our management's assessment of whether any material change in the net asset value of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recently disclosed net asset value of our common stock and ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between (i) the net asset value of our common stock most recently disclosed by us and our management's assessment of any material change in the net asset value of our common stock since that determination and (ii) the offering price of the shares of our common stock in the proposed offering.

This determination does not require that we calculate the net asset value of our common stock in connection with each offering of shares of our common stock, but instead it involves the determination by our Board or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provide in certain registration statements we file with the SEC) to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value of our common stock fluctuates by certain amounts in certain circumstances until the prospectus is amended, our Board will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine the net asset value of our common stock within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine the net asset value of our common stock to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations of our Board described in this section, and we will maintain these records with other records that we are required to maintain under the 1940 Act.

## **DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our cash distributions and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our Board authorizes, and we declare, a cash distribution, then our stockholders who have not “opted out” of our dividend reinvestment plan have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of a registered stockholder to have their cash distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying The Bank of New York Mellon, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than 10 days prior to the record date for distributions to stockholders. The plan administrator sets up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends or other distributions in cash and holds such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant’s account, issue a certificate registered in the participant’s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on NASDAQ on the valuation date, which date shall be as close as practicable to the dividend payment date for such dividend. Market price per share on that date will be the closing price for such shares on NASDAQ or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated. Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium at the time we issue new shares under the plan and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend payable to a stockholder.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator’s fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant’s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share trading fee from the proceeds.

Stockholders who receive distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder’s basis for determining gain or loss upon the sale of stock received in a dividend from us is equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend has a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder’s account. See “Material U.S. Federal Income Tax Considerations.”

Participants may terminate their accounts under the plan by notifying the plan agent via its website at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd), by filling out the transaction request form located at bottom of their statement and sending it to the plan agent at c/o BNY Mellon Shareowner Services, P.O. Box 358035, Pittsburgh, Pennsylvania 15252-8035 or by calling the plan administrator at 877-296-3711.

The plan may be terminated by us upon notice in writing mailed to each participant. All correspondence concerning the plan should be directed to the plan administrator by mail at Plan Administrator c/o BNY Mellon Shareowner Services, P.O. Box 358035, Pittsburgh, Pennsylvania 15252-8035.

If you withdraw or the plan is terminated, the plan administrator will continue to hold your shares in book-entry form unless you request that such shares be sold or issued. Upon receipt of your instructions, a certificate for each whole share in your account under the plan will be issued and you will receive a cash payment for any fraction of a share in your account.

If you hold your common stock with a brokerage firm that does not participate in the plan, you are not able to participate in the plan and any dividend reinvestment may be effected on different terms than those described above. Consult your financial advisor for more information.

## DESCRIPTION OF SECURITIES THAT WE MAY ISSUE

This prospectus contains a summary of the common stock, preferred stock, subscription rights, debt securities, warrants and units that we may issue. These summaries are not meant to be a complete description of each security. However, this prospectus and the accompanying prospectus supplement will contain the material terms and conditions for each security.

Any of the securities described herein and in any prospectus supplement may be issued separately or as part of a unit consisting of two or more securities, which may or may not be separable from one another.

Set forth below is a chart describing the shares of our capital stock authorized and outstanding as of December 13, 2011:

<b>Title of Class</b>	<b>Amount Authorized</b>	<b>Amount Held by Us or for Our Account</b>	<b>Amount Outstanding Exclusive of Amount Held by Us or for Our Account</b>
Common Stock	100,000,000	—	7,636,532
Preferred Stock	1,000,000	—	—



## DESCRIPTION OF COMMON STOCK THAT WE MAY ISSUE

### General

*The following description does not purport to be complete and is subject to the provisions of our certificate of incorporation and bylaws, each of which are filed as exhibits to this registration statement. The description is qualified in its entirety by reference to our certificate of incorporation and bylaws and to applicable law.*

Under the terms of our certificate of incorporation, our authorized common stock consists solely of 100,000,000 shares, par value \$0.001 per share, of which 7,636,532 shares were outstanding as of December 13, 2011. Our common stock is traded on NASDAQ under the symbol "HRZN." There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Our Board is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the DGCL, our Board may, without any action by our stockholders, amend our certificate of incorporation from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. Under the DGCL, our stockholders generally are not personally liable for our debts or obligations.

Under the terms of our certificate of incorporation, all shares of our common stock have equal rights as to earnings, assets, dividends and voting. When they are issued, shares of our common stock will be duly authorized, validly issued, fully paid and non-assessable. Distributions may be paid to the holders of our common stock if, as and when declared by our Board out of assets legally available therefor, subject to any preferential dividend rights of outstanding preferred stock. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders, including the election of directors, and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any series of preferred stock which we may designate and issue in the future. In addition, holders of our common stock may participate in our dividend reinvestment plan.

### Anti-takeover Effects of Provisions of Our Certificate of Incorporation, Bylaws, the DGCL and Other Arrangements

Certain provisions of our certificate of incorporation and bylaws, applicable provisions of the DGCL and certain other agreements to which we are a party may make it more difficult for or prevent an unsolicited third party from acquiring control of us or changing our Board and management. These provisions may have the effect of deterring hostile takeovers or delaying changes in our control or in our management. These provisions are intended to enhance the likelihood of continued stability in the composition of our Board and in the policies furnished by them and to discourage certain types of transactions that may involve an actual or threatened change in our control. The provisions also are intended to discourage certain tactics that may be used in proxy fights. These provisions, however, could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts.

*Election of Directors.* Our certificate of incorporation and bylaws provide that the affirmative vote of a plurality of all votes cast at a meeting of stockholders duly called at which a quorum is present shall be sufficient to elect a director. Under our certificate of incorporation, our Board may amend the bylaws to alter the vote required to elect directors.

*Classified Board of Directors.* The classification of our Board and the limitations on removal of directors and filling of vacancies could have the effect of making it more difficult for a third party to acquire us, or of discouraging a third party from acquiring us. Our Board is divided into three classes, with the term of one class expiring at each annual meeting of stockholders. At each annual meeting, one class of directors is elected to a three-year term. This provision could delay for up to two years the replacement of a majority of our Board.

*Number of Directors; Vacancies; Removal.* Our certificate of incorporation provides that, by amendment to our bylaws, our Board is authorized to change the number of directors without the consent of stockholders to any number between three and nine.

Our certificate of incorporation provides that, subject to the rights of any holders of preferred stock, any vacancy on our Board, however the vacancy occurs, including a vacancy due to an enlargement of our Board, may only be filled by vote of a majority of the directors then in office.

Subject to the rights of any holders of preferred stock, a director may be removed at any time at a meeting called for that purpose, but only for cause and only by the affirmative vote of the holders of at least 75% of the shares then entitled to vote for the election of the respective director.

The limitations on the ability of our stockholders to remove directors and fill vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of us.

*Action by Stockholders.* Under our certificate of incorporation and bylaws, stockholder action can only be taken at an annual meeting or special meeting and not by written action in lieu of a meeting. This may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

*Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to our Board and the proposal of business to be considered by stockholders may be made only (1) by or at the direction of our Board, (2) pursuant to our notice of meeting or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. Nominations of persons for election to our Board at a special meeting may be made only (1) by or at the direction of our Board, or (2) provided that our Board has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws. The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board, to inform our stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

*Amendments to Certificate of Incorporation and Bylaws.* The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws requires a greater percentage. Our certificate of incorporation provides that the affirmative vote of 75% of the then outstanding shares entitled to vote generally in the election of directors voting together as a single class is required to amend provisions of our certificate of incorporation relating to the classification, size and vacancies of our Board, as well as the removal of directors. However, if 66 <sup>2</sup>/<sub>3</sub>% of the continuing directors have approved such amendment or repeal, the affirmative vote for such amendment or repeal shall be a majority of such shares. The affirmative vote of 75% of the then outstanding shares voting together as a single class is required to amend provisions of our certificate of incorporation relating to the calling of a special meeting of stockholders or the ability to amend or repeal the bylaws. Our certificate of incorporation permits our Board to amend or repeal our bylaws, provided that any amendment or repeal shall require the approval of at least 66 <sup>2</sup>/<sub>3</sub>% of the continuing directors. The stockholders do not have the right to adopt or repeal the bylaws.

*Stockholder Meetings.* Our certificate of incorporation and bylaws provide that any action required or permitted to be taken by stockholders at an annual meeting may only be taken if it is properly brought before such meeting. For business to be properly brought before an annual meeting by a stockholder, the stockholder must provide timely notice to our Secretary. Notice is timely if it is delivered by a nationally recognized courier service or

mailed by first class United States mail and received not earlier than 90 days nor more than 120 days in advance of the anniversary of the date our proxy statement was released to stockholders in connection with the previous year's annual meeting. Action taken at a special meeting of stockholders is limited to the purposes stated in the properly provided notice of meeting. These provisions could have the effect of delaying until the next stockholder meeting actions that are favored by the holders of a majority of our outstanding voting securities.

*Calling of Special Meetings by Stockholders.* Our certificate of incorporation and bylaws provide that special meetings of the stockholders may only be called by our Board, Chairman, Chief Executive Officer or President.

*Section 203 of the DGCL.* We are subject to the provisions of Section 203 of the DGCL. In general, these provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- prior to such time, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- on or after the date the business combination is approved by the board of directors and authorized at a meeting of stockholders, by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition (in one transaction or a series of transactions) of 10% or more of either the aggregate market value of all the assets of the corporation or the aggregate market value of all the outstanding stock of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

*Conflict with 1940 Act.* Our bylaws provide that, if and to the extent that any provision of the DGCL or our bylaws conflict with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

*Approval of Certain Transactions.* To convert us to an open-end investment company, to merge or consolidate us with any entity in a transaction as a result of which the governing documents of the surviving entity do not contain substantially the same anti-takeover provisions as are provided in our certificate of incorporation, to liquidate and dissolve us, or to amend any of the anti-takeover provisions discussed herein, our certificate of incorporation requires the affirmative vote of a majority of our continuing directors followed by the favorable vote of the holders of at least 75% of each affected class or series of our shares, voting separately as a class or series, unless such amendment has been approved by the holders of at least 80% of the then outstanding shares of our capital stock, voting together as a single class. If approved in the foregoing manner, our conversion to an open-end

investment company could not occur until 90 days after the stockholders meeting at which such conversion was approved and would also require at least 30 days prior notice to all stockholders. As part of any such conversion to an open-end investment company, substantially all of our investment policies and strategies and portfolio would have to be modified to assure the degree of portfolio liquidity required for open-end investment companies. In the event of conversion, the common shares would cease to be listed on any national securities exchange or market system. Stockholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the 1940 Act, at their net asset value, less such redemption charge, if any, as might be in effect at the time of a redemption. You should assume that it is not likely that our Board would vote to convert us to an open-end fund.

The 1940 Act defines “a majority of the outstanding voting securities” as the lesser of a majority of the outstanding shares and 67% of a quorum of a majority of the outstanding shares. For the purposes of calculating “a majority of the outstanding voting securities” under our certificate of incorporation, each class and series of our shares vote together as a single class, except to the extent required by the 1940 Act or our certificate of incorporation, with respect to any class or series of shares. If a separate class vote is required, the applicable proportion of shares of the class or series, voting as a separate class or series, also will be required.

Our Board has determined that provisions with respect to our Board and the stockholder voting requirements described above, which voting requirements are greater than the minimum requirements under the DGCL or the 1940 Act, are in the best interest of stockholders generally.

Our WestLB Facility also contains a covenant that prohibits us from merging or consolidating with any other person or selling all or substantially all of our assets without the prior written consent of WestLB. If we were to engage in such a transaction without such consent, WestLB could accelerate our repayment obligations under, and/or terminate, our WestLB Facility. In addition, it is a default under our Wells Facility if (i) a person or group of persons (within the meaning of the Exchange Act) acquires beneficial ownership of 20% or more of our issued and outstanding stock or (ii) during any twelve month period individuals who at the beginning of such period constituted our Board cease for any reason, other than death or disability, to constitute a majority of the directors in office. If either event were to occur, Wells could accelerate our repayment obligations under, and/or terminate, our Wells Facility. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Current Borrowings.”

#### **Limitations of liability and indemnification**

The indemnification of our officers and directors is governed by Section 145 of the DGCL, and our certificate of incorporation and bylaws. Subsection (a) of the DGCL Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if (1) such person acted in good faith, (2) in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and (3) with respect to any criminal action or proceeding, such person had no reasonable cause to believe the person’s conduct was unlawful.

Subsection (b) of the DGCL Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of the corporation, and except that no indemnification may be made in respect of any claim, issue or matter as to which such person has been adjudged to be liable to the corporation unless

and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court deems proper.

The DGCL Section 145 further provides that to the extent that a present or former director or officer is successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145, or in defense of any claim, issue or matter therein, such person will be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with such action, suit or proceeding. In all cases in which indemnification is permitted under subsections (a) and (b) of Section 145 (unless ordered by a court), it will be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the applicable standard of conduct has been met by the party to be indemnified. Such determination must be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (4) by the stockholders. The statute authorizes the corporation to pay expenses incurred by an officer or director in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of the person to whom the advance will be made, to repay the advances if it is ultimately determined that he or she was not entitled to indemnification. The DGCL Section 145 also provides that indemnification and advancement of expenses permitted under such Section are not to be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise. The DGCL Section 145 also authorizes the corporation to purchase and maintain liability insurance on behalf of its directors, officers, employees and agents regardless of whether the corporation would have the statutory power to indemnify such persons against the liabilities insured.

Our certificate of incorporation provides that our directors will not be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the DGCL. The DGCL Section 102(b)(7) provides that the personal liability of a director to a corporation or its stockholders for breach of fiduciary duty as a director may be eliminated except for liability (1) for any breach of the director's duty of loyalty to the corporation or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the DGCL, relating to unlawful payment of dividends or unlawful stock purchases or redemption of stock or (4) for any transaction from which the director derives an improper personal benefit.

Under our certificate of incorporation, we fully indemnify any person who was or is involved in any actual or threatened action, suit or proceeding by reason of the fact that such person is or was one of our directors or officers. So long as we are regulated under the 1940 Act, the above indemnification and limitation of liability is limited by the 1940 Act or by any valid rule, regulation or order of the SEC thereunder. The 1940 Act provides, among other things, that a company may not indemnify any director or officer against liability to it or its security holders to which he or she might otherwise be subject by reason of his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct.

We have obtained liability insurance for our directors and officers. In addition, we have entered into indemnification agreements with each of our directors and officers in order to effect the foregoing except to the extent that such indemnification would exceed the limitations on indemnification under Section 17(h) of the 1940 Act.

## DESCRIPTION OF PREFERRED STOCK THAT WE MAY ISSUE

Under the terms of our certificate of incorporation, our authorized preferred stock consists of 1,000,000 shares, par value \$0.001 per share, of which no shares were outstanding as of December 13, 2011, and our Board is authorized to issue shares of preferred stock in one or more series without stockholder approval. Particular terms of any preferred stock we offer will be described in the prospectus supplement relating to such preferred stock shares.

Our Board has discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of each series of preferred stock. Every issuance of preferred stock will be required to comply with the requirements of the 1940 Act. The 1940 Act limits our flexibility as to certain rights and preferences of the preferred stock that our certificate of incorporation may provide and requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to our common stock, and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if and for so long as dividends on the preferred stock are in arrears by two years or more and (3) such shares be cumulative as to dividends and have a complete preference over our common stock to payment of their liquidation preference in the event of a dissolution. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. The features of the preferred stock will be further limited by the requirements applicable to RICs under the Code. The purpose of authorizing our Board to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with providing leverage for our investment program, possible acquisitions and other corporate purposes, could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, a majority of our outstanding voting stock.

For any series of preferred stock that we may issue, our Board will determine, and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

The preferred stock may be either fixed rate preferred stock or variable rate preferred stock, which is sometimes referred to as “auction rate” preferred stock. All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our Board, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends, if any, thereon will be cumulative. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock can range from quarterly to weekly and are subject to extension.

## **DESCRIPTION OF SUBSCRIPTION RIGHTS THAT WE MAY ISSUE**

We may issue subscription rights to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting or other arrangement with one or more underwriters or other persons pursuant to which such underwriters or other persons would purchase any offered securities remaining unsubscribed for after such subscription rights offering. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering. Our common stockholders will indirectly bear the expenses of such subscription rights offerings, regardless of whether our common stockholders exercise any subscription rights.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the title of such subscription rights;
- the exercise price or a formula for the determination of the exercise price for such subscription rights;
- the number or a formula for the determination of the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights would commence, and the date on which such rights shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;
- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and
- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

### **Exercise of Subscription Rights**

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby or another report filed with the SEC. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the applicable prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement, we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. We may determine to offer any unsubscribed offered shares of common stock directly to stockholders, persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting or other arrangements, as set forth in the applicable prospectus supplement. We have not previously completed such an offering of subscription rights.

## DESCRIPTION OF DEBT SECURITIES THAT WE MAY ISSUE

We may issue debt securities in one or more series in the future that, if publically offered, will be under an indenture to be entered into between the Company and a trustee. The specific terms of each series of debt securities we publically offer will be described in the particular prospectus supplement relating to that series. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, U.S. federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination; and
- any other material terms.

Any debt securities we issue may be secured or unsecured obligations. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue debt only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of debt. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds. In addition, while any indebtedness and other senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors — Risks Relating to Our Business and Structure — Regulations governing our operation as a BDC may limit our ability to, and the way in which we, raise additional capital, which may expose us to additional risks.”



## DESCRIPTION OF WARRANTS THAT WE MAY ISSUE

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common or preferred stock or a specified principal amount of debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- terms of any rights to redeem or call such warrants;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive

principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our Board approves such issuance on the basis that the issuance is in our best interests and the best interests of our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

## DESCRIPTION OF UNITS THAT WE MAY ISSUE

As will be specified in the applicable prospectus supplement, we may issue units comprised of one or more of the other securities described in this prospectus in any combination and offer such units to the public. Each unit may also include debt obligations of third parties, such as U.S. Treasury securities. Each unit would be issued so that the holder of the unit would also be the holder of each security included in the unit. Thus, the holder of a unit would have the rights and obligations of a holder of each included security. The prospectus supplement will describe:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;
- a description of the terms of any unit agreement governing the units;
- a description of the provisions for the payment, settlement, transfer or exchange of the units; and
- whether the units will be issued in fully registered or global form.

We will ensure that any issuance of third party securities other than U.S. Treasury securities complies with SEC interpretive guidance.

If a unit includes a share of common stock, the public offering price for the unit will reflect a price per share of common stock that equals or exceeds our then current net asset value per share, unless the requirements of Section 63 of the 1940 Act have been satisfied, as set forth under the sections entitled “Offerings” and “Description of Common Stock that We May Issue.”

Units may also include warrants to purchase shares of our common stock in the future. We may generally only offer such warrants pursuant to the requirements discussed in the section entitled “Description of Warrants That We May Issue.”

Units may also include subscription rights to purchase shares of our common stock. We will offer subscription rights in a unit pursuant to the description in the section entitled “Description of Subscription Rights That We May Issue.”

Units may also include debt securities. If such debt securities are convertible into shares of our common stock, the exercise price for such conversion will not be less than the net asset value per share of our common stock at the time of issuance of the unit (unless the Section 63 requirements are met). See “Description of Debt Securities That We May Issue.”

The descriptions of the units and any applicable underlying security or pledge or depositary arrangements in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable agreements and are subject to, and qualified in their entirety by reference to, the terms and provisions of the applicable agreements, forms of which have been or will be filed as exhibits to the registration statement of which this prospectus forms a part.

## SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

As of December 13, 2011, we had 7,636,532 shares of our common stock outstanding, 1,334,002 of which are “restricted” securities within the meaning of Rule 144 promulgated under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including under the safe harbor provisions contained in Rule 144. Pursuant to a registration rights agreement, we have agreed to file one or more registration statements in respect of the shares of common stock that are restricted securities. We (and, therefore, indirectly our stockholders) will bear customary costs and expenses incurred in connection with the registration of such shares, although any selling stockholders will be responsible for underwriting discounts and selling commissions in a demand registration and their pro rata share of the underwriting discounts and selling commissions in a piggyback registration. This registration statement registers 1,322,669 shares of common stock that are “restricted” securities.

### Rule 144

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell their securities provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or any time during the 90 days preceding, a sale, would be subject to additional restrictions by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the number of shares of our common stock then outstanding; or
- the average weekly trading volume of our common stock on NASDAQ for the four calendar weeks prior to the sale.

Such sales must also comply with the manner of sale, current public information and notice provisions of Rule 144.

## SELLING STOCKHOLDERS

Below is information with respect to the number of shares of common stock owned by each of the selling stockholders. This common stock is being registered pursuant to our contractual commitment to the selling stockholders under the registration rights agreement to permit public secondary trading of such common stock. Selling stockholders, which term includes their transferees, pledgees or donees or their successors, may offer the shares of common stock indicated below for resale from time to time.

We were formed in March 2010 to continue and expand the business of Compass Horizon, our wholly-owned subsidiary, which owned all of the portfolio investments that we acquired upon the closing of our IPO. Immediately prior to the completion of our IPO, the owners of membership interests of Compass Horizon exchanged their membership interests in Compass Horizon for 2,645,124 shares of our common stock (the "Share Exchange"). Concurrent with the IPO, Compass Horizon Partners LP sold 1,340,000 shares of our common stock, which it received in the Share Exchange. After the completion of the IPO, Compass Horizon Partners, LP owned 1,258,249 shares of our common stock, or 16.7% of the total then outstanding shares of our common stock. Upon completion of the Share Exchange and the IPO, HTF-CHF owned 46,875 shares of our common stock, or 0.6% of the total then outstanding shares of our common stock. We are registering a total of 1,322,669 shares of common stock that may be offered by the selling stockholders, of which a total of 1,305,124 shares of common stock may be offered as a result of our contractual commitment to the selling stockholders pursuant to the registration rights agreement we entered into in connection with the Share Exchange and a total of 17,545 shares of common stock may be offered by the selling stockholders which were obtained by them pursuant to our dividend reinvestment plan.

The following table sets forth, as of December 13, 2011:

- The name of each selling stockholder;
- The number of shares of common stock and the percentage of the total shares of common stock outstanding that each selling stockholder beneficially owned (prior to any offering under this registration statement);
- The number of shares of common stock beneficially owned by each selling stockholder that may be offered under this registration statement, some or all of which shares may be sold pursuant to this prospectus and any prospectus supplement; and
- The number of shares of common stock and the percentage of total shares of common stock outstanding to be beneficially owned by each selling stockholder following an offering under this registration statement, assuming the sale pursuant to such offering of all shares that are beneficially owned by such selling stockholder and registered under this registration statement.

The information included in the table under "Shares Beneficially Owned After an Offering" assumes that each stockholder below will elect to sell all of the shares set forth under "Number of Shares That May be Sold in an Offering." The selling stockholders may sell all, some or none of their shares in an offering pursuant to the registration statement, of which this prospectus forms a part. See "Plan of Distribution." The information regarding the identity of each of the selling stockholders and their affiliations, including their beneficial ownership of shares of our common stock, is based solely on information provided by or on behalf of such selling stockholder.

Name of Selling Stockholder	Shares Beneficially Owned Prior to an Offering <sup>(1)</sup>			Shares Beneficially Owned After an Offering <sup>(2)(3)</sup>	
	Number of Shares	Percent of Class	Number of Shares That May be Sold in an Offering	Number of Shares	Percent of Class
Compass Horizon Partners, LP <sup>(4)</sup>	1,271,414	16.6%	1,271,414	0	0
HTF-CHF Holdings LLC <sup>(5)</sup>	51,255	0.7%	51,255	0	0
<b>TOTAL for Selling Stockholders</b>	<b>1,322,669</b>	<b>17.3%</b>	<b>1,322,669</b>	<b>0</b>	<b>0</b>

- 
- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. In accordance with such rule, a person shall be deemed to be the beneficial owner of a security if that person has the right to acquire such security within 60 days of December 15, 2011.
  - (2) Assumes the sale of all shares eligible for sale in this prospectus and no other purchases or sales of our common stock. This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that we have with respect to the present intent of persons listed as selling stockholders.
  - (3) Applicable percentage of ownership is based upon 7,636,532 shares of our common stock outstanding on December 13, 2011.
  - (4) Concorde Horizon Holdings LP is the limited partner of Compass Horizon Partners, LP and Navco Management, Ltd. is the general partner. Concorde Horizon Holdings LP and Navco Management, Ltd. are controlled by The Kattegat Trust, a Bermudian charitable trust, the trustee of which is Kattegat Private Trustees (Bermuda) Limited, a Bermudian trust company with its principal offices at 2 Reid Street, Hamilton HM 11, Bermuda.
  - (5) Messrs. Pomeroy, Michaud, Mathieu, Bombara and Devorsetz each own 33%, 33%, 15.5%, 9.3% and 6.2% of HTF-CHF Holdings LLC, respectively. The address for HTF-CHF Holdings LLC is 312 Farmington Avenue, Farmington, Connecticut 06032.

## REGULATION

We have elected to be regulated as a BDC under the 1940 Act and elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by “a majority of our outstanding voting securities” as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company’s shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (ii) more than 50% of the outstanding shares of such company. Our bylaws provide for the calling of a special meeting of stockholders at which such action could be considered upon written notice of not less than ten or more than sixty days before the date of such meeting.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an “underwriter” as that term is defined in the Securities Act. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds, we generally cannot acquire more than 3% of the voting stock of any investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. None of our investment policies are fundamental and any may be changed without stockholder approval.

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our Board who are not interested persons and, in some cases, prior approval by the SEC. For example, under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates may be precluded from co-investing in private placements of securities. As a result of one or more of these situations, we may not be able to invest as much as we otherwise would in certain investments or may not be able to liquidate a position as quickly.

We expect to be periodically examined by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office.

We and our Advisor have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We and our Advisor have designated a chief compliance officer to be responsible for administering the policies and procedures.

### Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

- Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from

any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

- is organized under the laws of, and has its principal place of business in, the United States;
- is not an investment company (other than a SBIC wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
- satisfies any of the following:
  - has a market capitalization of less than \$250 million or does not have any class of securities listed on a national securities exchange;
  - is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company and, as a result thereof, the BDC has an affiliated person who is a director of the eligible portfolio company; or
  - is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million.
- Securities of any eligible portfolio company which we control.
- Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
- Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.
- Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

The regulations defining qualifying assets may change over time. We may adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

#### **Managerial Assistance to Portfolio Companies**

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in “— Qualifying Assets.” However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. Where the BDC purchases such securities in conjunction with one or more other persons acting together, the BDC will satisfy this test if one of the other persons in the group makes available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

#### **Issuance of Additional Shares**

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, issue and sell our common stock, at a price below the current net asset value of the common stock, or issue and sell warrants, options or rights to acquire such common stock, at a price below the current net asset value



of the common stock if our Board determines that such sale is in our best interest and in the best interests of our stockholders, and our stockholders have approved our policy and practice of making such sales within the preceding 12 months. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our Board, closely approximates the market value of such securities.

#### **Temporary Investments**

Pending investment in other types of “qualifying assets,” as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we invest in highly rated commercial paper, U.S. Government agency notes, U.S. Treasury bills or in repurchase agreements relating to such securities that are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, subject to certain exceptions, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our Advisor monitors the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

#### **Senior Securities; Derivative Securities**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities are outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors — Risks Related to our Business and Structure — We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.”

The 1940 Act also limits the amount of warrants, options and rights to common stock that we may issue and the terms of such securities.

#### **Code of Ethics**

We and our Advisor have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and Rule 204A-1 under the Advisers Act, respectively, that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code’s requirements. You may read and copy the code of ethics at the SEC’s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 942-8090. In addition, each code of ethics is attached as an exhibit to our registration statement on Form N-2 (File No. 333-165570 filed with the SEC on July 19, 2010 as Exhibits (r)(1) and (r)(2)), which is available on the SEC’s Internet site at [www.sec.gov](http://www.sec.gov). You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102.

#### **Proxy Voting Policies and Procedures**

We have delegated our proxy voting responsibility to our Advisor. The proxy voting policies and procedures of our Advisor are set forth below. The guidelines are reviewed periodically by our Advisor and our independent directors and, accordingly, are subject to change.

### ***Introduction***

Our Advisor is registered with the SEC as an investment adviser under the Advisers Act. As an investment adviser registered under the Advisers Act, our Advisor has fiduciary duties to us. As part of this duty, our Advisor recognizes that it must vote client securities in a timely manner free of conflicts of interest and in our best interests and the best interests of our stockholders. Our Advisor's proxy voting policies and procedures have been formulated to ensure decision-making is consistent with these fiduciary duties.

These policies and procedures for voting proxies are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

### ***Proxy policies***

Our Advisor votes proxies relating to our portfolio securities in what our Advisor perceives to be the best interest of our stockholders. Our Advisor reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its effect on the portfolio securities held by us. Although our Advisor generally votes against proposals that may have a negative effect on our portfolio securities, our Advisor may vote for such a proposal if there exist compelling long-term reasons to do so.

Our Advisor's proxy voting decisions are made by those senior officers who are responsible for monitoring each of our investments. To ensure that a vote is not the product of a conflict of interest, our Advisor requires that (1) anyone involved in the decision-making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote and (2) employees involved in the decision-making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

### ***Proxy Voting Records***

You may obtain information about how we voted proxies by making a written request for proxy voting information to: Chief Compliance Officer, Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032 or by calling (860) 676-8654.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 under the Exchange Act, our principal executive officer and principal financial officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 under Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 under the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting, which must be audited by our independent registered public accounting firm; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

## **NASDAQ Global Market Corporate Governance Regulations**

NASDAQ has adopted corporate governance regulations that listed companies must comply with. We intend to be in compliance with these corporate governance listing standards. We intend to monitor our compliance with all future listing standards and to take all necessary actions to ensure that we are in compliance therewith.

### **Privacy Principles**

We are committed to maintaining the privacy of stockholders and to safeguarding our nonpublic personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any nonpublic personal information relating to our stockholders, although certain nonpublic personal information of our stockholders may become available to us. We do not disclose any nonpublic personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to nonpublic personal information about our stockholders to our Advisor's employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our stockholders.

## **BROKERAGE ALLOCATIONS AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our Board, our Advisor is primarily responsible for the execution of the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions. Our Advisor does not execute transactions through any particular broker or dealer, but seeks to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While our Advisor generally seeks reasonably competitive trade execution costs, we do not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, our Advisor may select a broker based partly upon brokerage or research services provided to it and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if our Advisor determines in good faith that such commission is reasonable in relation to the services provided.

## PLAN OF DISTRIBUTION

We may offer, from time to time, in one or more underwritten public offerings, at-the-market offerings, negotiated transactions, block trades, best efforts or a combination of these methods, 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 comprising any combination of the foregoing, on the terms to be determined at the time of an offering. The selling stockholders may sell from time to time 1,322,669 shares of common stock beneficially owned by them, held for their own account or the shares may be sold by donees, transferees, pledgees or other successors in interest that receive such shares from the selling stockholders as a gift or other non-sale related transfer (collectively, the "Selling Stockholder Shares"). The 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. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, through agents or through a combination of any such methods of sale and the selling stockholders may sell the Selling Stockholder Shares owned by them and offered hereby directly or through one or more underwriters, broker-dealers or agents or through a combination of any such methods of sale. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the securities by us and/or the Selling Stockholder Shares by the selling stockholders will be named in the applicable prospectus supplement, such prospectus supplement to also set forth the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them, the offering price of the securities and the proceeds to us and/or the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to dealers, and any securities exchanges on which the securities and/or the Selling Stockholder Shares may be listed. Only underwriters named in the prospectus supplement will be underwriters of the securities offered by the prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices; provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders or (iii) under such circumstances as the SEC may permit.

In connection with the sale of the securities and the Selling Stockholder Shares, underwriters or agents may receive compensation from us and/or the selling stockholders or from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities and the Selling Stockholder Shares to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the securities and the Selling Stockholder Shares may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and/or the selling stockholders and any profit realized by them on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us and/or the selling stockholders will be described in the applicable prospectus supplement. The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than 8% for the sale of any securities and/or Selling Stockholder Shares being registered. We may also reimburse the underwriter or agent for certain fees and legal expenses incurred by it.

If underwriters are used in the sale of any securities and/or the Selling Stockholder Shares, the securities and/or Selling Stockholder Shares will be acquired by the underwriters for their own accounts and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities and/or Selling Stockholder Shares may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters' obligations to purchase the securities and/or Selling Stockholder Shares will be subject to certain conditions precedent.

We and/or the selling stockholders may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we and/or the selling stockholders pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

In connection with sales of the shares of common stock or otherwise, we and/or the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. We and/or the selling stockholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. We and/or the selling stockholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

We, the selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by us, the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We may offer shares of common stock in a public offering at-the-market to a select group of investors, in which case you may not be able to participate in such offering and you will experience dilution unless you purchase additional shares of our common stock in the secondary market at the same or lower price.

Any common stock and/or Selling Stockholder Shares sold pursuant to a prospectus supplement may be traded on NASDAQ, or another exchange on which the common stock, including Selling Stockholder Shares, are traded. The other offered securities may or may not be listed on a securities exchange and we cannot assure you that there will be a liquid trading market for certain of the securities.

Under agreements that we and/or the selling stockholders may enter into, underwriters, dealers and agents who participate in the distribution of shares of our securities and/or the Selling Stockholder Shares may be entitled to indemnification by us and/or the selling stockholders against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us and/or the selling stockholders in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we and/or the selling stockholders will authorize underwriters or other persons acting as our and/or the selling stockholders' agents to solicit offers by certain institutions to purchase shares of our securities from us or the Selling Stockholder Shares from the selling stockholders pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us and/or the selling stockholders. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities and/or the Selling Stockholder Shares shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We and/or the selling stockholders may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us and/or the selling stockholders or borrowed from us, the selling stockholders or others

to settle those sales or to close out any related open borrowings of stock, and may use securities received from us and/or the selling stockholders in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement. We, one of our affiliates and/or the selling stockholders may loan or pledge securities to a financial institution or other third party that in turn may sell the securities or Selling Stockholder Shares using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or the Selling Stockholder Shares or in connection with a simultaneous offering of other securities offered by this prospectus or otherwise.

In order to comply with the securities laws of certain states, if applicable, our securities and the Selling Stockholder Shares will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, our securities and/or the Selling Stockholder Shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

We will pay customary costs and expenses of the registration of the shares of common stock pursuant to the registration rights agreement, including, without limitation, SEC filing fees and expenses of compliance with state securities or “blue sky” laws; provided, however, that each selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreement, or the selling stockholders will be entitled to contribution.

We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreement, or we may be entitled to contribution.

There can be no assurance that any selling stockholder will sell any or all of the Selling Stockholder Shares registered pursuant to the registration statement, of which this prospectus forms a part. Once sold under the registration statement, of which this prospectus forms a part, the Selling Stockholder Shares will be freely tradable in the hands of persons other than our affiliates.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in shares of our common stock. This discussion is based on the provisions of the Code and the regulations of the U.S. Department of Treasury promulgated thereunder (“Treasury regulations”) each as in effect as of the date of this prospectus. These provisions are subject to differing interpretations and change by legislative or administrative action, and any change may be retroactive. This discussion does not constitute a detailed explanation of all U.S. federal income tax aspects affecting us and our stockholders and does not purport to deal with the U.S. federal income tax consequences that may be important to particular stockholders in light of their individual investment circumstances or to some types of stockholders subject to special tax rules, such as financial institutions, broker-dealers, insurance companies, tax-exempt organizations, partnerships or other pass-through entities, persons holding our common stock in connection with a hedging, straddle, conversion or other integrated transaction, non-U.S. stockholders (as defined below) engaged in a trade or business in the United States or persons who have ceased to be U.S. citizens or to be taxed as resident aliens. This discussion also does not address any aspects of U.S. estate or gift tax or foreign, state or local tax. This discussion assumes that our stockholders hold their shares of our common stock as capital assets for U.S. federal income tax purposes (generally, assets held for investment). No ruling has been or will be sought from the IRS regarding any matter discussed herein.

For purposes of this discussion:

- a “U.S. stockholder” means a beneficial owner of shares of our common stock that is, for U.S. federal income tax purposes: (1) a person who is a citizen or individual resident of the United States; (2) a domestic corporation (or other domestic entity taxable as a corporation for U.S. federal income tax purposes); (3) an estate whose income is subject to U.S. federal income tax regardless of its source; or (4) a trust if (a) a U.S. court is able to exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (b) the trust has in effect a valid election to be treated as a domestic trust for U.S. federal income tax purposes; and
- a “non-U.S. stockholder” means a beneficial owner of shares of our common stock that is not a U.S. stockholder or a partnership (or an entity or arrangement treated as a partnership) for U.S. federal income tax purposes.

If a partnership or other entity classified as a partnership for U.S. federal income tax purposes holds our shares, the U.S. tax treatment of the partnership and each partner generally will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level. A stockholder that is a partnership holding shares of our common stock, and each partner in such a partnership, should consult their own tax advisers with respect to the purchase, ownership and disposition of shares of our common stock.

**Tax matters are very complicated and the tax consequences to each stockholder of an investment in our securities will depend on the facts of its particular situation. Stockholders are urged to consult their own tax advisers to determine the U.S. federal, state, local and foreign tax consequences to them of an investment in our securities, including applicable tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty, and the effect of any possible changes in the tax laws.**

### Taxation of the company

As a BDC, we have elected to be treated, and qualified, as a RIC under Subchapter M of the Code commencing with our taxable year ending on December 31, 2010. As a RIC, we generally do not pay corporate-level federal income taxes on any ordinary income or capital gains that we timely distribute to our stockholders as dividends.

To continue to qualify as a RIC, we must, among other things, (a) derive in each taxable year at least 90% of our gross income from dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, other income (including but not limited to gain from options, futures or forward contracts) derived with respect to our business of investing in stock, securities or currencies, or net income derived from an interest in a “qualified publicly traded partnership” (a “QPTP”) (the “90% Gross Income Test”); and (b) diversify our holdings so that, at the end of each quarter of each



taxable year (i) at least 50% of the market value of our total assets is represented by cash and cash items, U.S. Government securities, the securities of other RICs and other securities, with other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of such issuer (subject to the exception described below), and (ii) not more than 25% of the market value of our total assets is invested in the securities of any issuer (other than U.S. Government securities and the securities of other regulated investment companies), the securities of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses, or the securities of one or more QPTPs (the “Diversification Tests”). In the case of a RIC that furnishes capital to development corporations, there is an exception relating to the Diversification Tests described above. This exception is available only to RICs which the SEC determines to be principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, which we refer to as “SEC Certification.” We have not sought SEC Certification, but it is possible that we will seek SEC Certification in future years. If we receive SEC Certification, we generally will be entitled to include, in the computation of the 50% value of our assets (described in (b)(i) above), the value of any securities of an issuer, whether or not we own more than 10% of the outstanding voting securities of the issuer, if the basis of the securities, when added to our basis of any other securities of the issuer that we own, does not exceed 5% of the value of our total assets.

As a RIC, in any fiscal year with respect to which we distribute an amount equal to at least 90% of the sum of our (i) investment company taxable income (which includes, among other items, dividends, interest and the excess of any net realized short-term capital gains over net realized long-term capital losses and other taxable income (other than any net capital gain), reduced by deductible expenses) determined without regard to the deduction for dividends and distributions paid and (ii) net tax-exempt interest income (which is the excess of our gross tax-exempt interest income over certain disallowed deductions) (the “Annual Distribution Requirement”), we (but not our stockholders) generally are not subject to U.S. federal income tax on investment company taxable income and net capital gains that we distribute to our stockholders. We intend to distribute annually all or substantially all of such income. To the extent that we retain our net capital gains for investment or any investment company taxable income, we are subject to U.S. federal income tax. We may choose to retain our net capital gains for investment or any investment company taxable income, and pay the associated federal corporate income tax, including the 4% U.S. federal excise tax described below.

We are subject to a nondeductible 4% U.S. federal excise tax on certain of our undistributed income, unless we timely distribute (or are deemed to have timely distributed) an amount equal to the sum of:

- at least 98% of our ordinary income (not taking into account any capital gains or losses) for the calendar year;
- at least 98% (or, for our taxable years beginning in 2011, 98.2%) of the amount by which our capital gains exceed our capital losses (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made by us to use our taxable year); and
- certain undistributed amounts from previous years on which we paid no U.S. federal income tax.

While we intend to distribute any income and capital gains in order to avoid imposition of this 4% U.S. federal excise tax, we may not be successful in avoiding entirely the imposition of this tax. In that case, we will be liable for the tax only on the amount by which we do not meet the foregoing distribution requirement.

If we borrow money, we may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on our payment of dividends may prevent us from satisfying distribution requirements, and may, therefore, jeopardize our qualification for taxation as a RIC, or subject us to the 4% U.S. federal excise tax.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while any senior securities are outstanding unless we meet the applicable asset coverage ratios. See “Regulation — Senior Securities; Derivative Securities.” Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual

Distribution Requirement or to avoid the 4% U.S. federal excise tax, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

A RIC is limited in its ability to deduct expenses in excess of its “investment company taxable income” (which is, generally, ordinary income plus the excess of net short-term capital gains over net long-term capital losses). If our expenses in a given year exceed investment company taxable income, we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

#### **Failure to qualify as a RIC**

If we were unable to qualify for treatment as a RIC, and if certain cure provisions described below are not available, we would be subject to tax on all of our taxable income (including our net capital gains) at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions, including distributions of net long-term capital gain, would generally be taxable to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate stockholders would be eligible to claim a dividends received deduction with respect to such dividends, and for tax years beginning before 2013, non-corporate stockholders would generally be able to treat such dividends as “qualified dividend income,” which is subject to reduced rates of U.S. federal income tax. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder’s tax basis, and any remaining distributions would be treated as a capital gain. If we fail to qualify as a RIC for a period greater than two taxable years, to qualify as a RIC in a subsequent year we may be subject to regular corporate tax on any net built-in gains with respect to certain of our assets (*i.e.*, the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had been liquidated) that we elect to recognize on requalification or when recognized over the next ten years.

We may decide to be taxed as a regular corporation even if we would otherwise qualify as a RIC if we determine that treatment as a corporation for a particular year would be in our best interests.

#### **Company investments**

Certain of our investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, including the dividends received deduction, (ii) convert lower taxed long-term capital gains and qualified dividend income into higher taxed short-term capital gains or ordinary income, (iii) convert ordinary loss or a deduction into capital loss (the deductibility of which is more limited), (iv) cause us to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions and (vii) produce income that will not qualify as good income for purposes of the 90% Gross Income Test. We monitor our transactions and may make certain tax elections and may be required to borrow money or dispose of securities to mitigate the effect of these rules and to prevent disqualification of us as a RIC but there can be no assurance that we will be successful in this regard.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt instruments that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in taxable income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable

year. Since in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the Annual Distribution Requirement.

Accordingly, we may need to sell some of our assets at times that we would not consider advantageous, raise additional debt or equity capital or forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take action that are advantageous) in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources to satisfy the Annual Distribution Requirement, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level federal income tax on all our income.

*Warrants.* Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally are treated as capital gain or loss. The treatment of such gain or loss as long-term or short-term depends on how long we held a particular warrant. Upon the exercise of a warrant acquired by us, our tax basis in the stock purchased under the warrant equals the sum of the amount paid for the warrant plus the strike price paid on the exercise of the warrant.

*Foreign Investments.* In the event we invest in foreign securities, we may be subject to withholding and other foreign taxes with respect to those securities. We do not expect to satisfy the requirement to pass through to our stockholders their share of the foreign taxes paid by us.

*Passive Foreign Investment Companies.* We may invest in the stock of a foreign corporation which is classified as a “passive foreign investment company” (within the meaning of Section 1297 of the Code) (“PFIC”). In general, if a special tax election has not been made, we are required to pay tax at ordinary income rates on any gains and “excess distributions” with respect to PFIC stock as if such items had been realized ratably over the period during which we held the PFIC stock, plus an interest charge. Any adverse tax consequences of a PFIC investment may be limited if we are eligible to elect alternative tax treatment with respect to such investment. No assurances can be given that any such election will be available or that, if available, we will make such an election.

*Foreign Currency Transactions.* Under the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time we accrue income or other receivables or accrue expenses or other liabilities denominated in a foreign currency and the time we actually collect such receivables or pay such liabilities generally are treated as ordinary income or loss. Similarly, on disposition of debt instruments and certain other instruments denominated in a foreign currency, gains or losses attributable to fluctuations in the value of the foreign currency between the date of acquisition of the instrument and the date of disposition also are treated as ordinary gain or loss. These gains and losses, referred to under the Code as “section 988” gains or losses, may increase or decrease the amount of our investment company taxable income to be distributed to our stockholders as ordinary income.

The remainder of this discussion assumes that we qualify as a RIC for each taxable year.

#### **Taxation of U.S. stockholders**

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our “investment company taxable income” (which is, generally, our net ordinary income plus net short-term capital gains in excess of net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares of our common stock. For the tax years beginning on or before December 31, 2012, to the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations and if certain holding period requirements are met, such distributions generally will be treated as qualified dividend income and eligible for a maximum U.S. federal tax rate of 15%. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15% maximum U.S. federal tax rate.

Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as “capital gain dividends” will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum U.S. federal tax rate of 15% through 2012) in the case of individuals, trusts or estates, regardless of the U.S. stockholder’s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in

excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder. Stockholders receiving dividends or distributions in the form of additional shares of our common stock purchased in the market should be treated for U.S. federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the stockholders receiving cash dividends or distributions will receive, and should have a cost basis in the shares received equal to such amount. Stockholders receiving dividends in newly issued shares of our common stock will be treated as receiving a distribution equal to the value of the shares received, and should have a cost basis of such amount.

Although we currently intend to distribute any net long-term capital gains at least annually, we may in the future decide to retain some or all of our net long-term capital gains but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include their share of the deemed distribution in income as if it had been distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal their allocable share of the tax paid on the deemed distribution by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for their common stock. Since we expect to pay tax on any retained capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

Generally, you will be provided with a written notice designating the amount of any (i) ordinary income dividends no later than 30 days after the close of the taxable year, and (ii) capital gain dividends or other distributions no later than 60 days after the close of the taxable year.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, if we pay you a dividend in January which was declared in the previous October, November or December to stockholders of record on a specified date in one of these months, then the dividend will be treated for tax purposes as being paid by us and received by you on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of its investment.

*Alternative Minimum Tax.* As a RIC, we are subject to alternative minimum tax, also referred to as "AMT," but any items that are treated differently for AMT purposes must be apportioned between us and our U.S. stockholders and this may affect the U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each U.S. stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless a different method for particular item is warranted under the circumstances.

*Dividend Reinvestment Plan.* Under the dividend reinvestment plan, if a U.S. stockholder owns shares of common stock registered in its own name, the U.S. stockholder will have all cash distributions automatically reinvested in additional shares of common stock unless the U.S. stockholder opts out of our dividend reinvestment plan by delivering a written notice to our dividend paying agent prior to the record date of the next dividend or distribution. See "Dividend Reinvestment Plan." Any distributions reinvested under the plan will nevertheless

remain taxable to the U.S. stockholder. The U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

*Dispositions.* A U.S. stockholder will recognize gain or loss on the sale, exchange or other taxable disposition of shares of our common stock in an amount equal to the difference between the U.S. stockholder's adjusted basis in the shares disposed of and the amount realized on their disposition. Generally, gain recognized by a U.S. stockholder on the disposition of shares of our common stock will result in capital gain or loss to a U.S. stockholder, and will be a long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss recognized by a U.S. stockholder upon the disposition of shares of our common stock held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by the U.S. stockholder. A loss recognized by a U.S. stockholder on a disposition of shares of our common stock will be disallowed as a deduction if the U.S. stockholder acquires additional shares of our common stock (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In this case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Present U.S. law taxes both long-term and short-term capital gains of corporations at the rates applicable to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

*Tax Shelter Reporting Regulations.* Under applicable Treasury regulations, if a U.S. stockholder recognizes a loss with respect to shares of \$2 million or more for a non-corporate U.S. stockholder or \$10 million or more for a corporate U.S. stockholder in any single taxable year (or a greater loss over a combination of years), the U.S. stockholder must file with the IRS a disclosure statement on Form 8886. Direct U.S. stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, U.S. stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to U.S. stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. U.S. stockholders should consult their own tax advisers to determine the applicability of these regulations in light of their individual circumstances.

*Backup Withholding.* We are required in certain circumstances to backup withhold on taxable dividends or distributions paid to non-corporate U.S. stockholders who do not furnish us with their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

**U.S. stockholders should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in shares of our common stock. Additionally, U.S. stockholders should be aware of recently enacted legislation that generally imposes, effective for payments made after December 31, 2012, a 30% federal withholding tax on dividends and proceeds from the sale of our common stock held by or through foreign entities, as described below in “— Recently Enacted Legislation.”**

#### **Taxation of non-U.S. stockholders**

The following discussion only applies to non-U.S. stockholders. Whether an investment in shares of our common stock is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of our common stock by a non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their own tax advisers before investing in shares of our common stock.

*Actual and Deemed Distributions; Dispositions.* Distributions of ordinary income dividends to non-U.S. stockholders, subject to the discussion below, will generally be subject to withholding of U.S. federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current or accumulated earnings and profits even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a non-U.S. stockholder directly, would not be subject to withholding. Different tax consequences may result if the non-U.S. stockholder is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for 183 days or more during a taxable year and certain other conditions are satisfied. Special certification requirements apply to a non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.

Under a provision that is scheduled to expire for taxable years beginning after December 31, 2011, properly designated dividends received by a non-U.S. stockholder generally are exempt from U.S. federal withholding tax when they (1) are paid in respect of our “qualified net interest income” (generally, our U.S. source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10% stockholder, reduced by expenses that are allocable to such income), or (2) were paid in connection with our “qualified short-term capital gains” (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). Depending on the circumstances, we may designate all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a non-U.S. stockholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or an acceptable substitute or successor form). In the case of shares held through an intermediary, the intermediary could withhold even if we designate the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. stockholders should contact their intermediaries with respect to the application of these rules to their accounts.

Actual or deemed distributions of our net capital gains to a non-U.S. stockholder, and gains recognized by a non-U.S. stockholder upon the sale of our common stock, generally will not be subject to federal withholding tax and will not be subject to federal income tax unless (i) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the United States or (ii) in the case of an individual, the non-U.S. stockholder is present in the United States for 183 days or more during a taxable year and certain other conditions are satisfied.

If we distribute our net capital gains in the form of deemed rather than actual distributions (which we may do in the future), a non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder’s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the non-U.S. stockholder is not otherwise required to obtain a U.S. taxpayer identification number or file a federal income tax return.

For a corporate non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate (or at a lower rate if provided for by an applicable tax treaty). Accordingly, investment in shares of our common stock may not be appropriate for certain non-U.S. stockholders.

*Dividend Reinvestment Plan.* Under our dividend reinvestment plan, if a non-U.S. stockholder owns shares of common stock registered in its own name, the non-U.S. stockholder will have all cash distributions automatically reinvested in additional shares of common stock unless it opts out of our dividend reinvestment plan by delivering a written notice to our dividend paying agent prior to the record date of the next dividend or distribution. See “Dividend Reinvestment Plan.” If the distribution is a distribution of our investment company taxable income, is not designated by us as a short-term capital gains dividend or interest-related dividend and it is not effectively connected with a U.S. trade or business of the non-U.S. stockholder (or, if required by an applicable income tax treaty, is not attributable to a U.S. permanent establishment of the non-U.S. stockholder), the amount distributed (to the extent of our current or accumulated earnings and profits) will be subject to withholding of U.S. federal income

tax at a 30% rate (or lower rate provided by an applicable treaty) and only the net after-tax amount will be reinvested in common shares. If the distribution is effectively connected with a U.S. trade or business of the non-U.S. stockholder, generally the full amount of the distribution will be reinvested in the plan and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. persons. The non-U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount reinvested. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the non-U.S. stockholder's account.

*Backup Withholding.* A non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on taxable dividends or distributions unless the non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. stockholder or otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

**Non-U.S. stockholders should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in our shares. Additionally, non-U.S. stockholders should be aware of recently enacted legislation that generally imposes, effective for payments made after December 31, 2012, a 30% federal withholding tax on dividends and proceeds from the sale of our common stock held by or through foreign entities, as described below in “— Recently Enacted Legislation.”**

### **Recently Enacted Legislation**

President Obama recently signed into law H.R. 2847 (the “Recently Enacted Legislation”), which will generally impose a federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a foreign financial institution unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). The Recently Enacted Legislation will also generally impose a federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. stockholder might be eligible for refunds or credits of such taxes. Stockholders are encouraged to consult with their own tax advisors regarding the possible implications of the Recently Enacted Legislation on their investment in our common stock.

Recently, Congress enacted the Regulated Investment Company Modernization Act of 2010 (“Modernization Act”) which generally applies to taxable years of a RIC beginning on or after December 22, 2010. In general, and among other things, the Modernization Act (i) eliminates the “preferential dividend” rule, which under current law may disallow certain RIC distributions for purposes of the Annual Distribution Requirement, (ii) allows a RIC to carry forward capital losses, arising after the effective date, indefinitely, and (iii) provides certain mitigation exceptions for certain failures to satisfy the 90% Income Test and the Diversification Tests.

## **CUSTODIAN, TRANSFER AGENT, DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held by Bank of America, N.A. pursuant to a custodian services agreement. The principal business address of Bank of America, N.A. is 135 South LaSalle Street, Chicago, Illinois 60603. Securities held through Credit I and Credit II are held under custodial agreements with U.S. Bank National Association, which acts as custodian for West LB pursuant to the WestLB Facility and as custodian for Wells pursuant to the Wells Facility. The principal address for U.S. Bank National Association is 1133 Rankin Street, St. Paul, Minnesota 55116. BNY Mellon Shareowner Services acts as our transfer agent, dividend paying agent and registrar pursuant to a transfer agency agreement. The principal business address of BNY Mellon Shareowner Services is 480 Washington Blvd., Jersey City, New Jersey 07310.

## **LEGAL MATTERS**

Certain legal matters in connection with the securities offered by this prospectus will be passed upon for us by Squire, Sanders & Dempsey (US) LLP and certain legal matters will be passed upon for underwriters or dealer managers, if any, by the counsel named in the prospectus supplement.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Our consolidated financial statements as of December 31, 2010 and 2009, and for the years ended December 31, 2010 and 2009, and the period from March 4, 2008 (inception) through December 31, 2008 appearing in this prospectus and elsewhere in the registration statement have been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report appearing elsewhere herein, which report expresses an unqualified opinion, and are included in reliance upon such report and upon the authority of such firm as experts in auditing and accounting.

## **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement, of which this prospectus forms a part, on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the securities offered by this prospectus. The registration statement contains additional information about us and the securities being offered by this prospectus.

As a public company, we file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's website at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.



## Index to Consolidated Financial Statements

	<u>Page</u>
<b>Unaudited Consolidated Interim Financial Information</b>	
Consolidated Statements of Assets and Liabilities as of September 30, 2011 and December 31, 2010 (unaudited)	F-2
Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (unaudited)	F-3
Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2011 and 2010 (unaudited)	F-4
Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)	F-5
Consolidated Schedules of Investments as of September 30, 2011 and December 31, 2010 (unaudited)	F-6
Notes to the Consolidated Financial Statements (unaudited)	F-12
<b>Audited Consolidated Financial Statements</b>	
Report of Independent Registered Public Accounting Firm	F-28
Consolidated Statements of Assets and Liabilities as of December 31, 2010 and 2009	F-29
Consolidated Statements of Operations 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 (Inception) to December 31, 2008	F-30
Consolidated Statements of Changes in Net Assets for the Period from October 29, 2010 to December 31, 2010, the Period from January 1, 2010 to October 28, 2010, and the Year Ended December 31, 2009	F-31
Consolidated Statements of Cash Flows 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 (Inception) to December 31, 2008	F-32
Consolidated Schedules of Investments as of December 31, 2010 and 2009	F-33
Notes to the Consolidated Financial Statements	F-39

**Horizon Technology Finance Corporation and Subsidiaries**  
**Consolidated Statements of Assets and Liabilities (Unaudited)**  
(In thousands, except share data)

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

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

	Post-IPO as a Business Development Company Three Months Ended September 30, 2011	Pre-IPO Prior to Becoming a Business Development Company Three Months Ended September 30, 2010	Post-IPO as a Business Development Company Nine Months Ended September 30, 2011	Pre-IPO Prior to Becoming a Business Development Company Nine Months Ended September 30, 2010
<b>Investment income</b>				
Interest income on non-affiliate investments	\$ 6,129	\$ 4,955	\$ 16,911	\$ 12,852
Interest income on cash and cash equivalents	2	25	90	53
Fee income on non-affiliate investments	310	209	870	345
<b>Total investment income</b>	<b>6,441</b>	<b>5,189</b>	<b>17,871</b>	<b>13,250</b>
<b>Expenses</b>				
Interest expense	725	1,189	2,093	3,282
Base management fee (Note 3)	1,091	675	3,229	1,816
Performance based incentive fee (Note 3)	561	—	2,701	—
Administrative fee (Note 3)	355	—	873	—
Professional fees	489	7	1,034	110
General and administrative	227	61	740	164
<b>Total expenses</b>	<b>3,448</b>	<b>1,932</b>	<b>10,670</b>	<b>5,372</b>
<b>Net investment income</b>	<b>2,993</b>	<b>3,257</b>	<b>7,201</b>	<b>7,878</b>
Credit for loan losses	—	320	—	739
<b>Net realized and unrealized gain on investments</b>				
Net realized (loss) gain on investments	(17)	—	5,544	(2)
Net unrealized (depreciation) appreciation on investments	(217)	1,711	(2,535)	1,549
<b>Net realized and unrealized (loss) gain on investments</b>	<b>(234)</b>	<b>1,711</b>	<b>3,009</b>	<b>1,547</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 2,759</b>	<b>\$ 5,288</b>	<b>\$ 10,210</b>	<b>\$ 10,164</b>
Net investment income per common share <sup>(1)</sup>	\$ 0.39	\$ N/A	\$ 0.95	\$ N/A
Change in net assets per common share <sup>(1)</sup>	\$ 0.36	\$ N/A	\$ 1.34	\$ N/A
Weighted average shares outstanding <sup>(1)</sup>	7,617,972	N/A	7,604,345	N/A

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets (Unaudited)**  
(In thousands, except share data)

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

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

	<b>Post-IPO as a Business Development Company Nine Months Ended September 30, 2011</b>	<b>Pre-IPO Prior to becoming a Business Development Company Nine Months Ended September 30, 2010</b>
	<u>                    </u>	<u>                    </u>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 10,210	\$ 10,164
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Credit for loan losses	—	(739)
Amortization of debt issuance costs	227	871
Net realized (gain) loss on investments	(5,799)	2
Net change in unrealized depreciation (appreciation) on investments	2,535	(1,549)
Purchase of investments	(78,156)	(64,608)
Principal payments received on investments	32,574	41,333
Proceeds from sale of investments	5,887	—
Stock received in settlement of fee income	(544)	—
Changes in assets and liabilities:		
Increase in interest receivable	(539)	(498)
Decrease in unearned loan income	(331)	(302)
Decrease (increase) in other assets	247	(251)
Increase in other accrued expenses	226	91
Increase in base management fee payable	2	35
Increase in incentive fee payable	1,039	—
Net cash used in operating activities	<u>(32,422)</u>	<u>(15,451)</u>
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in revolving borrowings	(5,540)	24,778
Dividends paid	(5,026)	—
Capitalized debt issuance costs	(1,207)	—
Net cash (used in) provided by financing activities	<u>(11,773)</u>	<u>24,778</u>
Net (decrease) increase in cash and cash equivalents	(44,195)	9,327
<b>Cash and cash equivalents:</b>		
Beginning of period	76,793	9,892
End of period	<u>\$ 32,598</u>	<u>\$ 19,219</u>
Cash paid for interest	<u>\$ 1,738</u>	<u>\$ 2,366</u>
Supplemental non-cash investing and financing activities:		
Warrant investments received & recorded as unearned loan income	<u>\$ 1,129</u>	<u>\$ 1,212</u>
Receivables resulting from sales of investments	<u>\$ 213</u>	<u>\$ —</u>
Decrease in interest rate swap liability	<u>\$ (245)</u>	<u>\$ (409)</u>

See Notes to Consolidated Financial Statements

## Horizon Technology Finance Corporation and Subsidiaries

### Consolidated Schedule of Investments (Unaudited) September 30, 2011 (In thousands)

Portfolio Company	Sector	Type of Investment(3)	Interest Rate(4)	Maturity	Cost of Investment(6)	Fair Value
<b>Debt Investments</b>						
<b>Debt Investments — Life Science — 41.2%</b>						
ACT Biotech, Inc.	Biotechnology	Term Loan(1)	13.10%	12/1/2013	\$ 905	\$ 905
		Term Loan(1)	13.01%	12/1/2013	905	905
		Term Loan(1)	13.01%	12/1/2013	1,371	1,371
Ambit Biosciences Corporation	Biotechnology	Term Loan(1)	12.25%	10/1/2013	5,066	5,066
Anacor Pharmaceuticals, Inc.(5)	Biotechnology	Term Loan(2)	9.41%	4/1/2015	3,206	3,206
GenturaDx, Inc.	Biotechnology	Term Loan(2)	11.25%	4/1/2014	1,903	1,903
N30 Pharmaceuticals, LLC	Biotechnology	Term Loan(1)	11.25%	9/1/2014	2,412	2,412
Pharmasset, Inc.(5)	Biotechnology	Term Loan(1)	12.00%	1/1/2012	379	379
		Term Loan(1)	12.50%	10/1/2012	1,453	1,453
Revence Therapeutics, Inc.	Biotechnology	Convertible Note(1)	8.00%	2/10/2013	62	62
Supernus Pharmaceuticals, Inc.	Biotechnology	Term Loan(2)	11.00%	8/1/2014	2,947	2,947
Tranzyme, Inc.(5)	Biotechnology	Term Loan(1)	10.75%	1/1/2014	4,538	4,538
Xcovery Holding Company, LLC	Biotechnology	Term Loan(2)	12.00%	10/1/2013	1,494	1,494
		Term Loan(2)	12.00%	7/1/2014	1,477	1,477
Concentric Medical, Inc.	Medical Device	Term Loan(1)	12.04%	9/1/2013	6,676	6,676
OraMetrix, Inc.	Medical Device	Term Loan(1)	11.50%	4/1/2014	4,669	4,669
PixelOptics, Inc.	Medical Device	Term Loan(2)	10.75%	11/1/2014	9,910	9,910
Tengion, Inc.(5)	Medical Device	Term Loan(2)	11.75%	1/1/2014	4,948	4,588
ViOptix, Inc.	Medical Device	Term Loan(1)	13.55%	11/1/2011	656	656
Total Debt Investments — Life Science					<u>54,977</u>	<u>54,617</u>
<b>Debt Investments — Technology — 36.2%</b>						
OpenPeak, Inc.	Communications	Term Loan(1)	11.86%	12/1/2013	6,016	5,647
Starcite, Inc.	Consumer-related Technologies	Term Loan(1)	12.05%	9/1/2012	1,604	1,604
Tagged, Inc.	Consumer-related Technologies	Term Loan(1)	12.78%	5/1/2012	671	671
		Term Loan(1)	11.46%	8/1/2012	300	300
Xtera Communications, Inc.	Semiconductors	Term Loan(2)	11.50%	12/1/2014	9,739	9,739
Vette Corp.	Data Storage	Term Loan(1)	11.75%	7/1/2014	4,928	4,928
IntelPeer, Inc.	Networking	Term Loan(1)	12.43%	4/1/2012	238	238
		Term Loan(1)	12.33%	6/1/2012	315	315
		Term Loan(1)	12.33%	10/1/2012	729	729
Construction Software Technologies, Inc.	Software	Term Loan(2)	11.75%	12/1/2014	3,940	3,940
		Term Loan	11.75%	6/1/2014	1,969	1,969
Courion Corporation	Software	Term Loan(1)	11.45%	9/1/2014	6,889	6,889
Recondo Technology, Inc.	Software	Term Loan	11.50%	4/1/2015	1,923	1,923
Seapass Solutions, Inc.	Software	Term Loan(2)	11.75%	11/1/2014	4,924	4,924
StreamBase Systems, Inc.	Software	Term Loan(1)	12.51%	11/1/2013	3,115	3,115
		Term Loan(1)	12.50%	6/1/2014	960	960
Total Debt Investments — Technology					<u>48,260</u>	<u>47,891</u>
<b>Debt Investments — Cleantech — 22.9%</b>						
Cereplast, Inc.(5)	Waste Recycling	Term Loan(1)	12.00%	4/1/2014	2,448	2,448
	Waste Recycling	Term Loan(1)	12.00%	6/1/2014	2,441	2,441
Enphase Energy, Inc.	Energy Efficiency	Term Loan(1)	12.60%	10/1/2013	5,697	5,697
		Term Loan	10.75%	4/1/2015	1,968	1,968
		Term Loan	10.75%	4/1/2015	2,938	2,938
Satcon Technology Corporation(5)	Energy Efficiency	Term Loan(1)	12.58%	1/1/2014	8,521	8,521
Tigo Energy, Inc.	Energy Efficiency	Term Loan(1)	11.00%	8/1/2014	3,422	3,422
		Revolver(2)	10.75%	1/1/2014	2,933	2,933
Total Debt Investments — Cleantech					<u>30,368</u>	<u>30,368</u>
<b>Debt Investments — Healthcare information and services — 31.4%</b>						
BioScale, Inc.	Diagnostics	Term Loan(1)	12.00%	8/1/2012	1,351	1,351
		Term Loan(1)	11.51%	1/1/2014	4,941	4,941
Precision Therapeutics, Inc.	Diagnostics	Term Loan	10.25%	12/1/2014	6,952	6,952

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Unaudited)  
September 30, 2011 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment(3)	Interest		Cost of	
			Rate(4)	Maturity	Investment(6)	Fair Value
Radisphere National Radiology Group, Inc.	Diagnostics	Term Loan(1)	12.75%	1/1/2014	9,340	9,340
Aperio Technologies, Inc.	Other Healthcare	Term Loan	9.64%	5/1/2015	4,929	4,929
Patientkeeper, Inc.	Other Healthcare	Term Loan	10.50%	12/1/2014	5,222	5,222
Singulex, Inc.	Other Healthcare	Term Loan(1)	11.00%	3/1/2014	2,968	2,968
		Term Loan(1)	11.00%	3/1/2014	1,978	1,978
Talyst, Inc.	Other Healthcare	Term Loan(1)	12.10%	12/1/2013	1,924	1,924
		Term Loan(1)	12.05%	12/1/2013	1,921	1,921
Total Debt Investment — Healthcare information and services					41,526	41,526
<b>Total Debt Investments</b>					<b>175,131</b>	<b>174,402</b>
<b>Warrant Investments</b>						
<b>Warrants — Life Science — 1.3%</b>						
ACT Biotech, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	58	67
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	143	98
Anacor Pharmaceuticals, Inc.(5)	Biotechnology	Common Stock Warrants(2)	—	—	42	22
Anesiva, Inc.(5)	Biotechnology	Common Stock Warrants(1)	—	—	18	—
GenturaDx, Inc.	Biotechnology	Preferred Stock Warrants(2)	—	—	63	60
N30 Pharmaceuticals, LLC	Biotechnology	Preferred Stock Warrants(1)	—	—	59	46
Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	69	—
Revance Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	224	489
Supernus Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants(2)	—	—	16	15
Tranzyme, Inc.(5)	Biotechnology	Common Stock Warrants(1)	—	—	1	—
Concentric Medical, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	84	875
EnteroMedics, Inc.(5)	Medical Device	Common Stock Warrants(1)	—	—	347	2
OraMetrix, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	78	67
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants(2)	—	—	96	46
Tengion, Inc.(5)	Medical Device	Common Stock Warrants(2)	—	—	62	—
ViOptix, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	13	—
Total Warrants — Life Science					1,373	1,787
<b>Warrants — Technology — 1.5%</b>						
OpenPeak, Inc.	Communications	Preferred Stock Warrants(1)	—	—	89	—
Everyday Health, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	69	116
SnagAJob.com, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	23	270
Starcite, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	24	27
Tagged, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	17	27
Xtera Communications, Inc.	Semiconductors	Preferred Stock Warrants	—	—	206	242
Vette Corp.	Data Storage	Preferred Stock Warrants(1)	—	—	75	48
XIOtech, Inc.	Data Storage	Preferred Stock Warrants(1)	—	—	22	80
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants(1)	—	—	16	30
Grab Networks, Inc.	Networking	Preferred Stock Warrants(1)	—	—	74	—
IntelPeer, Inc.	Networking	Preferred Stock Warrants(1)	—	—	39	524
Motion Computing, Inc.	Networking	Preferred Stock Warrants(1)	—	—	7	334
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants(1)	—	—	7	—
Clarabridge, Inc.	Software	Preferred Stock Warrants(1)	—	—	27	24
Construction Software Technologies, Inc.	Software	Preferred Stock Warrants(2)	—	—	45	44
Courion Corporation	Software	Preferred Stock Warrants(1)	—	—	85	100
DriveCam, Inc.	Software	Preferred Stock Warrants(1)	—	—	20	7
Netuitive, Inc.	Software	Preferred Stock Warrants(1)	—	—	27	21
Recondo Technology, Inc.	Software	Preferred Stock Warrants(1)	—	—	47	47
Seapass Solutions, Inc.	Software	Preferred Stock Warrants(2)	—	—	43	42
StreamBase Systems, Inc.	Software	Preferred Stock Warrants(1)	—	—	67	68
Total Warrants — Technology					1,029	2,051
<b>Warrants — Cleantech — 0.2%</b>						
Cereplast, Inc.(5)	Waste Recycling	Common Stock Warrants(1)	—	—	112	28
Enphase Energy, Inc.	Energy Efficiency	Preferred Stock Warrants(1)	—	—	175	136

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments (Unaudited)  
September 30, 2011 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment(3)	Interest		Cost of	
			Rate(4)	Maturity	Investment(6)	Fair Value
Satcon Technology Corporation(5)	Energy Efficiency	Common Stock Warrants(1)	—	—	285	5
Tigo Energy, Inc.	Energy Efficiency	Preferred Stock Warrants(1)	—	—	101	79
Total Warrants — Cleantech					<u>673</u>	<u>248</u>
<b>Warrants — Healthcare information and services — 0.8%</b>						
BioScale, Inc.	Diagnostics	Preferred Stock Warrants(1)	—	—	54	62
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants	—	—	73	158
Radisphere National Radiology Group, Inc.	Diagnostics	Preferred Stock Warrants(1)	—	—	167	372
Aperio Technologies, Inc.	Other Healthcare	Preferred Stock Warrants	—	—	35	34
PatientKeeper, Inc.	Other Healthcare	Preferred Stock Warrants	—	—	269	266
Singulex, Inc.	Other Healthcare	Preferred Stock Warrants(1)	—	—	40	31
Talyst, Inc.	Other Healthcare	Preferred Stock Warrants(1)	—	—	100	82
Total Warrants — Healthcare information and services					<u>738</u>	<u>1,005</u>
<b>Total Warrants</b>					<b><u>3,813</u></b>	<b><u>5,091</u></b>
<b>Equity — 0.5%</b>						
Insméd Incorporated(5)	Biotechnology	Common Stock(1)	—	—	227	169
Overture Networks Inc.	Communications	Preferred Stock(1)	—	—	480	524
<b>Total Equity</b>					<b><u>707</u></b>	<b><u>693</u></b>
<b>Total Investments Assets</b>					<b><u>\$ 179,651</u></b>	<b><u>\$ 180,186</u></b>
<b>Investment Liabilities</b>						
<b>Derivative Agreement</b>						
WestLB, AG	Interest rate swap — pay fixed/receive floating, Notional Amount \$10 million		3.58%	10/14/2011	—	13
<b>Total Investment Liabilities</b>					<b><u>\$ —</u></b>	<b><u>\$ 13</u></b>

(1) Has been pledged as collateral under the WestLB Facility.

(2) Has been pledged as collateral under the Wells Facility.

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

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company's debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment, such as deferred interest, commitment fees or prepayment fees. The majority of the debt investments are at fixed rates for the term of the loan. For each debt investment, we have provided the current interest rate in effect as of September 30, 2011.

(5) Portfolio company is a public company.

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

See Notes to Consolidated Financial Statements



**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2010  
(In thousands)**

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
<b>Debt Investments</b>						
<b>Debt Investments — Life Science — 39.3%</b>						
ACT Biotech, Inc.	Biotechnology	Term Loan(1)	12.10%	6/1/2013	\$ 958	\$ 958
		Term Loan(1)	12.01%	6/1/2013	957	957
		Term Loan(1)	12.01%	6/1/2013	1,478	1,478
Ambit Biosciences, Inc.	Biotechnology	Term Loan(1)	12.25%	10/1/2013	5,898	5,898
GenturaDx, Inc.	Biotechnology	Term Loan	11.25%	4/1/2014	1,917	1,917
Novalar Pharmaceuticals, Inc.	Biotechnology	Term Loan(1)	12.00%	6/1/2012	3,146	3,146
Pharmasset, Inc.(4)	Biotechnology	Term Loan(1)	12.00%	8/1/2011	868	868
		Term Loan(1)	12.00%	1/1/2012	1,448	1,448
		Term Loan(1)	12.50%	10/1/2012	2,422	2,422
Revence Therapeutics, Inc.	Biotechnology	Term Loan(1)	10.50%	12/1/2011	1,445	1,445
		Term Loan(1)	10.50%	3/1/2013	3,478	3,478
Tranzyme, Inc.	Biotechnology	Term Loan(1)	10.75%	1/1/2014	4,966	4,966
Xcovery Holding Company, LLC	Biotechnology	Term Loan	12.00%	10/1/2013	1,490	1,490
Concentric Medical, Inc.	Medical Device	Term Loan(1)	12.04%	9/1/2013	6,887	6,887
OraMetrix, Inc.	Medical Device	Term Loan(1)	11.50%	4/1/2014	4,887	4,887
PixelOptics, Inc.	Medical Device	Term Loan(1)	13.00%	1/1/2013	4,221	4,221
Tengion, Inc.(4)	Medical Device	Term Loan(1)	12.26%	9/1/2011	2,740	2,740
ViOptix, Inc.	Medical Device	Term Loan(1)	13.55%	11/1/2011	885	837
Total Debt Investments — Life Science					50,091	50,043
<b>Debt Investments — Technology — 24.4%</b>						
Hatteras Networks, Inc.	Communications	Term Loan(1)	12.40%	2/1/2011	1,042	1,042
OpenPeak, Inc.	Communications	Term Loan(1)	11.86%	12/1/2013	6,549	6,549
Starcite, Inc.	Consumer-related technologies	Term Loan(1)	12.05%	9/1/2012	2,679	2,679
Tagged, Inc.	Consumer-related technologies	Term Loan(1)	12.78%	5/1/2012	1,284	1,284
		Term Loan(1)	11.46%	8/1/2012	498	498
Vette Corp.	Data Storage	Term Loan(1)	11.75%	7/1/2014	4,916	4,916
XIOtech, Inc.	Data Storage	Term Loan(1)	14.00%	5/1/2012	2,997	2,997
IntelePeer, Inc.	Networking	Term Loan(1)	12.43%	4/1/2012	515	515
		Term Loan(1)	12.33%	6/1/2012	598	598
		Term Loan(1)	12.33%	10/1/2012	1,171	1,171
Clarabridge, Inc.	Software	Term Loan(1)	12.50%	1/1/2013	1,166	1,166
		Term Loan(1)	12.50%	6/1/2013	688	688
		Term Loan(1)	12.50%	5/1/2014	743	743
Courion Corporation	Software	Term Loan(1)	11.45%	12/1/2011	1,083	1,083
Netuitive, Inc.	Software	Term Loan(1)	12.90%	4/1/2011	152	152
StreamBase Systems, Inc.	Software	Term Loan(1)	12.51%	11/1/2013	3,934	3,934
		Term Loan(1)	12.50%	6/1/2014	977	977
Total Debt Investments — Technology					30,992	30,992
<b>Debt Investments — Cleantech — 14.9%</b>						
Cereplast, Inc.(4)	Waste Recycling	Term Loan(1)	12.00%	4/1/2014	2,363	2,363
Enphase Energy, Inc.	Energy Efficiency	Term Loan(1)	12.60%	10/1/2013	6,869	6,869
Satcon Technology Corporation(4)	Energy Efficiency	Term Loan(1)	12.58%	1/1/2014	9,701	9,701
Total Debt Investments — Cleantech					18,933	18,933

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2010 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
<b>Debt Investments — Healthcare information and services — 23.8%</b>						
BioScale, Inc.	Diagnostics	Term Loan(1)	12.00%	8/1/2012	\$ 2,454	\$ 2,454
		Term Loan(1)	11.51%	1/1/2014	4,908	4,908
Precision Therapeutics, Inc.	Diagnostics	Term Loan(1)	13.00%	3/1/2012	3,255	3,255
Radisphere National Radiology Group, Inc.	Diagnostics	Term Loan(1)	12.75%	1/1/2014	9,855	9,855
Singulex, Inc.	Other Healthcare	Term Loan(1)	11.00%	3/1/2014	2,949	2,949
		Term Loan(1)	11.00%	3/1/2014	1,964	1,964
Talyst, Inc.	Other Healthcare	Term Loan(1)	12.10%	12/1/2013	2,443	2,443
		Term Loan(1)	12.05%	12/1/2013	2,438	2,438
Total Debt Investment — Healthcare information and services					30,266	30,266
<b>Total Debt Investments</b>					<b>130,282</b>	<b>130,234</b>
<b>Warrant Investments</b>						
<b>Warrants — Life Science — 2.1%</b>						
ACT Biotech, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	23	23
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	143	147
Anesiva, Inc.(4)	Biotechnology	Common Stock Warrants(1)	—	—	18	—
GenturaDx, Inc.	Biotechnology	Preferred Stock Warrants	—	—	63	63
Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	69	—
Pharmasset, Inc.(4)	Biotechnology	Common Stock Warrants(1)	—	—	126	789
Revance Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	224	121
Tranzyme, Inc.	Biotechnology	Preferred Stock Warrants(1)	—	—	1	1
Advanced BioHealing, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	9	1,209
Calypto Medical Technologies, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	17	76
Concentric Medical, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	85	89
EnteroMedics, Inc.(4)	Medical Device	Common Stock Warrants(1)	—	—	347	18
OraMetrix, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	78	83
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	61	61
Tengion, Inc.(4)	Medical Device	Common Stock Warrants(1)	—	—	15	—
ViOptix, Inc.	Medical Device	Preferred Stock Warrants(1)	—	—	13	—
Total Warrants — Life Science					1,292	2,680
<b>Warrants — Technology — 1.2%</b>						
Hatteras Networks, Inc.	Communications	Preferred Stock Warrants(1)	—	—	—	35
OpenPeak, Inc.	Communications	Preferred Stock Warrants(1)	—	—	89	92
Everyday Health, Inc.	Consumer related technologies	Preferred Stock Warrants(1)	—	—	69	137
SnagAJob.com, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	23	39
Starcite, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	24	28
Tagged, Inc.	Consumer-related technologies	Preferred Stock Warrants(1)	—	—	17	27
Vette Corp.	Data Storage	Preferred Stock Warrants(1)	—	—	75	49
XIOtech, Inc.	Data Storage	Preferred Stock Warrants(1)	—	—	22	81
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants(1)	—	—	16	38
Grab Networks, Inc.	Networking	Preferred Stock Warrants(1)	—	—	74	—
IntelePeer, Inc.	Networking	Preferred Stock Warrants(1)	—	—	39	544
Motion Computing, Inc.	Networking	Preferred Stock Warrants(1)	—	—	7	292
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants(1)	—	—	7	—
Clarabridge, Inc.	Software	Preferred Stock Warrants(1)	—	—	28	25

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2010 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
Courion Corporation	Software	Preferred Stock Warrants(1)	—	—	\$ 7	\$ 17
DriveCam, Inc.	Software	Preferred Stock Warrants(1)	—	—	20	8
Netuitive, Inc.	Software	Preferred Stock Warrants(1)	—	—	27	22
Plateau Systems, Ltd.	Software	Preferred Stock Warrants(1)	—	—	7	35
StreamBase Systems, Inc.	Software	Preferred Stock Warrants(1)	—	—	67	69
Total Warrants — Technology					618	1,538
<b>Warrants — Cleantech — 1.0%</b>						
Cereplast, Inc.(4)	Waste Recycling	Common Stock Warrants(1)	—	—	112	112
Enphase Energy, Inc.	Energy Efficiency	Preferred Stock Warrants(1)	—	—	122	122
Satcon Technology Corporation(4)	Energy Efficiency	Common Stock Warrants(1)	—	—	286	1,057
Total Warrants — Cleantech					520	1,291
<b>Warrants — Healthcare information and services — 0.6%</b>						
BioScale, Inc.	Diagnostics	Preferred Stock Warrants(1)	—	—	55	49
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants(1)	—	—	52	139
Radisphere National Radiology Group, Inc.	Diagnostics	Preferred Stock Warrants(1)	—	—	167	384
Singulex, Inc.	Other Healthcare	Preferred Stock Warrants(1)	—	—	39	39
Talyst, Inc.	Other Healthcare	Preferred Stock Warrants(1)	—	—	100	105
Total Warrants — Healthcare information and services					413	716
<b>Total Warrants</b>					<b>2,843</b>	<b>6,225</b>
<b>Equity — 0.3%</b>						
AFS Technologies, Inc		Common Stock(1)	—	—	142	142
Insmed Incorporated(4)		Common Stock and Convertible Preferred Stock(1)	—	—	227	209
<b>Total Equity</b>					<b>369</b>	<b>351</b>
<b>Total Investments Assets</b>					<b>\$ 133,494</b>	<b>\$ 136,810</b>
<b>Investment Liabilities</b>						
<b>Derivative Agreement</b>						
WestLB, AG		Interest rate swap — pay fixed/receive floating, Notional Amount \$10 million	3.58%	10/14/2011	—	258
<b>Total Investment Liabilities</b>					<b>\$ —</b>	<b>\$ 258</b>

- (1) Has been pledged as collateral under the WestLB Facility.
- (2) All investments are less than 5% ownership of the class and ownership of the portfolio company.
- (3) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company's debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment, such as deferred interest, commitment fees or prepayment fees. The majority of the debt investments are at fixed rates for the term of the loan. For each debt investment, we have provided the current interest rate in effect as of December 31, 2010.
- (4) Portfolio company is a public company.
- (5) For debt investments, represents principal balance less unearned income.

See Notes to Consolidated Financial Statements

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Unaudited)

(In thousands, except shares and per share data)

#### Note 1. Organization

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

On October 28, 2010 the Company completed an initial public offering (“IPO”) and its common stock trades on the NASDAQ Global Market under the symbol “HRZN.” The Company was formed to continue and expand the business of Compass Horizon Funding Company LLC (“CHF”), a Delaware limited liability company, which commenced operations in March 2008 and became the Company’s wholly owned subsidiary with the completion of the IPO.

Horizon Credit I LLC (“Credit I”) was formed as a Delaware limited liability company on January 23, 2008, with CHF as the sole equity member. Credit I is a special purpose bankruptcy remote entity and is reported herein as a wholly owned subsidiary of the Company. CHF sold certain portfolio transactions to Credit I (“Purchased Assets”). Credit I is a separate legal entity from CHF and the Purchased Assets conveyed to Credit I are not available to creditors of the Company or any other entity other than Credit I’s lenders.

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

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

The Company’s investment strategy is to maximize the investment portfolio’s return by generating current income from the loans made and the capital appreciation from the warrants received when making such loans. The Company has entered into an investment management agreement (the “Investment Management Agreement”) with Horizon Technology Finance Management LLC (“HTFM” or the “Advisor”), under which the Advisor will manage the day-to-day operations of, and provide investment advisory services to, the Company.

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

##### *Election to become a Business Development Company and Basis of Financial Statement Presentation*

The results of operations for the three and nine months ended September 30, 2011 reflect the Company’s results as a BDC under the 1940 Act, whereas the operating results for the three and nine months ended September 30, 2010 reflect the Company’s results prior to operating as a BDC under the 1940 Act. Accounting principles used in the preparation of these two periods are different and, therefore, the financial position and results of operations of these periods are not directly comparable. The primary differences in accounting principles relate to the carrying value of debt investments and classification of hedging activity — see corresponding sections below for further discussion.

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

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

***Principles of Consolidation***

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

***Use of Estimates***

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

***Fair Value***

The Company applies fair value to substantially all of its investments in accordance with relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. The Company has categorized its investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as more fully described in Note 5. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company’s own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and 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.

See Note 5 for additional information regarding fair value.

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

*Segments*

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

*Cash and Cash Equivalents*

Cash and cash equivalents as presented in the consolidated balance sheets and the consolidated statements of cash flows include bank checking accounts and money market funds with an original maturity of less than 90 days.

*Investments*

Investments are recorded at fair value. The Company's board of directors ("Board") determines the fair value of its portfolio investments. Prior to the Company's election to become a BDC, debt investments were stated at current unpaid principal balances adjusted for the allowance for loan losses, unearned income and any unamortized deferred fees or costs.

The Company has the intent to hold its loans for the foreseeable future or until maturity or payoff.

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. When a loan becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid. No loans were on non-accrual status as of September 30, 2011 and December 31, 2010.

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

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

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

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

See Note 5 for additional information regarding fair value.

***Allowance for Loan Losses***

Prior to the Company's 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 the Company's 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 the Company 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 the Company was 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.

***Debt Issuance Costs***

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and are recognized as assets and are amortized as interest expense over the term of the related credit facility. The unamortized balance of debt issuance costs as of September 30, 2011 and December 31, 2010, included in other assets, was \$1,174 and \$194, respectively. The accumulated amortization balances as of September 30, 2011 and December 31, 2010 was \$227 and \$3,292, respectively. The amortization expense for the nine months ended September 30, 2011 and 2010 relating to debt issuance costs was \$227 and \$871, respectively.

***Income Taxes***

The Company elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to meet certain source of income and asset diversification requirements and timely distribute to its

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Unaudited) — (Continued) (In thousands, except shares and per share data)

stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the nine months ended September 30, 2011, no amount was recorded for U.S. federal excise tax.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at September 30, 2011 and December 31, 2010. The 2008 and 2009 tax years remain subject to examination by U.S. federal and state tax authorities.

Prior to the Company's election to become a BDC, the Company was 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 nine months ended September 30, 2010.

#### *Dividends*

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

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

#### *Interest Rate Swaps and Hedging Activities*

The Company entered into interest rate swap agreements to manage interest rate risk. The Company does not hold or issue interest rate swap agreements or other derivative financial instruments for speculative purposes.

Subsequent to the Company's election to become a BDC, the interest rate swaps are recorded at fair value with changes in fair value reflected in net unrealized appreciation or depreciation of investments during the reporting period. The Company records the accrual of periodic interest settlements of interest rate swap agreements in net unrealized appreciation or depreciation of investments and subsequently records the amount as a net realized gain or loss on investments on the interest settlement date. Cash payments received or paid for the termination of an interest rate swap agreement would be recorded as a realized gain or loss upon termination in the consolidated statements of operations.



## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Unaudited) — (Continued) (In thousands, except shares and per share data)

Prior to the Company's election to become a BDC, the Company recognized its interest rate swap derivatives on the balance sheet as either an asset or liability measured at fair value. Changes in the derivatives' fair value were recognized in income unless specific hedge accounting criteria were met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations and required the Company to formally document, designate and assess effectiveness of transactions that receive hedge accounting. Derivatives that are not hedges are adjusted to fair value through earnings. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, would have been recognized as interest expense.

#### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

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

##### *Investment Management Agreement*

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

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

The base management fee is calculated at an annual rate of 2.00% of the Company's gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage. The base management fee expense was \$1,091 and \$3,229 for the three and nine months ended September 30, 2011, respectively. The accrued management fee as of September 30, 2011 and December 31, 2010 was \$362 and \$360, respectively.

The incentive fee has two parts, as follows:

The first part is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Unaudited) — (Continued) (In thousands, except shares and per share data)

and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below) and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. The incentive fee with respect to the pre-incentive fee net income is 20.00% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 1.75% (which is 7.00% annualized) hurdle rate and a “catch-up” provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, the Advisor receives no incentive fee until the net investment income equals the hurdle rate of 1.75%, but then receives, as a “catch-up,” 100.00% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.1875% in any calendar quarter, the Advisor will receive 20.00% of the pre-incentive fee net investment income as if a hurdle rate did not apply.

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

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

The total performance based incentive fee expense was \$561 and \$2,701 for the three and nine months ended September 30, 2011, respectively. The incentive fee payable as of September 30, 2011 and December 31, 2010 was \$1,453 and \$414, respectively. The incentive fee payable as of September 30, 2011 includes \$711 for part one and \$742 for part two of the incentive fee, respectively.

Prior to the Company’s election to become a BDC, the Advisor served as the Advisor for CHF under a Management and Services Agreement which provided for management fees to be paid monthly at a rate of 2.00% per annum of the gross investment assets of CHF. Total management fee expense under this agreement was \$675 and \$1,816 for the three and nine months ended September 30, 2010, respectively.

#### ***Administration Agreement***

The Company entered into an Administration Agreement with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company will reimburse the Advisor for the Company’s allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company’s allocable portion of the costs of compensation and related expenses of the Company’s chief compliance officer and chief financial officer and their respective staffs. For the three and nine

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

months ended September 30, 2011, \$355 and \$873, respectively, was charged to operations under this Administration Agreement.

From time to time, the Advisor may pay amounts owed by the Company to third-party providers of goods or services. The Company will subsequently reimburse the Advisor for such amounts paid on the Company's behalf.

**Note 4. Investments**

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

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Debt	\$175,131	\$174,402	\$130,282	\$130,234
Warrants	3,813	5,091	2,843	6,225
Equity	707	693	369	351
<b>Total</b>	<u>\$179,651</u>	<u>\$180,186</u>	<u>\$133,494</u>	<u>\$136,810</u>

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

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Life Science</b>				
Biotechnology	\$ 29,038	\$ 29,084	\$ 31,138	\$ 31,614
Medical Device	27,539	27,489	20,472	21,317
<b>Technology</b>				
Consumer-related Technologies	2,705	3,014	4,592	4,692
Networking	1,402	2,140	2,405	3,120
Software	24,080	24,073	9,042	9,062
Data Storage	5,042	5,086	8,010	8,042
Internet and Media	—	—	16	38
Communications	6,588	6,173	7,681	7,719
Semiconductors	9,952	9,980	7	—
<b>Healthcare Information and Services</b>				
Diagnostics	22,879	23,177	20,745	21,044
Other Healthcare Related Services and Technologies	19,385	19,354	9,934	9,938
<b>Cleantech</b>				
Energy Efficiency	26,039	25,699	16,977	17,749
Waste Recycling	5,002	4,917	2,475	2,475
<b>Total</b>	<u>\$179,651</u>	<u>\$180,186</u>	<u>\$133,494</u>	<u>\$136,810</u>

**Note 5. Fair Value**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices

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

for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

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

*Cash and cash equivalents and interest receivable:* The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis.

*Loans:* For variable rate loans that re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolio. The fair value of fixed rate loans is estimated by discounting the future cash flows using the year end rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolio. Therefore, the Company has categorized loan investments as Level 3 within the fair value hierarchy described above. These financial instruments are recorded at fair value on a recurring basis.

*Warrants:* The Company primarily values its warrants using the Black-Scholes valuation model incorporating the following material assumptions:

- Underlying asset value of the issuer is estimated based on information available, including any information regarding the most recent rounds of borrower funding.
- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on guideline publicly traded companies within indices similar in nature to the underlying company issuing the warrant. A total of seven such indices were used. The weighted average volatility assumptions used for the warrant valuation at September 30, 2011 and December 31, 2010 was 30%.
- The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.

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

- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment. The marketability discount used for the warrant valuation at September 30, 2011 and December 31, 2010 was 20%.

Under certain circumstances the company may use an alternative technique to value warrants that better reflects the warrants fair value, such as an expected settlement of a warrant in the near term or a model that incorporates a put feature associated with the warrant. The fair value may be determined based on the expected proceeds to be received from such settlement or based on the net present value of the expected proceeds from the put option. Prior to September 30, 2011, there were no warrants that required valuation under an alternate technique.

The fair value of the Company's warrants held in publicly traded companies is determined based on inputs that are readily available in public markets or can be derived from information available in public markets. Therefore, the Company has categorized these warrants as Level 2 within the fair value hierarchy described in Note 2. The fair value of the Company's warrants held in private companies is determined using both observable and unobservable inputs and represents management's best estimate of what market participants would use in pricing the warrants at the measurement date. Therefore, the Company has categorized these warrants as Level 3 within the fair value hierarchy described above. These financial instruments are recorded at fair value on a recurring basis.

*Equities:* The fair value of an equity investment in a privately held company is initially the face value of the amount invested. The Company adjusts the fair value of equity investments in private companies upon the completion of a new third-party round of equity financing. The Company may make adjustments to fair value, absent a new equity financing event, based upon positive or negative changes in a portfolio company's financial or operational performance. The fair value of an equity investment in a publicly traded company is based upon the closing public share price on the date of measurement.

*Borrowings:* The carrying amount of borrowings under the revolving credit facilities approximates its fair value due to the variable interest rate of these borrowings. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. These financial instruments are not recorded at fair value on a recurring basis.

*Interest rate swap derivatives:* The fair value of the Company's interest rate swap derivative instruments is estimated as the amount the Company would pay to terminate its swaps at the balance sheet date, taking into account current interest rates and the creditworthiness of the counterparty for assets and the creditworthiness of the Company for liabilities. The Company has categorized these derivative instruments as Level 2 within the fair value hierarchy described above. These financial instruments are recorded at fair value on a recurring basis.

*Off-balance-sheet instruments:* Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**  
**(In thousands, except shares and per share data)**

The following tables detail the financial instruments that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	<b>September 30, 2011</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loan investments	<u>\$174,402</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$174,402</u>
Warrant investments	<u>\$ 5,091</u>	<u>\$ —</u>	<u>\$ 56</u>	<u>\$ 5,035</u>
Equity investments	<u>\$ 693</u>	<u>\$ 169</u>	<u>\$ —</u>	<u>\$ 524</u>
Interest rate swap liability	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>

	<b>December 31, 2010</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loan investments	<u>\$130,234</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$130,234</u>
Warrant investments	<u>\$ 6,225</u>	<u>\$ —</u>	<u>\$1,976</u>	<u>\$ 4,249</u>
Equity investments	<u>\$ 351</u>	<u>\$ 209</u>	<u>\$ —</u>	<u>\$ 142</u>
Interest rate swap liability	<u>\$ 258</u>	<u>\$ —</u>	<u>\$ 258</u>	<u>\$ —</u>

The following tables show a reconciliation of the beginning and ending balances for Level 3 assets for the three months ended September 30, 2011 and 2010:

	<b>Three Months Ended September 30, 2011</b>			
	<b>Loan Investments</b>	<b>Warrant Investments</b>	<b>Equity Investments</b>	<b>Total</b>
Level 3 assets, beginning of period	\$ 180,110	\$ 4,360	\$ 668	\$185,138
Purchase of investments	7,000	—	—	7,000
Warrants and equity received and classified as Level 3	—	47	—	47
Principal payments received on investments	(12,874)	—	—	(12,874)
Unrealized (depreciation) appreciation included in earnings	(282)	703	—	421
Other	448	(75)	(144)	229
Level 3 assets, end of period	<u>\$ 174,402</u>	<u>\$ 5,035</u>	<u>\$ 524</u>	<u>\$179,961</u>

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**  
**(In thousands, except shares and per share data)**

	<b>Three Months Ended September 30, 2010</b>			
	<b>Loan Investments</b>	<b>Warrant Investments</b>	<b>Equity Investments</b>	<b>Total</b>
Level 3 assets, beginning of period	\$ —	\$ 2,343	\$ —	\$2,343
Purchase of investments	—	—	—	—
Warrants and equity received and classified as Level 3	—	104	—	104
Principal payments received on investments	—	—	—	—
Unrealized appreciation included in earnings	—	1,268	—	1,268
Other	—	—	—	—
<b>Level 3 assets, end of period</b>	<b>\$ —</b>	<b>\$ 3,715</b>	<b>\$ —</b>	<b>\$3,715</b>

The following tables show a reconciliation of the beginning and ending balances for Level 3 assets for the nine months ended September 30, 2011 and 2010:

	<b>Nine Months Ended September 30, 2011</b>			
	<b>Loan Investments</b>	<b>Warrant Investments</b>	<b>Equity Investments</b>	<b>Total</b>
Level 3 assets, beginning of period	\$ 130,234	\$ 4,249	\$ 142	\$134,625
Purchase of investments	78,156	—	—	78,156
Warrants and equity received and classified as Level 3	—	1,040	482	1,522
Principal payments received on investments	(32,574)	—	—	(32,574)
Unrealized (depreciation) appreciation included in earnings	(681)	(163)	44	(800)
Other	(733)	(91)	(144)	(968)
<b>Level 3 assets, end of period</b>	<b>\$ 174,402</b>	<b>\$ 5,035</b>	<b>\$ 524</b>	<b>\$179,961</b>

	<b>Nine Months Ended September 30, 2010</b>			
	<b>Loan Investments</b>	<b>Warrant Investments</b>	<b>Equity Investments</b>	<b>Total</b>
Level 3 assets, beginning of period	\$ —	\$ 2,010	\$ —	\$2,010
Purchase of investments	—	—	—	—
Warrants and equity received and classified as Level 3	—	927	—	927
Principal payments received on investments	—	—	—	—
Unrealized appreciation included in earnings	—	780	—	780
Other	—	(2)	—	(2)
<b>Level 3 assets, end of period</b>	<b>\$ —</b>	<b>\$ 3,715</b>	<b>\$ —</b>	<b>\$3,715</b>

The total change in unrealized appreciation and depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2011 includes \$681 depreciation on loans, \$2,142 appreciation on warrants and \$44 appreciation on equity investments.

The Company discloses fair value information about financial instruments, whether or not recognized in the statement of assets and liabilities, for which it is practicable to estimate that value. Certain financial instruments are

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**  
**(In thousands, except shares and per share data)**

excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The fair value amounts have been measured as of the reporting date, and have not been reevaluated or updated for purposes of these financial statements subsequent to that date. As such, the fair values of these financial instruments subsequent to the reporting date may be different than amounts reported at year-end.

As of September 30, 2011 and December 31, 2010, the recorded book balances and fair values of the Company's financial instruments were as follows:

	September 30, 2011		December 31, 2010	
	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
<b>Financial assets:</b>				
Cash & cash equivalents	\$ 32,598	\$ 32,598	\$ 76,793	\$ 76,793
<b>Investments:</b>				
Debt	\$174,402	\$174,402	\$130,234	\$130,234
Warrants	\$ 5,091	\$ 5,091	\$ 6,225	\$ 6,225
Equity	\$ 693	\$ 693	\$ 351	\$ 351
Interest receivable	\$ 2,477	\$ 2,477	\$ 1,938	\$ 1,938
<b>Financial liabilities:</b>				
Borrowings	\$ 81,885	\$ 81,885	\$ 87,425	\$ 87,425
Interest rate swap liability	\$ 13	\$ 13	\$ 258	\$ 258

***Off-balance-sheet instruments***

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and by investing in securities with terms that mitigate the Company's overall interest rate risk.

**Note 6. Borrowings**

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of September 30, 2011, the asset coverage for borrowed amounts was 257%.

The Company entered into a revolving credit facility (the "WestLB Facility") with WestLB, AG, New York Branch ("WestLB") effective March 4, 2008. The WestLB Facility had a three year initial revolving term and on March 3, 2011, the revolving term ended. The outstanding principal balance of the WestLB Facility is amortizing based on loan investment payments received through March 3, 2015. The interest rate is based upon the one-month LIBOR (0.24% as of September 30, 2011 and 0.26% as of December 31, 2010) plus a spread of 2.50%. The rates at September 30, 2011 and December 31, 2010 were 2.74% and 2.76%, respectively, and the average rates for the nine months ended September 30, 2011 and 2010 were 2.78%, and 2.79%, respectively.

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



## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Unaudited) — (Continued) (In thousands, except shares and per share data)

certain criteria for qualified loans, and includes portfolio company concentration limits as defined in the related loan agreement. The average amounts of borrowings were approximately \$78,100 and \$78,200 for the nine months ended September 30, 2011 and 2010, respectively. At September 30, 2011 and December 31, 2010, the Company had borrowings outstanding of \$66,049 and \$87,425, respectively, on the WestLB Facility.

The Company entered into a revolving credit facility (the “Wells Facility”) with Wells Fargo Capital Finance, LLC (“Wells”) effective July 14, 2011. The Wells Facility has an accordion feature which allows for an increase in the total loan commitment to \$150 million from the current \$75 million commitment provided by Wells. The Wells Facility has a three year revolving term followed by a three year amortization period and matures on July 14, 2017. The interest rate is based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. The rate at September 30, 2011 was 5.0%, and the average rate for the three months ended September 30, 2011 was 5.0%.

The Wells Facility is collateralized by all loans and warrants held by Credit II and permits an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Wells Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The average amount of borrowings was approximately \$15,100 for the three months ended September 30, 2011. At September 30, 2011, the Company had borrowings outstanding of \$15,836 on the Wells Facility.

#### **Note 7. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The Company attempts to limit its credit risk by conducting extensive due diligence and obtaining collateral where appropriate.

The balance of unfunded commitments to extend credit was approximately \$18,667 and \$26,500 as of September 30, 2011 and December 31, 2010, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

#### **Note 8. Concentrations of Credit Risk**

The Company’s loan portfolio consists primarily of loans to development-stage companies at various stages of development in the technology, life science, healthcare information and services and cleantech industries. Many of these companies may have relatively limited operating histories and also may experience variation in operating results. Many of these companies conduct business in regulated industries and could be affected by changes in government regulations. Most of the Company’s borrowers will need additional capital to satisfy their continuing working capital needs and other requirements, and in many instances, to service the interest and principal payments on the loans.

The largest loans may vary from year to year as new loans are recorded and repaid. The aggregate outstanding principal balance of the Company’s five largest loans represented approximately 27% and 31% of the aggregate outstanding principal balance of all loans outstanding as of September 30, 2011 and December 31, 2010, respectively. No single loan represents more than 10% of the total loans as of September 30, 2011 and December 31, 2010. Loan income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**  
**(In thousands, except shares and per share data)**

Interest income from the five largest loans accounted for approximately 25% and 19% of total loan interest and fee income for the nine months ended September 30, 2011 and 2010, respectively.

**Note 9: Interest Rate Swaps and Hedging Activities**

On October 14, 2008, the Company entered into two interest rate swap agreements (collectively, the “Swap”) with WestLB, fixing the rate of \$10 million at 3.58% and \$15 million at 3.20% on the first advances of a like amount of variable rate WestLB Facility borrowings. The \$15 million interest rate swap expired in October 2010 and the \$10 million interest rate swap will expire in October 2011. The objective of the Swap was to hedge the risk of changes in cash flows associated with the future interest payments on the first \$25 million of the variable rate WestLB Facility debt with a combined notional amount of \$25 million.

During the nine months ended September 30, 2011, approximately \$245 of net unrealized appreciation from the Swap was recorded in the statement of operations, and approximately \$255 of net realized losses from the Swap was recorded in the consolidated statement of operations.

Prior to the Company’s election to become a BDC, the Swap was designated as a hedging instrument and the Company applied cash flow hedge accounting. The Swap was recorded in the consolidated statement of assets and liabilities at fair value, and any related increases or decreases in the fair value were recognized within accumulated other comprehensive income.

Prior to the Company’s election to become a BDC, the Company assessed the effectiveness of the Swap on a quarterly basis. The Company had considered the impact of the then current credit crisis in the United States in assessing the risk of counterparty default. As most of the critical terms of the hedging instruments and hedged items matched, the hedging relationship was considered to be highly effective. No ineffectiveness on the Swap was recognized during the nine months ended September 30, 2010.

**Note 10: Dividends and Distributions**

The Company’s dividends and distributions are recorded on the record date. The following table summarizes the Company’s dividend declaration and distribution activity during the nine months ended September 30, 2011.

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share</u>	<u>Cash Distribution</u>	<u>DRIP Shares Issued</u>	<u>DRIP Share Value</u>
5/10/11	5/19/11	5/26/11	\$ 0.33	\$ 2,190	20,104	\$ 316
8/9/11	8/23/11	8/30/11	\$ 0.40	\$ 2,836	13,193	\$ 209

On November 8, 2011, the Company declared a third quarter dividend of \$0.45 per share, payable on November 30, 2011 to stockholders of record on November 23, 2011.

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

**Note 11: Financial Highlights**

The financial highlights for the Company are as follows:(1)

	<u>Three Months Ended</u> <u>September 30, 2011</u>	<u>Nine Months Ended</u> <u>September 30, 2011</u>
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 17.40	\$ 16.75
Dividends declared and paid	(0.40)	(0.73)
Net investment income	0.39	0.95
Realized gain on investments	0.00	0.73
Net change in unrealized depreciation on investments	(0.03)	(0.34)
<b>Net asset value at end of period</b>	<b>\$ 17.36</b>	<b>\$ 17.36</b>
Per share market value, end of period	\$ 14.66	\$ 14.66
Total return based on average net asset value	8.3%	10.5%
Shares outstanding at end of period	7,626,718	7,626,718
Ratios to average net assets:		
Expenses without incentive fees	8.7%(2)	8.2%(2)
Incentive fees	1.7%(2)	2.8%(2)
Total expenses	10.4%(2)	11.1%(2)
Net investment income without incentive fees	10.7%(2)	10.2%(2)
Average net asset value	\$ 132,417	\$ 129,786

(1) Periods prior to becoming a public company are not presented in the financial highlights because the Company did not record assets at fair value, therefore the information would not be meaningful.

(2) Annualized.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
Horizon Technology Finance Corporation

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Horizon Technology Finance Corporation and Subsidiary (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows 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 (inception) to December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Technology Finance Corporation and Subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows 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 for the period from March 4, 2008 (inception) to December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut  
March 16, 2011

**Horizon Technology Finance Corporation and Subsidiaries**

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

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Non-affiliate investments at fair value at December 31, 2010 (cost of \$133,494), at cost net of allowance for loan losses of \$1,924 at December 31, 2009 (Note 4)	\$ 136,810	\$ 111,954
Cash and cash equivalents	76,793	9,892
Interest receivable	1,938	1,452
Debt issuance costs (net of accumulated amortization of: December 31, 2010 \$3,292 and December 31, 2009 \$2,130)	194	1,355
Other assets	470	215
<b>Total assets</b>	<u>\$ 216,205</u>	<u>\$ 124,868</u>
<b>LIABILITIES</b>		
Borrowings (Note 6)	\$ 87,425	\$ 64,166
Base management fee payable (Note 3)	360	182
Incentive fee payable (Note 3)	414	—
Interest rate swap liability (Note 10)	258	768
Other accrued expenses	553	259
<b>Total liabilities</b>	<u>89,010</u>	<u>65,375</u>
<b>Net assets/members' capital</b>		
Members' capital	\$ —	\$ 60,261
Accumulated other comprehensive loss — Unrealized loss on interest rate swaps	—	(768)
Common Stock, par value \$0.001 per share, 100,000,000 shares authorized, 7,593,422 shares outstanding as of December 31, 2010	8	—
Paid-in capital in excess of par	123,836	—
Distributions in excess of net investment income	(143)	—
Net unrealized appreciation on investments	3,043	—
Net realized gains on investments	451	—
<b>Total net assets/members' capital</b>	<u>127,195</u>	<u>59,493</u>
<b>Total liabilities and net assets/members' capital</b>	<u>\$ 216,205</u>	<u>\$ 124,868</u>
<b>Net asset value per common share</b>	<u>\$ 16.75</u>	<u>N/A</u>

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

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

	Post-IPO as a Business Development Company	Pre-IPO Prior to becoming a Business Development Company		
	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
<b>Investment income</b>				
Interest income on non-affiliate investments	\$ 2,993	\$ 14,373	\$ 14,987	\$ 6,530
Interest income on cash and cash equivalents	10	60	67	359
Fee income on non-affiliate investments	248	523	272	132
<b>Total investment income</b>	<u>3,251</u>	<u>14,956</u>	<u>15,326</u>	<u>7,021</u>
<b>Expenses</b>				
Interest expense	508	3,622	4,246	2,748
Base management fee (Note 3)	668	2,019	2,202	1,073
Performance based incentive fee (Note 3)	414	—	—	—
Administrative fee (Note 3)	88	—	—	—
Professional fees	92	112	131	60
General and administrative	122	178	190	150
<b>Total expenses</b>	<u>1,892</u>	<u>5,931</u>	<u>6,769</u>	<u>4,031</u>
<b>Net investment income</b>	<u>1,359</u>	<u>9,025</u>	<u>8,557</u>	<u>2,990</u>
Credit (provision) for loan losses	—	739	(274)	(1,650)
<b>Net realized and unrealized gain (loss) on investments</b>				
Net realized gain on investments	611	69	138	22
Net unrealized appreciation (depreciation) on investments	1,449	1,481	892	(73)
<b>Net realized and unrealized gain (loss) on investments</b>	<u>2,060</u>	<u>1,550</u>	<u>1,030</u>	<u>(51)</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$ 3,419</u>	<u>\$ 11,314</u>	<u>\$ 9,313</u>	<u>\$ 1,289</u>
Net investment income per common share	<u>\$ 0.18</u>			
Change in net assets per common share	<u>\$ 0.45</u>			
Weighted average shares outstanding	<u>7,555,722</u>			

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

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

	Members' Capital	Accumulated Other Comprehensive Loss	Common Stock		Paid-In Capital in Excess of Par	Distributions in Excess of Net Investment Income	Net Unrealized Appreciation on Investments	Net Realized Gains on Investments	Total Net Assets
			Shares	Amount					
<b>March 4, 2008</b>	\$ —	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Comprehensive income:									
Net income	1,289	—	—	—	—	—	—	—	1,289
Unrealized loss on interest rate swaps	—	(1,163)	—	—	—	—	—	—	(1,163)
Total comprehensive income	—	—	—	—	—	—	—	—	126
Capital contribution, net of costs	49,659	—	—	—	—	—	—	—	49,659
<b>Balance at December 31, 2008</b>	<b>50,948</b>	<b>(1,163)</b>	—	—	—	—	—	—	<b>49,785</b>
Comprehensive income:									
Net income	9,313	—	—	—	—	—	—	—	9,313
Unrealized gain on interest rate swaps	—	395	—	—	—	—	—	—	395
Total comprehensive income	—	—	—	—	—	—	—	—	9,708
<b>Balance at December 31, 2009</b>	<b>60,261</b>	<b>(768)</b>	—	—	—	—	—	—	<b>59,493</b>
Comprehensive income:									
Net income	11,314	—	—	—	—	—	—	—	11,314
Unrealized gain on interest rate swaps	—	409	—	—	—	—	—	—	409
Total comprehensive income	—	—	—	—	—	—	—	—	11,723
Cash distribution	(18,000)	—	—	—	—	—	—	—	(18,000)
<b>Balance at October 28, 2010</b>	<b>53,575</b>	<b>(359)</b>	—	—	—	—	—	—	<b>53,216</b>
Election to business development company(1)	(53,575)	359	2,645,124	3	52,456	—	1,594	—	837
Issuance of common stock, net of offering costs(2)	—	—	4,910,000	5	70,815	—	—	—	70,820
Net increase in net assets from operations	—	—	—	—	—	1,359	1,449	611	3,419
Issuance of common stock as stock dividend(3)	—	—	38,298	—	565	—	—	—	565
Dividends declared	—	—	—	—	—	(1,502)	—	(160)	(1,662)
<b>Balance at December 31, 2010</b>	<b>\$ —</b>	<b>\$ —</b>	<b>7,593,422</b>	<b>\$ 8</b>	<b>\$ 123,836</b>	<b>\$ (143)</b>	<b>\$ 3,043</b>	<b>\$ 451</b>	<b>\$ 127,195</b>

- (1) Reclassification from members' capital to net assets and net unrealized appreciation on investments upon election. Immediately prior to the initial public offering ("IPO"), the members of Compass Horizon Funding Company LLC ("CHF") exchanged their membership interests for 2,645,124 shares of common stock of the Company and CHF became a wholly owned subsidiary of the Company. Concurrent with the IPO Compass Horizon Partners, LP, one of CHF's owners, sold 1,340,000 shares.
- (2) On October 28, 2010, the Company priced its IPO, offering 6,250,000 shares of its common stock at a public offering price of \$16.00 per share. Of the 6,250,000 shares offered, 4,910,000 shares were sold by the Company and 1,340,000 shares were sold by Compass Horizon Partners, LP, one of CHF's owners. Total offering costs were \$7,740.
- (3) The Company declared a fourth quarter dividend of \$0.22 per share, payable on December 31, 2010 to stockholders of record on December 28, 2010. The Company's dividend reinvestment plan provides for reinvestment of dividends, unless a stockholder elects to receive cash. Dividends were reinvested at \$14.75 per share resulting in 38,298 additional shares.

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

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

	<b>Post-IPO as a Business Development Company</b>	<b>Pre-IPO Prior to becoming 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>Cash flows from operating activities:</b>				
Net increase in net assets resulting from operations	\$ 3,419	\$ 11,314	\$ 9,313	\$ 1,289
Adjustments to reconcile net increase in net assets resulting from operations:				
(Credit) provision for loan losses	—	(739)	274	1,650
Amortization of debt issuance costs	200	962	1,123	953
Net realized gain on investments	(611)	(69)	(138)	(22)
Net unrealized (appreciation) depreciation on investments	(1,449)	(1,481)	(892)	73
Purchase of investments	(19,316)	(65,357)	(49,936)	(112,178)
Principal payments received on investments	14,273	50,325	31,190	18,154
Proceeds from sale of investments	874	135	142	32
Changes in assets and liabilities:				
Decrease (increase) in interest receivable	675	(1,162)	(949)	(503)
(Decrease) increase in unearned loan income	(63)	(500)	(618)	117
(Increase) decrease in other assets	(151)	(246)	19	(35)
Increase (decrease) in other accrued expenses	220	74	(175)	435
Increase in base management fee payable	157	21	22	159
Increase in incentive fee payable	414	—	—	—
Net cash used in operating activities	<u>(1,358)</u>	<u>(6,723)</u>	<u>(10,625)</u>	<u>(89,876)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from shares sold, net of offering costs	70,820	—	—	—
Capital contributions, net of offering costs	—	—	—	49,659
Dividends and distributions paid	(1,097)	(18,000)	—	—
Net (decrease) increase in revolving borrowings	(3,748)	27,007	493	63,673
Debt issuance costs	—	—	—	(3,432)
Net cash provided by financing activities	<u>65,975</u>	<u>9,007</u>	<u>493</u>	<u>109,900</u>
Net increase (decrease) in cash and cash equivalents	64,617	2,284	(10,132)	20,024
<b>Cash and cash equivalents:</b>				
Beginning of period	12,176	9,892	20,024	—
End of period	<u>\$ 76,793</u>	<u>\$ 12,176</u>	<u>\$ 9,892</u>	<u>\$ 20,024</u>
Cash paid for interest	<u>\$ 393</u>	<u>\$ 2,655</u>	<u>\$ 3,096</u>	<u>\$ 1,535</u>
<b>Supplemental non-cash investing and financing activities:</b>				
Warrant investments received & recorded as unearned loan income	<u>\$ 304</u>	<u>\$ 1,212</u>	<u>\$ 876</u>	<u>\$ 776</u>
Stock received in settlement of investments	<u>\$ 209</u>	<u>\$ —</u>	<u>\$ 198</u>	<u>\$ —</u>
(Decrease) increase in interest rate swap liability	<u>\$ —</u>	<u>\$ (409)</u>	<u>\$ (395)</u>	<u>\$ 1,163</u>

See Notes to Consolidated Financial Statements



**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2010  
(In thousands)**

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
<b>Debt Investments(1)</b>						
<b>Debt Investments — Life Science — 39.3%</b>						
ACT Biotech, Inc.	Biotechnology	Term Loan	12.10%	6/1/2013	\$ 958	\$ 958
		Term Loan	12.01%	6/1/2013	957	957
		Term Loan	12.01%	6/1/2013	1,478	1,478
Ambit Biosciences, Inc.	Biotechnology	Term Loan	12.25%	10/1/2013	5,898	5,898
Concentric Medical, Inc.	Medical Device	Term Loan	12.04%	9/1/2013	6,887	6,887
GenturaDX, Inc.	Biotechnology	Term Loan	11.25%	4/1/2014	1,917	1,917
Novalar Pharmaceuticals, Inc.	Biotechnology	Term Loan	12.00%	6/1/2012	3,146	3,146
OraMetrix, Inc.	Medical Device	Term Loan	11.50%	4/1/2014	4,887	4,887
Pharmasset, Inc.(4)	Biotechnology	Term Loan	12.00%	8/1/2011	868	868
		Term Loan	12.00%	1/1/2012	1,448	1,448
		Term Loan	12.50%	10/1/2012	2,422	2,422
PixelOptics, Inc.	Medical Device	Term Loan	13.00%	1/1/2013	4,221	4,221
Revance Therapeutics, Inc.	Biotechnology	Term Loan	10.50%	12/1/2011	1,445	1,445
		Term Loan	10.50%	3/1/2013	3,478	3,478
Tengion, Inc.(4)	Medical Device	Term Loan	12.26%	9/1/2011	2,740	2,740
Tranzyme, Inc.	Biotechnology	Term Loan	10.75%	1/1/2014	4,966	4,966
ViOptix, Inc.	Medical Device	Term Loan	13.55%	11/1/2011	885	837
Xcovery Holding Company, LLC	Biotechnology	Term Loan	12.00%	10/1/2013	1,490	1,490
Total Debt Investments — Life Science					<u>50,091</u>	<u>50,043</u>
<b>Debt Investments — Technology — 24.4%</b>						
Clarabridge, Inc.	Software	Term Loan	12.50%	1/1/2013	1,166	1,166
		Term Loan	12.50%	6/1/2013	688	688
		Term Loan	12.50%	5/1/2014	743	743
Courion Corporation	Software	Term Loan	11.45%	12/1/2011	1,083	1,083
Hatteras Networks, Inc.	Communications	Term Loan	12.40%	2/1/2011	1,042	1,042
IntelPeer, Inc.	Networking	Term Loan	12.43%	4/1/2012	515	515
		Term Loan	12.33%	6/1/2012	598	598
		Term Loan	12.33%	10/1/2012	1,171	1,171
Netuitive, Inc.	Software	Term Loan	12.90%	4/1/2011	152	152
OpenPeak, Inc.	Communications	Term Loan	11.86%	12/1/2013	6,549	6,549
Starcite, Inc.	Consumer-related technologies	Term Loan	12.05%	9/1/2012	2,679	2,679
StreamBase Systems, Inc.	Software	Term Loan	12.51%	11/1/2013	3,934	3,934
		Term Loan	12.50%	6/1/2014	977	977
Tagged, Inc.	Consumer-related technologies	Term Loan	12.78%	5/1/2012	1,284	1,284
		Term Loan	11.46%	8/1/2012	498	498
Vette Corp.	Data Storage	Term Loan	11.75%	7/1/2014	4,916	4,916
XIOtech, Inc.	Data Storage	Term Loan	14.00%	5/1/2012	2,997	2,997
Total Debt Investments — Technology					<u>30,992</u>	<u>30,992</u>
<b>Debt Investments — Cleantech — 14.9%</b>						
Cereplast, Inc.(4)	Waste Removal	Term Loan	12.00%	4/1/2014	2,363	2,363
Enphase Energy, Inc.	Energy Efficiency	Term Loan	12.60%	10/1/2013	6,869	6,869
Satcon Technology Corporation(4)	Energy Efficiency	Term Loan	12.58%	1/1/2014	9,701	9,701
Total Debt Investments — Cleantech					<u>18,933</u>	<u>18,933</u>
<b>Debt Investments — Healthcare information and services — 23.8%</b>						
BioScale, Inc.	Diagnostics	Term Loan	12.00%	8/1/2012	2,454	2,454
		Term Loan	11.51%	1/1/2014	4,908	4,908
Precision Therapeutics, Inc.	Diagnostics	Term Loan	13.00%	3/1/2012	3,255	3,255

See Notes to Consolidated Financial Statements

F-33

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2010 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
Radisphere National Radiology Group, Inc.	Diagnostics	Term Loan	12.75%	1/1/2014	9,855	9,855
Singulex, Inc.	Other Healthcare	Term Loan	11.00%	3/1/2014	2,949	2,949
		Term Loan	11.00%	3/1/2014	1,964	1,964
Talyst, Inc.	Other Healthcare	Term Loan	12.10%	12/1/2013	2,443	2,443
		Term Loan	12.05%	12/1/2013	2,438	2,438
Total Debt Investment — Healthcare information and services					<u>30,266</u>	<u>30,266</u>
<b>Total Debt Investments</b>					<u><b>130,282</b></u>	<u><b>130,234</b></u>
<b>Warrant Investments(1)</b>						
<b>Warrants — Life Science — 2.1%</b>						
ACT Biotech, Inc.	Biotechnology	Preferred Stock Warrants	—	—	23	23
Advanced BioHealing, Inc.	Biotechnology	Preferred Stock Warrants	—	—	9	1,209
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants	—	—	143	147
Anesiva, Inc.(4)	Biotechnology	Common Stock Warrants	—	—	18	—

Calypso Medical Technologies, Inc.	Medical Device	Preferred Stock Warrants	—	—	17	76
Concentric Medical, Inc.	Medical Device	Preferred Stock Warrants	—	—	85	89
EnteroMedics, Inc.(4)	Medical Device	Common Stock Warrants	—	—	347	18
GenturaDX, Inc.	Biotechnology	Preferred Stock Warrants	—	—	63	63
Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants	—	—	69	—
OraMetrix, Inc.	Medical Device	Preferred Stock Warrants	—	—	78	83
Pharmasset, Inc.(4)	Biotechnology	Common Stock Warrants	—	—	126	789
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants	—	—	61	61
Revance Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants	—	—	224	121
Tengion, Inc.(4)	Medical Device	Common Stock Warrants	—	—	15	—
Tranzyme, Inc.	Biotechnology	Preferred Stock Warrants	—	—	1	1
ViOptix, Inc.	Medical Device	Preferred Stock Warrants	—	—	13	—
Total Warrants — Life Science					<u>1,292</u>	<u>2,680</u>
<b>Warrants — Technology — 1.2%</b>						
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants	—	—	16	38
Clarabridge, Inc.	Software	Preferred Stock Warrants	—	—	28	25
Courion Corporation	Software	Preferred Stock Warrants	—	—	7	17
DriveCam, Inc.	Software	Preferred Stock Warrants	—	—	20	8
Everyday Health, Inc.	Consumer related technologies	Preferred Stock Warrants	—	—	69	137
Grab Networks, Inc.	Networking	Preferred Stock Warrants	—	—	74	—
Hatteras Networks, Inc.	Communications	Preferred Stock Warrants	—	—	—	35
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants	—	—	7	—
IntelePeer, Inc.	Networking	Preferred Stock Warrants	—	—	39	544
Motion Computing, Inc.	Networking	Preferred Stock Warrants	—	—	7	292
Netuitive, Inc.	Software	Preferred Stock Warrants	—	—	27	22
OpenPeak, Inc.	Communications	Preferred Stock Warrants	—	—	89	92
Plateau Systems, Ltd.	Software	Preferred Stock Warrants	—	—	7	35
SnagAJob.com, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	23	39
Starcite, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	24	28
StreamBase Systems, Inc.	Technology-Software	Preferred Stock Warrants	—	—	67	69
Tagged, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	17	27
Vette Corp.	Data Storage	Preferred Stock Warrants	—	—	75	49
XIOtech, Inc.	Data Storage	Preferred Stock Warrants	—	—	22	81
Total Warrants — Technology					<u>618</u>	<u>1,538</u>

See Notes to Consolidated Financial Statements

F-34

### Horizon Technology Finance Corporation and Subsidiaries

#### Consolidated Schedule of Investments December 31, 2010 — (Continued) (In thousands)

Portfolio Company	Sector	Type of Investment <sup>(2)</sup>	Interest Rate <sup>(3)</sup>	Maturity	Cost of Investment <sup>(5)</sup>	Fair Value
<b>Warrants — Cleantech — 1.0%</b>						
Cereplast, Inc.(4)	Waste Removal	Common Stock Warrants	—	—	112	112
Enphase Energy, Inc.	Energy Efficiency	Preferred Stock Warrants	—	—	122	122
Satcon Technology Corporation(4)	Energy Efficiency	Common Stock Warrants	—	—	286	1,057
Total Warrants — Cleantech					<u>520</u>	<u>1,291</u>
<b>Warrants — Healthcare information and services — 0.6%</b>						
BioScale, Inc.	Diagnostics	Preferred Stock Warrants	—	—	55	49
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants	—	—	52	139
Radisphere National Radiology Group, Inc.	Diagnostics	Preferred Stock Warrants	—	—	167	384
Singulex, Inc.	Other Healthcare	Preferred Stock Warrants	—	—	39	39
Talyst, Inc.	Other Healthcare	Preferred Stock Warrants	—	—	100	105
Total Warrants — Healthcare information and services					<u>413</u>	<u>716</u>
<b>Total Warrants</b>					<u><b>2,843</b></u>	<u><b>6,225</b></u>
<b>Equity — 0.3%</b>						
AFS Technologies, Inc.		Common Stock	—	—	142	142
Insmed Incorporated(4)		Common Stock and Convertible Preferred Stock	—	—	227	209
Total equity					<u>369</u>	<u>351</u>
<b>Total investments assets</b>					<u><b>\$ 133,494</b></u>	<u><b>\$ 136,810</b></u>
<b>Investment Liabilities</b>						
<b>Derivative Agreement</b>						
WestLB, AG	Interest rate swap — pay fixed/receive floating, Notional Amount \$10 million	3.58%	10/14/2011	—	—	258
<b>Total investment liabilities</b>					<u><b>\$ —</b></u>	<u><b>\$ 258</b></u>

- (1) Substantially all debt and warrant investments have been pledged as collateral under the Credit Facility.
- (2) All investments are less than 5% ownership of the class and ownership of the portfolio company.
- (3) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company's debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment such as commitment fees or prepayment fees. The majority of the debt investments are at fixed rates for the term of the loan. For each debt investment we have provided the current interest rate in effect as of December 31, 2010.
- (4) Portfolio company is a public company.
- (5) For debt investments, represents principal balance.

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2009  
(In thousands)**

Portfolio Company	Sector	Type of Investment <sup>(2)</sup>	Interest Rate <sup>(3)</sup>	Maturity	Cost of Investment <sup>(5)</sup>	Fair Value
<b>Debt Investments<sup>(1)</sup></b>						
<b>Debt Investments — Life Science — 29.6%</b>						
Ambit Biosciences, Inc.	Biotechnology	Term Loan	12.15%	6/1/2011	\$ 1,272	\$ 1,272
Concentric Medical, Inc.	Medical Device	Revolving Loan	Prime + 3.25%	7/1/2010	3,333	3,333
Novalar Pharmaceuticals, Inc.	Biotechnology	Term Loan	12.00%	6/1/2012	4,770	4,770
Pharmasset, Inc. <sup>(4)</sup>	Biotechnology	Term Loan	12.00%	8/1/2011	2,201	2,201
		Term Loan	12.00%	1/1/2012	2,704	2,704
		Term Loan	12.50%	10/1/2012	3,284	3,284
PixelOptics, Inc.	Medical Device	Term Loan	13.00%	1/1/2013	4,889	4,889
Revance Therapeutics, Inc.	Biotechnology	Term Loan	10.50%	12/1/2011	2,705	2,705
Tengion, Inc.	Medical Device	Term Loan	12.26%	9/1/2011	5,753	5,753
Transave, Inc.	Biotechnology	Term Loan	11.75%	2/29/2012	2,730	2,730
		Term Loan	11.75%	7/1/2012	1,992	1,992
		Convertible Note	10.00%	6/30/2010	102	102
ViOptix, Inc.	Medical Device	Term Loan	13.55%	11/1/2011	1,727	1,626
Xoft, Inc.	Medical Device	Revolving Loan	Prime + 4.25%	11/15/2010	331	331
Total debt investments — Life Science					37,793	37,692
<b>Debt Investments — Technology — 44.9%</b>						
Cartera Commerce, Inc.	Internet and media	Term Loan	11.75%	6/1/2012	2,483	2,483
Clarabridge, Inc.	Software	Term Loan	12.50%	1/1/2013	1,467	1,467
		Term Loan	12.50%	6/1/2013	743	743
Courion Corporation	Software	Term Loan	11.45%	12/1/2011	2,044	2,044
Genesis Networks, Inc.	Networking	Term Loan	11.80%	8/1/2012	3,955	3,555
Grab Networks, Inc.	Networking	Term Loan	13.00%	4/1/2012	3,579	3,579
Hatteras Networks, Inc.	Communications	Term Loan	12.40%	2/1/2011	2,457	2,457
Impinj, Inc.	Semi-conductor	Term Loan	Prime + 4.25%	1/1/2011	866	866
IntelePeer, Inc.	Networking	Term Loan	12.43%	4/1/2012	836	836
		Term Loan	12.33%	6/1/2012	933	933
		Term Loan	12.33%	10/1/2012	1,692	1,692
iSkoot, Inc.	Software	Term Loan	12.75%	5/1/2013	3,917	3,917
Motion Computing, Inc.	Networking	Term Loan	12.25%	4/1/2011	1,431	1,431
		Term Loan	12.25%	1/1/2012	2,136	2,136
Netuitive, Inc.	Software	Term Loan	12.90%	4/1/2011	569	569
NewRiver, Inc.	Software	Term Loan	11.60%	1/1/2012	3,403	3,403
Plateau Systems, Ltd.	Software	Term Loan	12.40%	9/1/2010	744	744
SnagAJob.com, Inc.	Consumer-related technologies	Term Loan	11.50%	6/1/2012	3,477	3,477
Starcite, Inc.	Consumer-related technologies	Term Loan	12.05%	9/1/2012	3,960	3,960
Tagged, Inc.	Consumer-related technologies	Term Loan	12.78%	5/1/2012	2,108	2,108
		Term Loan	11.46%	8/1/2012	746	746
Vette Corp.	Data Storage	Term Loan	11.85%	3/1/2012	4,530	4,530
Waterfront Media, Inc.	Consumer-related technologies	Term Loan	13.00%	5/1/2013	4,890	4,890
XIOtech, Inc.	Data Storage	Term Loan	14.00%	5/1/2012	4,494	4,494
Total debt investment — Technology					57,460	57,060
<b>Healthcare information and services — 12.5%</b>						
BioScale, Inc.	Diagnostics	Term Loan	12.00%	8/1/2012	3,774	3,509
F & S Health Care Services, Inc.	Diagnostics	Term Loan	11.80%	12/1/2012	7,457	7,457

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments  
December 31, 2009 — (Continued)  
(In thousands)**

Portfolio Company	Sector	Type of Investment <sup>(2)</sup>	Interest Rate <sup>(3)</sup>	Maturity	Cost of Investment <sup>(5)</sup>	Fair Value
Precision Therapeutics, Inc.	Diagnostics	Term Loan	13.00%	3/1/2012	4,936	4,936
Total Debt Investments — Healthcare information and services					16,167	15,902
<b>Total Debt Investments</b>					<b>111,420</b>	<b>110,654</b>
<b>Warrant Investments<sup>(1)</sup></b>						
<b>Warrants — Life Science — 0.8%</b>						
Advanced BioHealing, Inc.	Biotechnology	Preferred Stock Warrants	—	—	9	42
Ambit Biosciences, Inc.	Biotechnology	Preferred Stock Warrants	—	—	18	55
Anesiva, Inc. <sup>(4)</sup>	Biotechnology	Common Stock Warrants	—	—	18	—
Calypto Medical Technologies, Inc.	Medical Device	Preferred Stock Warrants	—	—	17	75
Concentric Medical, Inc.	Medical Device	Preferred Stock Warrants	—	—	9	11
EnteroMedics, Inc. <sup>(4)</sup>	Medical Device	Common Stock Warrants	—	—	347	10
Novalar Pharmaceuticals, Inc.	Biotechnology	Preferred Stock Warrants	—	—	69	79

Pharmasset, Inc.(4)	Biotechnology	Common Stock Warrants	—	—	251	437
PixelOptics, Inc.	Medical Device	Preferred Stock Warrants	—	—	61	61
Revanche Therapeutics, Inc.	Biotechnology	Preferred Stock Warrants	—	—	156	49
Tengion, Inc.	Medical Device	Preferred Stock Warrants	—	—	15	50
Transave, Inc.	Biotechnology	Preferred Stock Warrants	—	—	12	45
ViOptix, Inc.	Medical Device	Preferred Stock Warrants	—	—	13	21
Xoft, Inc.	Medical Device	Preferred Stock Warrants	—	—	13	51
Total Warrants — Life Science					<u>1,008</u>	<u>986</u>
<b>Warrants — Technology — 1.0%</b>						
Arcot Systems, Inc.	Software	Preferred Stock Warrants	—	—	5	57
Cartera Commerce, Inc.	Internet and media	Preferred Stock Warrants	—	—	16	35
Clarabridge, Inc.	Software	Preferred Stock Warrants	—	—	28	31
Courion Corporation	Software	Preferred Stock Warrants	—	—	7	16
DriveCam, Inc.	Software	Preferred Stock Warrants	—	—	20	15
Genesis Networks, Inc.	Networking	Preferred Stock Warrants	—	—	53	—
Grab Networks, Inc.	Networking	Preferred Stock Warrants	—	—	74	84
Hatteras Networks, Inc.	Communications	Preferred Stock Warrants	—	—	—	35
Impinj, Inc.	Semi-conductor	Preferred Stock Warrants	—	—	7	34
IntelePeer, Inc.	Networking	Preferred Stock Warrants	—	—	39	52
iSkoot, Inc.	Software	Preferred Stock Warrants	—	—	59	59
Motion Computing, Inc.	Networking	Preferred Stock Warrants	—	—	9	465
Netuitive, Inc.	Software	Preferred Stock Warrants	—	—	27	43
Plateau Systems, Ltd.	Software	Preferred Stock Warrants	—	—	7	34
SnagAJob.com, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	23	38
Starcite, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	24	28
Tagged, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	17	28
Vette Corp.	Data Storage	Preferred Stock Warrants	—	—	27	69
Waterfront Media, Inc.	Consumer-related technologies	Preferred Stock Warrants	—	—	69	69
XIOtech, Inc.	Data Storage	Preferred Stock Warrants	—	—	22	81
Total Warrants — Technology					<u>533</u>	<u>1,273</u>

See Notes to Consolidated Financial Statements

F-37

### Horizon Technology Finance Corporation and Subsidiaries

#### Consolidated Schedule of Investments December 31, 2009 — (Continued) (In thousands)

Portfolio Company	Sector	Type of Investment(2)	Interest Rate(3)	Maturity	Cost of Investment(5)	Fair Value
<b>Warrants — Healthcare information and services — 0.2%</b>						
BioScale, Inc.	Diagnostics	Preferred Stock Warrants	—	—	13	33
F & S Health Care Services, Inc.	Diagnostics	Preferred Stock Warrants	—	—	32	105
Precision Therapeutics, Inc.	Diagnostics	Preferred Stock Warrants	—	—	52	61
<b>Warrants — Healthcare information and services</b>					<u>97</u>	<u>199</u>
Total Warrants					<u>1,638</u>	<u>2,458</u>
<b>Total investment assets(6)</b>					<u>\$ 113,058</u>	<u>\$ 113,112</u>

- (1) Substantially all debt and warrant investments have been pledged as collateral under the Credit Facility.
- (2) All investments are less than 5% ownership of the class and ownership of the portfolio company.
- (3) All interest is payable in cash due monthly in arrears, unless otherwise indicated and applies only to the Company's debt investments. Amount is the annual interest rate on the debt investment and does not include any additional fees related to the investment such as commitment fees or prepayment fees. The majority of the debt investments are at fixed rates for the term of the loan. For each debt investment we have provided the current interest rate in effect as of December 31, 2009. For variable rate debt investments we have also provided the reference index plus the applicable spread which resets monthly.
- (4) Portfolio company is a public company.
- (5) For debt investments, represents principal balance.
- (6) Total investment assets in 2009 were recorded at book value net of allowance for loan losses as follows:

Book value of debt investments (at cost)	\$112,572
Book value of warrants investments (at fair value)	2,458
Unearned income	(1,152)
Allowance for loan losses	(1,924)
<b>Net investments at book value</b>	<u>\$111,954</u>

See Notes to Consolidated Financial Statements

F-38

**Notes to Consolidated Financial Statements**  
**(In thousands, except shares and per share data)**

**Note 1. Organization**

Horizon Technology Finance Corporation (the “Company”) was organized as a Delaware corporation on March 16, 2010 and is an externally managed non-diversified closed end investment company. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (“1940 Act”). In addition, for tax purposes, the Company will elect to be treated as a regulated investment company (“RIC”) as defined in Subtitle A, Chapter 1, under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). As a RIC, the Company will not be subject to federal income tax on the portion of its taxable income and capital gains the Company distributes to the stockholders. The Company primarily makes secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries.

On October 28, 2010 the Company completed an initial public offering (“IPO”) and its common stock trades on the NASDAQ Global Market under the symbol “HRZN”. The Company was formed to continue and expand the business of Compass Horizon Funding Company LLC (“CHF”), a Delaware limited liability company, which commenced operations in March 2008 and became the Company’s wholly owned subsidiary with the completion of the IPO.

Horizon Credit I LLC (“Credit I”) was formed as a Delaware limited liability company on January 23, 2008, with CHF as the sole equity member. Credit I is a special purpose bankruptcy remote entity and is reported herein as a wholly owned subsidiary of the Company. CHF sells certain portfolio transactions to Credit I (“Purchased Assets”). Credit I is a separate legal entity from CHF and the Purchased Assets have been conveyed to Credit I and are not available for creditors of CHF or any other entity other than its lenders.

The Company’s investment strategy is to maximize the investment portfolio’s return by generating current income from the loans made and the capital appreciation from the warrants received when making such loans. The Company has entered into an investment management agreement (the “Investment Management Agreement”) with Horizon Technology Finance Management LLC (“HTFM” or the “Advisor”), under which the Advisor will manage the day-to-day operations of, and provide investment advisory services to the Company.

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

***Election to become a Business Development Company and Basis of Financial Statement Presentation***

The results of operations for 2010 are divided into two periods. The period from January 1, 2010 through October 28, 2010, reflects the Company’s results prior to operating as a BDC under the 1940 Act. The period from October 29, 2010 through December 31, 2010, reflects the Company’s results as a BDC under the 1940 Act. Accounting principles used in the preparation of the consolidated financial statements beginning October 29, 2010 are different than those of prior periods and, therefore, the financial position and results of operations of these periods are not directly comparable. The primary differences in accounting principles relate to the carrying value of loan investments and classification of hedging activity — see corresponding sections below for further discussion.

**Cumulative Effect of Business Development Company Election**

Effect of recording loans at fair value	\$ (348)
Elimination of allowance for loan losses	<u>1,185</u>
Total cumulative effect of BDC election	<u>\$ 837</u>

In addition, the balance of the unrealized loss on interest rate swaps included in accumulated other comprehensive loss at October 28, 2010 of \$359 was reclassified to Paid-In Capital in Excess of Par and subsequent to October 28, 2010, changes in the fair value of the interest rate swaps are recorded in operations.

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the requirements for reporting on Form 10-K and Article 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

#### *Principles of Consolidation*

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

#### *Use of Estimates*

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

#### *Fair Value*

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

The availability of observable inputs can vary depending on the financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market and the current market conditions. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for financial instruments classified as Level 3.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosure — Improving Disclosures about Fair Value Measurements, which amends the existing guidance related to fair value measurements and disclosures. The amendments require the following new fair value disclosures:

- Separate disclosure of the significant transfers in and out of Level 1 and Level 2 fair value measurements, and a description of the reasons for the transfers.
- In the roll forward of activity for Level 3 fair value measurements (significant unobservable inputs), purchases, sales, issuances, and settlements should be presented separately (on a gross basis rather than as one net number).

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

In addition, the amendments clarify existing disclosure requirements, as follows:

- Fair value measurements and disclosures should be presented for each class of assets and liabilities within a line item in the balance sheet.
- Reporting entities should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures were effective for the Company's interim and annual reporting periods beginning after December 15, 2009, except for the disclosures included in the roll forward of activity for Level 3 fair value measurements, for which the effective date is for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

See Note 5 for additional information regarding fair value.

#### *Segments*

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

#### *Cash and Cash Equivalents*

Cash and cash equivalents as presented in the consolidated balance sheets and the consolidated statements of cash flows include bank checking accounts and money market funds with an original maturity of less than 90 days.

#### *Investments*

Investments are recorded at fair value. The Company's board of directors ("Board") determines the fair value of its portfolio investments. Prior to the Company's 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.

The Company has the intent to hold its loans for the foreseeable future or until maturity or payoff.

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 the Company otherwise does not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid. No loans were on non-accrual status as of December 31, 2010 and 2009.

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

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. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay all principal and interest due.

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

See Note 5 for additional information regarding fair value.

#### *Allowance for Loan Losses*

Prior to the Company's 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 the Company's 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 the Company 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 the Company was 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. There were no impaired loans or troubled debt restructured loans at December 31, 2009.



**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**  
**(In thousands, except shares and per share data)**

***Debt Issuance Costs***

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lender and are recognized as assets and are amortized as interest expense over the term of the related Credit Facility. The unamortized balance of debt issuance costs as of December 31, 2010 and 2009 was \$194 and \$1,355, respectively. The amortization expense for the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010 and the years ended December 31, 2009 and 2008 relating to debt issuance costs was \$200, \$962, \$1,123 and \$953, respectively.

***Income Taxes***

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

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the period from October 29, 2010 to December 31, 2010 no amount was recorded for U.S. federal excise tax.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. There were no material uncertain tax positions at December 31, 2010 and 2009. The 2008 and 2009 tax years remain subject to examination by U.S. federal and state tax authorities.

Prior to the Company's election to become a BDC, the Company was 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.

***Dividends***

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

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

#### *Interest Rate Swaps and Hedging Activities*

The Company entered into interest rate swap agreements to manage interest rate risk. The Company does not hold or issue interest rate swap agreements or other derivative financial instruments for speculative purposes.

Subsequent to the Company's election to become a BDC, the interest rate swaps are recorded at fair value with changes in fair value reflected in net unrealized appreciation or depreciation of investments during the reporting period. The Company records the accrual of periodic interest settlements of interest rate swap agreements in net unrealized appreciation or depreciation of investments and subsequently records the amount as a net realized gain or loss on investments on the interest settlement date. Cash payments received or paid for the termination of an interest rate swap agreement would be recorded as a realized gain or loss upon termination in the consolidated statements of operations.

Prior to the Company's election to become a BDC, the Company recognized its interest rate swap derivatives on the balance sheet as either an asset or liability measured at fair value. Changes in the derivatives' fair value were recognized in income unless specific hedge accounting criteria were met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations and required the Company to formally document, designate and assess effectiveness of transactions that receive hedge accounting. Derivatives that are not hedges are adjusted to fair value through earnings. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, would have been recognized as interest expense.

#### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

In June 2009, the Financial Accounting Standards Board (the "FASB") issued guidance which modified certain guidance relating to transfers and servicing of financial assets. This guidance eliminates the concept of qualifying special purpose entities, provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets and requires additional disclosures. This guidance was effective for the Company as of January 1, 2010, with adoption applied prospectively for transfers that occurred on and after the effective date. The adoption of this guidance did not have an impact on the Company's financial statements.

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

##### *Investment Management Agreement*

On October 28, 2010 the Company entered into the Investment Management Agreement with the Advisor, under which the Advisor manages the day-to-day operations of, and provides investment advisory services, to the Company. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

Company makes (including performing due diligence on the Company's prospective portfolio companies) and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee is calculated at an annual rate of 2.00% of the Company's gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage.

The incentive fee has two parts, as follows:

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

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly minimum hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to realized and unrealized capital losses. The Company's net investment income used to calculate this part of the incentive fee is also included in the amount of the Company's gross assets used to calculate the 2.00% base management fee. These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter. The base management fee expense was \$668 for the period from October 29, 2010 through December 31, 2010 and the accrued management fee was \$360 as of December 31, 2010.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment management agreement, as of the termination date), commencing on December 31, 2010, and equals 20.00% of the Company's aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

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

of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee; provided that the incentive fee determined as of December 31, 2010 is calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation for the period beginning on the date of the Company's election to be a BDC and ending December 31, 2010. The incentive fee expense was \$414 for the period from October 29, 2010 through December 31, 2010 and the incentive fee payable was \$414 as of December 31, 2010.

Prior to the Company's election to become a BDC, the Advisor served as the Advisor for CHF under a Management and Services Agreement which provided for management fees to be paid monthly at a rate of 2.00% per annum of the gross investment assets of CHF. Total management fee expense was \$2,019 for the period from January 1, 2010 to October 28, 2010, and \$2,202 and \$1,073 for the years ended December 31, 2009 and 2008, respectively.

***Administration Agreement***

The Company entered into an administration agreement with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company will reimburse the Advisor for the Company's allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the administration agreement, including rent, the fees and expenses associated with performing compliance functions, and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief compliance officer and chief financial officer and their respective staffs. During the period from October 29, 2010 to December 31, 2010, \$88 was charged to operations under this agreement.

From time to time, the Advisor may pay amounts owed by the Company to third-party providers of goods or services. The Company will subsequently reimburse the Advisor for such amounts paid on the Company's behalf.

**Note 4. Investments**

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Debt	\$ 130,282	\$130,234	\$ 109,496	\$110,654
Warrants	2,843	6,225	2,458	2,458
Equity	369	351	—	—
<b>Total</b>	<u>\$ 133,494</u>	<u>\$136,810</u>	<u>\$ 111,954</u>	<u>\$113,112</u>

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**  
**(In thousands, except shares and per share data)**

The following table shows the Company's investments by industry sector. The book value as of December 31, 2009 excludes the effect of the allowance for loan loss of \$1,924.

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Life Science</b>				
Biotechnology	\$ 31,138	\$ 31,614	\$ 22,426	\$ 22,426
Medical Device	20,472	21,317	16,355	16,255
<b>Technology</b>				
Consumer-related Technologies	4,592	4,692	15,342	15,342
Networking	2,405	3,120	15,162	14,762
Software	9,042	9,062	13,143	13,143
Data Storage	8,010	8,042	9,174	9,174
Internet and Media	16	38	2,518	2,518
Communications	7,681	7,719	2,492	2,492
Semiconductors	7	—	900	900
<b>Healthcare Information and Services</b>				
Diagnostics	20,745	21,044	16,366	16,100
Other healthcare related services	9,934	9,938	—	—
<b>Cleantech</b>				
Energy efficiency	16,977	17,749	—	—
Waste recycling	2,475	2,475	—	—
<b>Total</b>	<u>\$ 133,494</u>	<u>\$136,810</u>	<u>\$ 113,878</u>	<u>\$113,112</u>

**Note 5. Fair Value**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

- 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.

*Cash and cash equivalents and interest receivable:* The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis.

*Loans:* For variable rate loans which re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolio. The fair value of fixed rate loans is estimated by discounting the future cash flows using the year end rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolio. Therefore, the Company has categorized loan investments as Level 3 within the fair value hierarchy described above. Upon the Company's election to become a BDC, these financial instruments are recorded at fair value on a recurring basis.

*Warrants:* The Company values its warrants using the Black-Scholes valuation model incorporating the following material assumptions:

- Underlying asset value of the issuer is estimated based on information available, including any information regarding the most recent rounds of borrower funding.
- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on guideline publicly traded companies within indices similar in nature to the underlying company issuing the warrant. A total of seven such indices were used. The weighted average volatility assumptions used for the warrant valuation at December 31, 2010, 2009 and 2008 were 30%, 29% and 25%, respectively.
- The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.
- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment. The marketability discount used for the warrant valuation at December 31, 2010, 2009 and 2008 was 20%.

The fair value of the Company's warrants held in publicly traded companies is determined based on inputs that are readily available in public markets or can be derived from information available in public markets. Therefore, the Company has categorized these warrants as Level 2 within the fair value hierarchy described in Note 2. The fair value of the Company's warrants held in private companies is determined using both observable and unobservable inputs and represents management's best estimate of what market participants would use in pricing the warrants at the measurement date. Therefore, the Company has categorized these warrants as Level 3 within the fair value hierarchy described above. These financial instruments are recorded at fair value on a recurring basis.

*Borrowings:* The carrying amount of borrowings under the revolving credit facility approximates its fair value due to the short duration and variable interest rate of this debt. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. These financial instruments are not recorded at fair value on a recurring basis.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

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

*Interest rate swap derivatives:* The fair value of the Company's interest rate swap derivative instruments is estimated as the amount the Company would pay to terminate its swaps at the balance sheet date, taking into account current interest rates and the creditworthiness of the counterparty for assets and the creditworthiness of the Company for liabilities. The Company has categorized these derivative instruments as Level 2 within the fair value hierarchy described above. These financial instruments are recorded at fair value on a recurring basis.

*Off-balance-sheet instruments:* Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

The following tables detail the financial instruments that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2010 and 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Loan investments	\$ 130,234	\$ —	\$ —	\$130,234
Equity investments	\$ 351	\$ 209	\$ —	\$ 142
Warrant investments	\$ 6,225	\$ —	\$ 1,976	\$ 4,249
Interest rate swap liability	\$ 258	\$ —	\$ 258	\$ —

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Warrant assets	\$ 2,458	\$ —	\$ 448	\$ 2,010
Interest rate swap liability	\$ 768	\$ —	\$ 768	\$ —

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets:

	Post-IPO as a BDC October 29, 2010 to December 31, 2010			
	Loan Investments	Warrant Investments	Equity Investments	Total
Level 3 assets, beginning of period	\$ —	\$ 3,715	\$ —	\$ 3,715
Transfers into Level 3 upon election to BDC	125,741	—	142	125,883
Purchase of investments	19,316	—	—	19,316
Warrants received and classified as Level 3	—	192	—	192
Principal payments received on investments	(14,273)	—	—	(14,273)
Unrealized (depreciation)/ appreciation included in earnings	(48)	528	—	480
Other	(502)	(186)	—	(688)
Level 3 assets, end of period	\$ 130,234	\$ 4,249	\$ 142	\$134,625

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**  
**(In thousands, except shares and per share data)**

	Pre-IPO Prior to becoming a BDC		
	January 1, 2010 through October 28, 2010	Year Ended December 31, 2009	March 4, 2008 through December 31, 2008
<b>Warrants</b>			
Level 3 assets, beginning of period	\$ 2,010	\$ 557	\$ —
Warrants received and classified as Level 3	927	535	515
Unrealized appreciation included in earnings	780	918	42
Other	(2)	—	—
Level 3 assets, end of period	<u>\$ 3,715</u>	<u>\$ 2,010</u>	<u>\$ 557</u>

The total change in unrealized appreciation (depreciation) included in the statement of operations attributable to Level 3 investments still held at December 31, 2010 includes \$48 depreciation on loans and \$1,505 appreciation on warrants.

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

The fair value amounts for 2010 and 2009 have been measured as of the year-end date, and have not been reevaluated or updated for purposes of these financial statements subsequent to that date. As such, the fair values of these financial instruments subsequent to the reporting date may be different than amounts reported at year-end.

As of December 31, 2010 and 2009, the recorded book balances and fair values of the Company's financial instruments were as follows:

	December 31, 2010		December 31, 2009	
	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
<b>Financial Assets:</b>				
Cash & cash equivalents	\$ 76,793	\$ 76,793	\$ 9,892	\$ 9,892
<b>Investments:</b>				
Debt	\$130,234	\$130,234	\$109,496	\$110,654
Warrants	\$ 6,225	\$ 6,225	\$ 2,458	\$ 2,458
Equity	\$ 351	\$ 351	\$ —	\$ —
Interest receivable	\$ 1,938	\$ 1,938	\$ 1,452	\$ 1,452
<b>Financial Liabilities:</b>				
Borrowings	\$ 87,425	\$ 87,425	\$ 64,166	\$ 64,166
Interest rate swap liability	\$ 258	\$ 258	\$ 768	\$ 768

***Off-balance-sheet instruments***

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. Management



## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and by investing in securities with terms that mitigate the Company's overall interest rate risk.

#### Note 6. Borrowings

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of December 31, 2010, the asset coverage for borrowed amounts was 243%.

The Company entered into a Revolving Credit Facility (the "Credit Facility") with WestLB, AG, New York Branch ("WestLB") effective March 4, 2008. The facility limit is \$125 million at December 31, 2010.

The Credit Facility has a three year initial revolving term and on March 3, 2011 the revolving term ended. The balance at that time of \$92,712 will be amortized based on loan investment payments received over four years. The interest rate is based upon the one-month LIBOR plus a spread of 2.50%. The rates at December 31, 2010 and 2009 were 2.76% and 2.73%, respectively, and the average rates for the years ending December 31, 2010, 2009 and 2008 were 2.78%, 2.85%, and 5.00%, respectively.

The Credit Facility is collateralized by all loans and warrants held by the Company's subsidiary, Credit I, and permits an advance rate of up to 75% of eligible loans held by the Credit I. The Credit Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Credit Facility to certain criteria for qualified loans, and includes portfolio company concentration limits as defined in the related loan agreement. The average amounts of borrowings were approximately \$77,000 and \$71,000 for the years ended December 31, 2010 and 2009, respectively. At December 31, 2010 the Company had available borrowing capacity of approximately \$37,500 and had actual borrowings outstanding of \$87,425 on the Credit Facility.

#### Note 7. Federal Income Tax

The Company intends to elect to be treated as a RIC under Subchapter M of the Code and to distribute substantially all of its respective net taxable income. Accordingly, no provision for federal income tax has been recorded in the financial statements. Taxable income differs from net increase in net assets resulting from operations primarily due to unrealized appreciation on investments as investment gains and losses are not included in taxable income until they are realized.

The following reconciles net increase in net assets resulting from operations to taxable income for the period from October 29, 2010 to December 31, 2010:

Net increase in net assets resulting from operations	\$ 3,419
Net unrealized appreciation on investments	(1,449)
Other temporary differences	143
Taxable income before deductions for distributions	<u>\$ 2,113</u>

The tax character of distributions paid during the period from October 29, 2010 to December 31, 2010 was as follows:

Ordinary income	\$1,502
Long-term capital gains	160
Total	<u>\$1,662</u>

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued) (In thousands, except shares and per share data)

As of December 31, 2010 the components of undistributed ordinary income earnings on a tax basis were as follows:

Undistributed long-term gain	\$ 451
Unrealized appreciation	<u>1,449</u>
Total	<u>\$1,900</u>

#### Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The Company attempts to limit its credit risk by conducting extensive due diligence and obtaining collateral where appropriate.

The balance of unfunded commitments to extend credit was approximately \$26,500 and \$5,400 as of December 31, 2010 and 2009, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

#### Note 9. Concentrations of Credit Risk

The Company's loan portfolio consists primarily of loans to development-stage companies at various stages of development in the technology, life science, healthcare information and services and cleantech industries. Many of these companies may have relatively limited operating histories and also may experience variation in operating results. Many of these companies conduct business in regulated industries and could be affected by changes in government regulations. Most of the Company's borrowers will need additional capital to satisfy their continuing working capital needs and other requirements, and in many instances, to service the interest and principal payments on the loans.

The largest loans may vary from year to year as new loans are recorded and repaid. The Company's five largest loans represented approximately 31% and 28% of total loans outstanding as of December 31, 2010 and 2009, respectively. No single loan represents more than 10% of the total loans as of December 31, 2010 and 2009. Loan income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for approximately 22%, 23% and 21% of total loan interest and fee income for the years ended December 31, 2010, 2009 and 2008, respectively.

#### Note 10: Interest Rate Swaps and Hedging Activities

On October 14, 2008, the Company entered into two interest rate swap agreements (collectively, the "Swap") with WestLB, fixing the rate of \$10 million at 3.58% and \$15 million at 3.20% on the first advances of a like amount of variable rate Credit Facility borrowings. The \$15 million interest rate swap expired in October 2010 and the \$10 million will expire in October 2011. The objective of the Swap was to hedge the risk of changes in cash flows associated with the future interest payments on the first \$25 million of the variable rate Credit Facility debt with a combined notional amount of \$25 million.

During the period from October 29, 2010 to December 31, 2010, approximately \$85 of net unrealized appreciation from the Swap was recorded in the statement of operations, and approximately \$42 of net realized losses from the Swap was recorded in the statement of operations.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**  
**(In thousands, except shares and per share data)**

Prior to the Company's election to become a BDC, the Swap was designated as a hedging instrument and the Company applied cash flow hedge accounting. The Swap was recorded in the statement of assets and liabilities at fair value, and any related increases or decreases in the fair value were recognized within accumulated other comprehensive income.

The Company assessed the effectiveness of the Swap on a quarterly basis. The Company had considered the impact of the current credit crisis in the United States in assessing the risk of counterparty default. As most of the critical terms of the hedging instruments and hedged items matched, the hedging relationship was considered to be highly effective. No ineffectiveness on the Swap was recognized during the period from January 1, 2010 to October 28, 2010, and the years ended December 31, 2009 and 2008, respectively.

**Note 11: Subsequent Events**

On February 11, 2011, the Company formed, as wholly owned subsidiaries, Longview SBIC GP LLC and Longview SBIC LP (collectively, "Horizon SBIC") in anticipation of receiving a license to operate a small business investment company ("SBIC") from the Small Business Administration ("SBA"). When licensed, Longview SBIC LP will issue SBA-guaranteed debentures at long-term fixed rates. On March 1, 2011, the Company applied for exemptive relief from the Securities and Exchange Commission to permit the Company to exclude the debt of the Longview SBIC LP from the consolidated asset coverage ratio.

**Note 12: Financial Highlights**

The financial highlights for the Company are as follows:<sup>(1)</sup>

	<b>Post-IPO as a Business Development Company October 29, 2010 to December 31, 2010</b>
<b>Per share data:</b>	
Net asset value at beginning of period	N/A <sup>(2)</sup>
Issuance of common stock and capital contributions	N/A <sup>(2)</sup>
Dividend declared and distributions to members	N/A <sup>(2)</sup>
Offering costs	N/A <sup>(2)</sup>
Net investment income	N/A <sup>(2)</sup>
Realized gain (loss) on investments	N/A <sup>(2)</sup>
Unrealized appreciation (depreciation) on investments	N/A <sup>(2)</sup>
<b>Net asset value at end of period</b>	<b>\$ 16.75</b>
Per share market value, end of period	\$ 14.44
Total return based on a market value	22.7% <sup>(3)</sup>
Shares outstanding at end of period	7,593,422
Ratios to average net assets:	
Expenses without incentive fees	9.8% <sup>(3)</sup>
Incentive fees	2.8% <sup>(3)</sup>
Total expenses	12.6% <sup>(3)</sup>
Net investment income without incentive fees	11.8% <sup>(3)</sup>
Average net asset value	\$ 90,205

(1) Years prior to becoming a public company are not presented in the financial highlights because the Company did not record assets at fair value, therefore the information would not be meaningful.

(2) Per share data is not provided as the Company did not have shares of common stock outstanding or an equivalent prior to the October 28, 2010 IPO.

(3) Annualized.

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**  
**(In thousands, except shares and per share data)**

**Note 13: Selected Quarterly Financial Data (Unaudited)**

	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Total investment income	\$ 4,956	\$ 5,189	\$4,270	\$ 3,793
Net investment income	2,507	3,256	2,508	2,113
Net realized and unrealized gain (loss)	2,063	1,711	(366)	202
Net increase in net asset resulting from operations	4,570	5,287	2,259	2,617
Earnings per share	N/A	N/A	N/A	N/A
Net asset value per share at period end	\$ 16.75	N/A	N/A	N/A
	<b>December 31, 2009</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</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 asset resulting from operations	3,343	2,004	1,884	2,083
Earnings per share	N/A	N/A	N/A	N/A
Net asset value per share at period end	N/A	N/A	N/A	N/A

---

**\$250,000,000**



**Horizon Technology Finance**

# **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**

**PRELIMINARY PROSPECTUS**

---

---

**Part C**  
**OTHER INFORMATION**

**Item 25. Financial Statements and Exhibits**

*1. Financial Statements*

The following financial statements of Horizon Technology Finance Corporation (the “Registrant” or the “Company”) are included in Part A of this registration statement (this “Registration Statement”):

	<u>Page</u>
<b>UNAUDITED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Assets and Liabilities as of September 30, 2011 and December 31, 2010 (unaudited)	F-2
Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (unaudited)	F-3
Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2011 and 2010 (unaudited)	F-4
Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)	F-5
Consolidated Schedules of Investments as of September 30, 2011 and December 31, 2010 (unaudited)	F-6
Notes to the Consolidated Financial Statements (unaudited)	F-12
<b>AUDITED FINANCIAL STATEMENTS</b>	
Report of Independent Registered Public Accounting Firm	F-28
Consolidated Statements of Assets and Liabilities as of December 31, 2010 and 2009	F-29
Consolidated Statements of Operations 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 (Inception) to December 31, 2008	F-30
Consolidated Statements of Changes in Net Assets 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 (Inception) to December 31, 2008	F-31
Consolidated Statements of Cash Flows 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 (Inception) to December 31, 2008	F-32
Consolidated Schedules of Investments as of December 31, 2010 and 2009	F-33
Notes to the Consolidated Financial Statements	F-39

*2. Exhibits*

<u>Exhibit No.</u>	<u>Description</u>
(a)	Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit(a) of the Company’s Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(b)	Amended and Restated Bylaws (Incorporated by reference to Exhibit(b) of the Company’s Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(d)(1)	Form of Stock Certificate (Incorporated by reference to Exhibit(d) of the Company’s Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 19, 2010)
(d)(2)	Form of Certificate of Designation for Preferred Stock**
(d)(3)	Form of Subscription Certificate**

<u>Exhibit No.</u>	<u>Description</u>
(d)(4)	Form of Indenture**
(d)(5)	Form of Subscription Agent Agreement**
(d)(6)	Form of Warrant Agreement**
(e)	Form of Dividend Reinvestment Plan (Incorporated by reference to Exhibit(e) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(f)(1)	Credit and Security Agreement by and among Horizon Credit I LLC, WestLB AG, New York Branch, U.S. Bank National Association, as custodian and paying agent, and WestLB AG, New York Branch, as agent, dated as of March 4, 2008 (Incorporated by reference to Exhibit(f)(1) of the Company's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, File No. 333-165570, filed on June 4, 2010)
(f)(2)	First Amendment of Transaction Documents by and among Horizon Credit I LLC, WestLB AG, New York Branch, U.S. Bank National Association, as custodian and paying agent, WestLB AG, New York Branch, as agent, Horizon Technology Finance Management LLC, and Lyon Financial Services, Inc., dated as of September 30, 2008 (Incorporated by reference to Exhibit(f)(2) of the Company's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, File No. 333-165570, filed on June 4, 2010)
(f)(3)	Second Amendment of Transaction Documents by and among Horizon Credit I LLC, WestLB AG, New York Branch, as the lender and agent, and U.S. Bank National Association, as custodian, dated as of October 7, 2008 (Incorporated by reference to Exhibit(f)(3) of the Company's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, File No. 333-165570, filed on June 4, 2010)
(f)(4)	Third Amendment of Transaction Documents by and among Horizon Credit I LLC, Compass Horizon Funding Company LLC, WestLB AG, New York Branch, as the lender and agent, and U.S. Bank National Association, as custodian, dated as of June 25, 2010 (Incorporated by reference to Exhibit(f)(4) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(f)(5)	Sale and Contribution Agreement by and between Compass Horizon Funding Company LLC and Horizon Credit I LLC, dated as of March 4, 2008 (Incorporated by reference to Exhibit(f)(5) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(f)(6)	Loan and Security Agreement by and among Horizon Credit II LLC and Wells Fargo Capital Finance, LLC, as arranger and administrative agent, dated as of July 14, 2011 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 18, 2011)
(f)(7)	Sale and Servicing Agreement by and among Horizon Credit II LLC, Horizon Technology Finance Management LLC, U.S. Bank National Association, Wells Fargo Capital Finance, LLC and the Company dated as of July 14, 2011 (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 18, 2011)
(g)	Form of Investment Management Agreement (Incorporated by reference to Exhibit(g) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(h)(1)	Form of Underwriting Agreement for equity securities**
(h)(2)	Form of Underwriting Agreement for debt securities**
(j)	Form of Custody Agreement (Incorporated by reference to Exhibit(j) of the Company's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 19, 2010)
(k)(1)	Form of Administration Agreement (Incorporated by reference to Exhibit(k)(1) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)
(k)(2)	Form of Trademark License Agreement by and between the Company and Horizon Technology Finance, LLC (Incorporated by reference to Exhibit(k)(2) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 2, 2010)

Exhibit No.	Description
(k)(3)	Form of Registration Rights Agreement among Compass Horizon Partners, LP, HTF-CHF Holdings LLC and the Company (Incorporated by reference to Exhibit(k)(3) of the Company's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 3330-165570, filed on July 2, 2010)
(k)(4)	Form of Exchange Agreement by and among Compass Horizon Partners, LP, HTF-CHF Holdings LLC, Compass Horizon Funding Company LLC and the Company (Incorporated by reference to Exhibit(k)(4) of the Company's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2, File No. 333-165570, filed July 19, 2010)
(l)	Form of Opinion and Consent of Squire, Sanders & Dempsey (US) LLP, counsel to the Company**
(n)	Consent of Independent Registered Public Accounting Firm**
(r)(1)	Code of Ethics of the Company (Incorporated by reference to Exhibit(r)(1) of the Company's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 19, 2010)
(r)(2)	Code of Ethics and Personal Trading Policy of the Advisor (Incorporated by reference to Exhibit(r)(2) of the Company's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2, File No. 333-165570, filed on July 19, 2010)

\*\* Filed herewith.

**Item 26. Marketing Arrangements**

The information contained under the heading "Plan of Distribution" in this Registration Statement is incorporated herein by reference.

**Item 27. Other Expenses of Issuance and Distribution**

The following table sets forth the estimated expenses to be incurred in connection with the offering described in this Registration Statement:

SEC registration fee	\$ 31,076
FINRA filing fee	\$ 27,616
NASDAQ Global Market listing fee	\$ 130,000*
Printing expenses	\$ 215,000*
Accounting fees and expenses	\$ 200,000*
Legal fees and expenses	\$ 500,000*
Miscellaneous fees and expenses	10,000*
Total	<u>\$1,113,692*</u>

\* Estimated for filing purposes.

All of the expenses set forth above shall be borne by the Registrant. However, underwriting discounts and commissions with respect to the Selling Stockholder Shares will be borne by any selling stockholders.

**Item 28. Persons Controlled by or Under Common Control**

- Compass Horizon Funding Company LLC, a Delaware limited liability company and wholly-owned subsidiary of the Registrant
- Horizon Credit I LLC, a Delaware limited liability company and wholly-owned subsidiary of Compass Horizon Funding Company LLC, which is a wholly-owned subsidiary of the Registrant
- Horizon Credit II LLC, a Delaware limited liability company and wholly-owned subsidiary of the Registrant



- Longview SBIC GP LLC, a Delaware limited liability company and wholly-owned subsidiary of the Registrant
- Longview SBIC LP, a Delaware limited partnership and wholly-owned subsidiary of the Registrant

All subsidiaries listed above are included in the Registrant’s consolidated financial statements as of September 30, 2011 and December 31, 2010.

**Item 29. Number of Holders of Securities**

The following table sets forth the approximate number of record holders of the Company’s common stock as of December 13, 2011:

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, \$0.001 par value	4

**Item 30. Indemnification**

The information contained under the heading “Description of Common Stock That We May Issue — Limitations of liability and indemnification” is incorporated herein by reference.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the “Securities Act”) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission (the “SEC”) such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The investment management agreement (the “Investment Management Agreement”) provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Horizon Technology Finance Management LLC (the “Advisor”) and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of the Advisor’s services under the Investment Management Agreement or otherwise as an investment adviser of the Registrant.

The administration agreement (the “Administration Agreement”) provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Horizon Technology Finance Management LLC (in such capacity, the “Administrator”) and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of the Administrator’s services under the Administration Agreement or otherwise as administrator for the Registrant.

Each of the underwriting agreement relating to equity securities and the underwriting agreement relating to debt securities (each, an “Underwriting Agreement”) provides that each of the Registrant, the Advisor and the Administrator jointly and severally agrees to indemnify and hold harmless the underwriters listed on Schedule A to the applicable Underwriting Agreement (each an “Underwriter”), its affiliates, as such term is defined in Rule 501(b) under the Securities Act, its selling agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), against specified liabilities for actions taken in their capacity as such, including liabilities under the Securities Act. The Underwriting Agreement also provides that each Underwriter severally

agrees to indemnify and hold harmless the Registrant, its directors, its officers, each person, if any, who controls the Registrant, the Advisor or the Administrator within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, the Advisor and the Administrator against specified liabilities for actions taken in their capacity as such.

The Registrant carries liability insurance for the benefit of its directors and officers (other than with respect to claims resulting from the willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office) on a claims-made basis.

**Item 31. *Business and Other Connections of Investment Advisor***

A description of any other business, profession, vocation or employment of a substantial nature in which our Advisor and each managing director, director or executive officer of our Advisor, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Management" and "Our Advisor." Additional information regarding our Advisor and its executive officers and directors is set forth in its Form ADV, as filed with the SEC (SEC File No. 801-71141), and is incorporated herein by reference.

**Item 32. *Location of Accounts and Records***

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032;
- (2) the Transfer Agent, BNY Mellon Shareowner Services, Newport Office Center VII, 480 Washington Boulevard, Jersey City, New Jersey 07310;
- (3) the Custodian, Bank of America, N.A., 100 West 33rd Street, New York, New York 1001; and
- (4) the Advisor, Horizon Technology Finance Management LLC, 312 Farmington Avenue, Farmington, Connecticut 06032.

**Item 33. *Management Services***

Not applicable.

**Item 34. *Undertakings***

- (1) The Registrant hereby undertakes to suspend the offering of its common stock until it amends its prospectus if (a) subsequent to the effective date of its Registration Statement, the net asset value declines more than 10% from its net asset value as of the effective date of the Registration Statement or (b) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.
- (2) Not applicable.
- (3) The Registrant hereby undertakes, in the event that the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by stockholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent reoffering thereof; and further, if any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, to file a post-effective amendment to set forth the terms of such offering.

(4) The Registrant hereby undertakes:

- (a) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
  - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act; (ii) to reflect in the prospectus any facts or events after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;
- (b) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof;
- (c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
- (d) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in this Registration Statement as of the date it is first used after effectiveness; provided, however, that no statement made in a registration statement or prospectus that is part of this Registration Statement or made in a document incorporated or deemed incorporated by reference into this Registration Statement or prospectus that is part of this Registration Statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in this Registration Statement or prospectus that was part of this Registration Statement or made in any such document immediately prior to such date of first use; and
- (e) that, for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:
  - (i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act; (ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and (iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(5) The Registrant hereby undertakes:

- (a) for the purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and
- (b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) Not applicable.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Farmington, and State of Connecticut, on the 15th day of December, 2011.

### Horizon Technology Finance Corporation

By: /s/ Robert D. Pomeroy, Jr.

Name: Robert D. Pomeroy, Jr.  
Title: Chief Executive Officer  
(Principal Executive Officer)

## POWER OF ATTORNEY

The Registrant and each person whose signature appears below constitutes and appoints Robert D. Pomeroy, Jr. his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign and file any and all amendments to this Registration Statement, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities set forth below on December 15, 2011. This document may be executed by the signatories hereto on any number of counterparts, all of which constitute one and the same instrument.

<u>Name</u>	<u>Title</u>
<u>/s/ Robert D. Pomeroy, Jr.</u> <b>Robert D. Pomeroy, Jr.</b>	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
<u>/s/ Christopher M. Mathieu</u> <b>Christopher M. Mathieu</b>	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Gerald A. Michaud</u> <b>Gerald A. Michaud</b>	President and Director
<u>/s/ David P. Swanson</u> <b>David P. Swanson</b>	Director
<u>/s/ James J. Bottiglieri</u> <b>James J. Bottiglieri</b>	Director
<u>/s/ Edmund V. Mahoney</u> <b>Edmund V. Mahoney</b>	Director
<u>/s/ Brett N. Silvers</u> <b>Brett N. Silvers</b>	Director
<u>/s/ Christopher B. Woodward</u> <b>Christopher B. Woodward</b>	Director

\*By: /s/ Robert D. Pomeroy, Jr.  
Attorney-in-fact

CERTIFICATE OF DESIGNATION OF  
SERIES [ ] PREFERRED STOCK  
\$0.001 PAR VALUE OF  
HORIZON TECHNOLOGY FINANCE CORPORATION

---

Pursuant to Section 151 of the  
General Corporation Law of the State of Delaware

---

Horizon Technology Finance Corporation (the “**Company**”), a corporation organized and existing under the laws of the State of Delaware, certifies that pursuant to the authority contained in its certificate of incorporation, as amended from time to time (the “**Certificate of Incorporation**”), and in accordance with the provisions of Section 151 of the Delaware General Corporate Law (“DGCL”), the Board of Directors has duly approved and adopted the following resolution on [ ], 20[ ] (the “**Resolution**”):

RESOLVED, that pursuant to the authority vested in the Board of Directors by the Certificate of Incorporation, and as set forth in Section 151 of the DGCL, the Board of Directors does hereby designate, create, authorize and provide for the issue of a series of [ ] shares of Series [ ] Preferred Stock, \$0.001 par value per share, having the designations, preferences, relative, participation, optional and other special rights and the qualifications, limitations and restrictions thereof that are set forth in the Certificate of Incorporation and in this Resolution as follows:

(a) Definitions.

As used in this Certificate of Designation, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

“**1940 Act**” means the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

“**1940 Act Majority**” shall have the meaning ascribed to it in paragraph (e)(6) hereof.

“**Affiliate**” of any Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, “control” when used with respect to any Person has the meaning specified in Rule 12b-2 under the Exchange Act; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Board of Directors**” means the board of directors of the Company.

“**Business Day**” means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the Borough of Manhattan, The City of New York, New York are authorized or obligated by law or executive order to close or a day on which securities are not traded on NASDAQ or other market or exchange on which the Company’s securities are traded.

“**Capital Stock**” means any and all shares, interests, rights to purchase, warrants, participations or other equivalents of or interests in (however designated) stock issued by the Company.

“**Certificate of Designation**” shall have the meaning ascribed to it in the recitals hereof.

---

“**Certificate of Incorporation**” shall have the meaning ascribed to it in the recitals hereof.

“**Company**” shall have the meaning ascribed to it in the recitals hereof.

“**Common Stock**” means the common stock, par value \$0.001 per share, of the Company now or hereafter authorized to be issued.

[“**Conversion Rate**” shall have the meaning ascribed to it in paragraph (h) hereof.]

“**DGCL**” shall have the meaning ascribed to it in the recitals hereof.

“**Dividend Payment Date**” shall mean [\_\_\_\_], [\_\_\_\_], [\_\_\_\_] and [\_\_\_\_] of each year, commencing on [\_\_\_\_], 20[\_\_\_\_]; provided that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series [\_\_\_\_] Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day.

“**Dividend Period**” shall mean the period commencing on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the original Issue Date of the Series [\_\_\_\_] Preferred Stock) and shall end on and include the calendar day next preceding the next Dividend Payment Date.

“**Dividend Rate**” means [\_\_\_\_]% per annum.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

[“**Exchange Notes**” shall have the meaning ascribed to it in paragraph (i) hereof.]

“**Holder**” means a holder of shares of Series [\_\_\_\_] Preferred Stock, as reflected in the stock records of the Company.

“**Fundamental Change**” means the Company, within the meaning of Title 11 of the U.S. Code or any similar federal or state law for the relief of debtors, (a) commences a voluntary case, (b) consents to the entry of an order for relief against it in an involuntary case, (c) consents to the appointment of a custodian for it for all or substantially all of its property, (d) makes a general assignment for the benefit of its creditors or (e) the Common Stock ceases to be listed on any of NASDAQ, the Nasdaq Global Market or the New York Stock Exchange without the simultaneous listing on another of such exchanges.

“**Issue Date**” means [\_\_\_\_], 20[\_\_\_\_].

“**Liquidation**” shall have the meaning ascribed to it in paragraph (d) hereof.

“**NASDAQ**” means The NASDAQ Global Market.

“**Person**” means any individual, company, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof or any other entity.

“**Resolution**” shall have the meaning ascribed to it in the recitals hereof.

---

“Series [ ] **Liquidation Preference**” shall have the meaning ascribed to it in paragraph (d) hereof.

“Series [ ] **Preferred Stock**” shall have the meaning ascribed to it in paragraph (b) hereof.

“**Voting Period**” shall have the meaning ascribed to it in paragraph (e)(2) hereof.

(b) Designation.

The shares of the series shall be designated “Series [ ] Preferred Stock” (the “**Series [ ] Preferred Stock**”), and the number of shares constituting the series shall be [ ], \$0.001 par value per share.

(c) Ranking.

With respect to rights to participate in distributions or payments in the event of any liquidation, dissolution or winding up of the Company, the Series [ ] Preferred Stock shall rank [ ].

(d) Liquidation Preference.

(1) Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, but excluding the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Company or a consolidation or merger of the Company with one or more corporations (a “**Liquidation**”), the Holders shall be entitled to be paid (before any distribution or payment is made upon any shares of Common Stock), an amount equal to \$[ ] per share of Series [ ] Preferred Stock, representing the liquidation preference per share of the Series [ ] Preferred Stock (the “**Series [ ] Liquidation Preference**”), plus an amount equal to all dividends accumulated and not yet paid thereon to the date of final distribution to such Holders. If upon Liquidation the available funds and assets to be distributed among the Holders shall be insufficient to permit payment in full to the Holders of the Series [ ] Liquidation Preference, then the entire available funds and assets of the Company upon Liquidation shall be distributed ratably among such Holders in proportion to the full respective Series [ ] Liquidation Preference to which they are entitled.

(2) If there are any available funds or assets of the Company upon Liquidation remaining after the payment or distribution to the Holders of their full preferential amounts described above, all such remaining available funds and assets shall be distributed:

(A) [describe payment priority provisions with respect to any other series of outstanding preferred shares;]

(B) then, with respect to all remaining available funds and assets of the Company upon Liquidation after payment pursuant to the foregoing clauses (d)(1) and (d)(2)(A), among the holders of then outstanding Common Stock, pro rata, according to the number of shares of Common Stock held by such holders.

(e) Voting Rights.

(1) Except for matters which do not require the vote of the Holders under the 1940 Act and except as otherwise provided in the Certificate of Incorporation, the Company’s bylaws, herein or as otherwise required by applicable law, [(1)] each Holder shall be entitled to [ ] vote for each share of

---

Series [ ] Preferred Stock held on each matter submitted to a vote of stockholders of the Company[, and (2) the Holders, the holders of any other series of preferred stock, and the holders of Common Stock shall vote together as a single class on all matters submitted to stockholders]; provided, however, that the holders of any series of preferred stock, including the Holders, shall be entitled, as a class, to the exclusion of the holders of Common Stock, to elect two directors of the Company at all times. Subject to the foregoing rights of the Holders, the identity and class (if the Board of Directors is then classified) of the nominees for such directors may be fixed by the Board of Directors. [Subject to paragraph (e)(2), the Holders, the holders of any other series of preferred stock, and the holders of Common Stock, voting together as a single class, shall elect the balance of the directors.]

(2) During any period in which any one or more of the conditions described below shall exist (such period being referred to herein as a “**Voting Period**”), the number of directors constituting the Board of Directors shall automatically increase by the smallest number that, when added to the two directors elected exclusively by the Holders would constitute a majority of the Board of Directors as so increased by such smallest number; and the Holders and the holders of any other series of preferred stock shall be entitled, voting as a class on a one-vote-per-share basis (to the exclusion of the holders of Common Stock), to elect such smallest number of additional directors, together with the two directors that such holders are in any event entitled to elect, to elect a majority of the directors of the Company. A Voting Period shall commence:

(i) if at the close of business on any Dividend Payment Date accumulated dividends (whether or not earned or declared) on the shares of Series [ ] Preferred Stock equal to at least two full years’ dividends shall be due and unpaid; or

(ii) if at any time the Holders and the holders of any other series of preferred stock are entitled under the 1940 Act to elect a majority of the directors of the Company.

Upon the termination of a Voting Period, the voting rights described in paragraph (e)(2) shall cease, subject always, however, to the revesting of such voting rights in the Holders and the holders of any other series of preferred stock upon the further occurrence of any of the events described in this paragraph (e)(2).

(3) As soon as practicable after the accrual of any right of the Holders and the holders of any other series of preferred stock to elect additional directors as described in paragraph (e)(2), the Company shall call a special meeting of such holders, and mail a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 60 calendar days after the date of mailing of such notice. If the Company fails to send such notice or if a special meeting is not called at the expense of the Company, it may be called by any such holder on like notice. The record date for determining the holders entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the day on which such notice is mailed. At any such special meeting and at each meeting of the Holders and the holders of any other series of preferred stock during a Voting Period at which directors are to be elected, such holders, voting as a separate class (to the exclusion of the holders of Common Stock), shall be entitled to elect the number of directors prescribed in paragraph (e)(2).

(4) The terms of office of all persons who are directors of the Company at the time of a special meeting of the Holders and the holders of any other series of preferred stock to elect directors shall continue, notwithstanding the election at such meeting by such holders of the number of directors that they are entitled to elect, and the persons so elected by such holders, together with the two incumbent directors elected by such holders and the remaining incumbent directors, shall constitute the duly elected directors of the Company.

---



(5) Simultaneously with the termination of a Voting Period, the terms of office of the additional directors elected by the Holders and the holders of any other series of preferred stock pursuant to paragraph (e)(2) shall terminate, the number of directors constituting the Board of Directors shall decrease accordingly, the remaining directors shall constitute the directors of the Company and the voting rights of such holders to elect additional directors pursuant to paragraph (e)(2) shall cease, subject to the provisions of the last sentence of paragraph (e)(2).

[(6) So long as any of the shares of Series [ ] Preferred Stock are outstanding, the Company will not, without the affirmative vote of a majority of the Holders determined with reference to a “majority of outstanding voting securities” as that term is defined in Section 2(a)(42) of the 1940 Act (a “**1940 Act Majority**”), voting as a separate class:

(i) amend, alter or repeal any of the preferences, rights or powers of the Series [ ] Preferred Stock so as to affect materially and adversely such preferences, rights or powers; provided, however, no matters shall be deemed to adversely affect any right, preference or power unless such matter (i) alters or abolishes any preferential right of the Series [ ] Preferred Stock; (ii) creates, alters or abolishes any right in respect of redemption of the Series [ ] Preferred Stock; or (iii) creates or alters (other than to abolish) any restriction on transfer applicable to the Series [ ] Preferred Stock);

(ii) create, authorize or issue shares of any class of Capital Stock ranking senior to or on a parity with the Series [ ] Preferred Stock with respect to the payment of dividends or the distribution of assets, or any securities convertible into, or warrants or similar rights to purchase, acquire or receive, such shares of Capital Stock ranking senior to or on a parity with the Series [ ] Preferred Stock or reclassify any authorized shares of Capital Stock of the Company into any shares ranking senior to or on a parity with the Series [ ] Preferred Stock (except that, notwithstanding the foregoing, the Board of Directors, without the vote or consent of the Holders may from time to time authorize, create and classify, and the Company, to the extent permitted by the 1940 Act, may from time to time issue, shares or series of preferred stock ranking on a parity with the Series [ ] Preferred Stock with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Company, and may authorize, reclassify and/or issue any additional Series [ ] Preferred Stock, including shares previously purchased or redeemed by the Company); provided that any such class of Capital Stock shall be created, authorized or issued only to the extent permitted by the 1940 Act.)]

(7) The affirmative vote of the Holders of a 1940 Act Majority, voting as a separate class, shall be required to approve any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares or any action requiring a vote of security holders of the Company under Section 13(a) of the 1940 Act.

(8) Unless otherwise required by law, the Holders shall not have any relative rights or preferences or other special rights other than those specifically set forth herein. The Holders shall [have no rights to cumulative voting.] If the Company fails to pay any dividends on the Series [ ] Preferred Stock[, the exclusive remedy shall be the right to vote for directors pursuant to the provisions of this paragraph (e)].

(9) The foregoing voting provisions will not apply with respect to the Series [ ] Preferred Stock if, at or prior to the time when a vote is required, such shares have been (i) redeemed or (ii) called for redemption and sufficient funds shall have been deposited in trust to effect such redemption.

(f) Dividends.

---

The Holders shall be entitled to receive, on each share of Series [ ] Preferred Stock, dividends with respect to each Dividend Period (1) an amount equal to the Dividend Rate on the Series [ ] Liquidation Preference per share of Series [ ] Preferred Stock [and (2), in the event a cash dividend or other distribution in cash has been declared on the Common Stock during such Dividend Period, an additional amount equal to (A) the Series [ ] Liquidation Preference divided by the Conversion Rate, each in effect on the record date for such dividend, times (B) the cash amount per share distributed or to be distributed in respect of the Common Stock]. Dividends payable at the Dividend Rate shall begin to accrue and be cumulative from the Issue Date. No full dividends and distributions will be declared or paid on the Series [ ] Preferred Stock for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent Dividend Payment Dates for all outstanding shares of the Series [ ] Preferred Stock have been, or contemporaneously are, declared and paid through the most recent Dividend Payment Date. If full cumulative dividends and distributions due have not been paid on all outstanding preferred stock of any series, any dividends and distributions being declared and paid on preferred stock will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of preferred stock on the relevant dividend payment date. No holders of preferred stock will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Certificate of Designations.

Dividends that are payable on the Series [ ] Preferred Stock on any Dividend Payment Date shall be payable to the Holders on the record date for such dividend, which shall be the date 15 days prior to the applicable Dividend Payment Date.

Dividends payable at the Dividend Rate on the Series [ ] Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable at the Dividend Rate on the Series [ ] Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Cash dividends shall be paid only to the extent the Company has assets legally available for such payment and the Board of Directors, or an authorized committee thereof, declares a dividend payable. Dividends not paid in cash shall be added to the Series [ ] Liquidation Preference.

The Company shall not declare any dividend (other than a dividend payable in Common Stock) or other distribution on the Common Stock or purchase any Common Stock unless at the time of the declaration of such dividend or distribution or at the time of any such purchase the Company has an asset coverage of at least 200%, as computed in accordance with the 1940 Act, after deducting the amount of such dividend, distribution or purchase price.

(g) Redemption.

(1) Optional Redemption. The Series [ ] Preferred Stock may be redeemed, in whole or in part, at any time after [ ], 20[ ], at the option of the Company, upon giving notice of redemption pursuant to subsection (g)(3) below, at a redemption price per share equal to the applicable percentage set forth below multiplied by the sum of (a) the Series [ ] Liquidation Preference per share of the Series [ ] Preferred Stock plus (b) an amount per share equal to accrued but unpaid dividends not previously added to the Series [ ] Liquidation Preference on such share of Series [ ] Preferred Stock from and including the immediately preceding Dividend Payment Date to but excluding the date of redemption. The following redemption prices are for shares of Series [ ] Preferred Stock redeemed during the [ ]-month period commencing on [ ] of the years set forth below:

---

Year  
20[ ]

Applicable Percentage  
[ ]%

(2) Redemption at the Option of the Holder. Upon the occurrence of a Fundamental Change, each Holder shall have the right to require the Company to repurchase all or any part of such Holder's shares at a purchase price per share equal to [ ]% of the sum of (a) the Series [ ] Liquidation Preference per share of the Series [ ] Preferred Stock plus (b) an amount equal to accrued but unpaid dividends not previously added to the Series [ ] Liquidation Preference per share on such share of Series [ ] Preferred Stock from and including the immediately preceding dividend Payment Date to but excluding the date of redemption.

Within 30 days of the occurrence of a Fundamental Change, the Company shall provide notice by first class mail, postage prepaid, addressed to the Holders at their respective last addresses appearing on the books of the Company and through such other means as shall be required under the 1940 Act stating (1) that a Fundamental Change has occurred, (2) that all shares of Series [ ] Preferred Stock tendered prior to a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed shall be accepted for redemption and (3) the procedures that Holders must follow in order to redeem their shares of Series [ ] Preferred Stock, including the place or places where certificates for such shares are to be surrendered for payment of the redemption price. Any notice mailed as provided in this subsection shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any Holder designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series [ ] Preferred Stock.

On and after [ ], 20[ ], each Holder shall have the right, by providing written notice to the Company, to require the Company to repurchase all or any part of such Holder's shares at a purchase price equal to [ ]% of the sum of (a) the Liquidation Preference per share of the Series [ ] Preferred Stock plus (b) an amount per share equal to accrued but unpaid dividends not previously added to the Series [ ] Liquidation Preference on such share of Series [ ] Preferred Stock from and including the immediately preceding Dividend Payment Date to but excluding the date of redemption.

(3) Notice of Redemption at the Option of the Company. Notice of every redemption of shares of Series [ ] Preferred Stock pursuant to subsection (g)(1) shall be given (1) by first class mail, postage prepaid, addressed to the Holders of the shares to be redeemed at their respective last addresses appearing on the books of the Company and (2) through such other means as shall be required under the 1940 Act. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this subsection (g)(3) shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any Holder of shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series [ ] Preferred Stock. Each notice of redemption given to a Holder shall state: (1) the redemption date, (2) the number of shares of the Series [ ] Preferred Stock to be redeemed and, if less than all the shares held by such Holder are to be redeemed, the number of such shares to be redeemed from such Holder, (3) the redemption price and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(4) Partial Redemption. In case of any redemption of part of the shares of Series [ ] Preferred Stock at the time outstanding, the shares to be redeemed shall be selected pro rata. Subject to the provisions hereof, the Company shall have full power and authority to prescribe the terms and

conditions upon which shares of Series [ ] Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the Holder thereof.

(5) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Company, in trust for the pro rata benefit of the Holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the Holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Company, after which time the Holders of the shares so called for redemption shall look only to the Company for payment of the redemption price of such shares.

(h) Conversion. [Describe any conversion rights associated with the Series [ ] Preferred Stock, including the definition of Conversion Rate.]

(i) Exchange Rights. [Describe any exchange rights associated with the Series [ ] Preferred Stock, including the definition of Exchange Notes.]

(j) Business Day.

If any payment, redemption, conversion or exchange shall be required by the terms hereof to be made on a day that is not a Business Day, such payment, conversion, redemption or exchange shall be made on the immediately succeeding Business Day.

[(k) Certain Transactions.

(l) The Company shall not, by amendment of its Certificate of Incorporation or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms herein or the Series [ ] Preferred Stock, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holders in accordance with the foregoing.]

(l) Amendments Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by resolution of the Board of Directors, may amend or modify the terms of the Series [ ] Preferred Stock to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein, or make any other provisions with respect to matters or questions arising under these terms of the Series [ ] Preferred Stock that are not inconsistent with the provisions herein.

(m) Status of Acquired Share.

---

Shares of Series [ ] Preferred Stock that are [converted, redeemed or otherwise acquired] by the Company shall be returned to the status of authorized but unissued shares of Series [ ] Preferred Stock, until reclassified by the Board of Directors.

IN WITNESS WHEREOF, the Company has caused this Certificate of Designation to be duly executed by its duly authorized officer as of this [ ] day of [ ], 20[ ].

HORIZON TECHNOLOGY FINANCE  
CORPORATION

By: \_\_\_\_\_

Name:

Title:

## FORM OF SUBSCRIPTION CERTIFICATE

THIS OFFER EXPIRES AT 5:00 P.M.,  
NEW YORK CITY TIME, ON [\_\_\_\_\_]

HORIZON TECHNOLOGY FINANCE CORPORATION

## SUBSCRIPTION RIGHTS FOR COMMON STOCK

Each registered holder of this Subscription Certificate (a "Rights Holder") is entitled to the number of [transferable] subscription rights (each, a "Right") to subscribe for the number of shares of common stock, par value \$0.001 per share ("Common Stock") of Horizon Technology Finance Corporation, a Delaware corporation (the "Company"), as specified herein, on the terms and subject to the conditions set forth in the Company's prospectus supplement dated [\_\_\_\_\_] and the prospectus dated [\_\_\_\_\_] (collectively, the "Prospectus"), which are incorporated herein by reference. Pursuant to the rights offering described in the Prospectus (the "Offering"), each stockholder owning Common Stock of the Company as of [\_\_\_\_\_] (such date, the "Record Date" and, such stockholder, a "Record Date Stockholder") is entitled to receive Right[s] for each [ ] share[s] of Common Stock owned on the Record Date. [The Company will not issue any fractional Rights.] Each Rights Holder is entitled to subscribe for [ ] share[s] of Common Stock for each Right held by such Rights Holder (the "Basic Subscription") at the subscription price (the "Subscription Price"), to be calculated as described in the Prospectus. The Rights may be exercised at any time during the subscription period, which commences on [\_\_\_\_\_] and ends at 5:00 p.m., New York City time, on [\_\_\_\_\_] unless extended by the Company in its sole discretion (the "Expiration Date"). Set forth below is the number of Rights evidenced by this Subscription Certificate that the Rights Holder is entitled to exercise pursuant to the Basic Subscription.

[If any shares of Common Stock available for purchase in the Offering are not subscribed for by Rights Holders pursuant to the Basic Subscription ("Remaining Shares"), a Record Date Stockholder that has exercised fully its Rights pursuant to the Basic Subscription may subscribe for a number of Remaining Shares, on the terms and subject to the conditions set forth in the Prospectus, including as to pro-ration.] [In addition, any Rights Holder other than a Record Date Stockholder who exercises Rights is entitled to subscribe for any Remaining Shares that are not otherwise subscribed for by Record Date Stockholders pursuant to their over-subscription privilege, on the terms and subject to the conditions set forth in the Prospectus, including as to pro-ration.] [We refer to these over-subscription privileges as the "Over-Subscription Privilege."]

**[THE RIGHTS ARE TRANSFERABLE**

The Rights are transferable until [\_\_\_\_\_] or, if the Offering is extended, until [\_\_\_\_\_]. The Rights are expected to be listed for trading on The NASDAQ Global Market under the symbol "HRZN" until and including [\_\_\_\_\_] (or, if the Offering is extended, until [\_\_\_\_\_]). Rights Holders who do not wish to exercise any or all of their Rights may instruct the Subscription Agent (as defined below) to sell any Rights they do not intend to exercise themselves through or to a dealer manager. Subscription Certificates representing the Rights to be sold through or to a dealer manager must be received by the Subscription Agent on or before [\_\_\_\_\_] (or, if the Offering is extended, [\_\_\_\_\_] prior to the extended Expiration Date).]

*Control No:*

*Cusip No.:*

*Rights Represented by this Subscription Certificate:*

*Maximum Shares Available for Purchase Pursuant to the Basic Subscription:*

---

<sup>1</sup> Unless extended by the Company in its sole discretion.

**[THE OFFERING IS TERMINABLE BY THE COMPANY]**

The Company reserves the right to terminate the Offering prior to delivery of the Common Stock.]

**ESTIMATED SUBSCRIPTION PRICE**

The estimated subscription price (the “Estimated Subscription Price”) is \$[ ] per share of Common Stock. [See also “Method of Exercise of Rights” below.]

**THE SUBSCRIPTION PRICE**

The Subscription Price for the shares of Common Stock to be issued pursuant to this Offering will be [insert price or formula].

**SAMPLE CALCULATION FOR A RECORD DATE STOCKHOLDER WHO OWNS [ ] SHARES BASIC SUBSCRIPTION RIGHT ([ ] — FOR — [ ])**

No. of shares held on the Record Date: [ ] ÷ [ ] = [ ] Rights  
( [ ] Right[s] for every [ ] share[s] of Common Stock held on the Record Date)

No. of shares of Common Stock issued assuming full exercise of Basic Subscription:  
[ ] x [ ] = [ ] new shares of Common Stock

Total payment based on the Estimated Subscription Price: [ ] shares x \$[ ] = \$[ ]

**METHOD OF EXERCISE OF RIGHTS**

To exercise your Rights, [ ], a [ ] (the “Subscription Agent”), must receive, in the manner specified herein, at or prior to 5:00 P.M., New York City Time, on [ ], unless extended by the Company in its sole discretion, either (A) a properly completed and duly executed Subscription Certificate and a money order or check or bank draft drawn on a bank or branch located in the United States and payable to [“ ”] for an amount equal to the number of shares of Common Stock subscribed for pursuant to the Basic Subscription [and the Over-Subscription Privilege] multiplied by the Estimated Subscription Price; or (B) a Notice of Guaranteed Delivery guaranteeing delivery of (i) a properly completed and duly executed Subscription Certificate and (ii) a money order or check or bank draft drawn on a bank or branch located in the United States and payable to [“ ”] multiplied by the Estimated Subscription Price (which certificate and full payment must then be delivered at or prior to 5:00 p.m., New York City time, on the third business day after the Expiration Date or, if the Offering is extended, at or prior to 5:00 p.m., New York City time, on the third business day after the extended Expiration Date). Payment must be made in U.S. dollars.

The method of delivery of this Subscription Certificate and the payment of the Estimated Subscription Price and, if required, any additional payment is at the election and risk of the Rights Holder, but if sent by mail it is recommended that the Subscription Certificate and payment be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York City time, on the Expiration Date, as it may be extended, or the date guaranteed payments are due under a Notice of Guaranteed Delivery (as applicable). Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier’s check or money order.

[Because Rights Holders must only pay the Estimated Subscription Price per share to exercise their Rights pursuant to the Offering and the Subscription Price may be higher or lower than the Estimated Subscription Price [(and because a Rights Holder may not receive all the shares for which they subscribe pursuant to the Over-Subscription Privilege)], Rights Holders may receive a refund or be required to pay an additional amount equal to the difference between the Estimated Subscription Price and the Subscription Price, multiplied by the total number

---

of shares for which they have subscribed and been issued [(including pursuant to the Over-Subscription Privilege)]. Any additional payment required from a Rights Holder must be received by the Subscription Agent within ten business days after the confirmation date in order to receive all the shares of Common Stock subscribed for. Any excess payment to be refunded by the Company to a Rights Holder will be mailed by the Subscription Agent as promptly as practicable. No interest will be paid on any amounts refunded.]

[Stock certificates will not be issued for shares of the Company's Common Stock offered in the Offering. Stockholders who are record owners will have the shares they acquire credited to their account with the Company's transfer agent. Stockholders whose Common Stock is held by a nominee will have the shares they acquire credited to the account of such nominee holder.]

A Rights Holder exercising Rights will have no right to rescind their subscription after receipt of their payment for shares or a Notice of Guaranteed Delivery by the Subscription Agent[, except as described in the Prospectus]. [Rights may be transferred in the same manner and with the same effect as with a negotiable instrument payable to specific persons, by duly completing this Subscription Certificate. Rights Holders should be aware that if they choose to exercise, assign, transfer or sell only part of their Rights, they may not receive a new Subscription Certificate in sufficient time to exercise, assign, transfer or sell the remaining Rights evidenced thereby.]

To subscribe for shares of Common Stock pursuant to the Basic Subscription, please complete line "A" and Section 1 below. [To subscribe for shares of Common Stock pursuant to the Over-Subscription Privilege, please complete lines "A" and "B" and Section 1 below.]

[If you want the Subscription Agent to attempt to sell any of your unexercised Rights, check box "D" below and complete Section 1 below. If you want a new Subscription Certificate evidencing any unexercised Rights delivered to you, check box "E" below and indicate the address to which the shares should be delivered in Section 1 below. If you want some or all of your unexercised rights transferred to a designated transferee, or to a bank or broker to sell for you, check box "F" below and complete Section 2 below.]

FOR A MORE COMPLETE DESCRIPTION OF THE TERMS AND CONDITIONS OF THE OFFERING, PLEASE REFER TO THE PROSPECTUS, WHICH IS INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM THE INFORMATION AGENT, [\_\_\_\_], TOLL-FREE AT [\_\_\_\_\_].

**A. Basic Subscription**

[ ] x \$[ ] = \$[ ]

(No. of shares)(Estimated Subscription Price)

**[B. Over-Subscription Privilege<sup>2</sup>**

[ ] x \$[ ] = \$[ ]

(No. of shares)(Estimated Subscription Price)]

**[C.] Total Amount Enclosed = \$[ ]**

**SECTION 1. TO SUBSCRIBE:** I acknowledge that I have received the Prospectus for the Offering and I hereby irrevocably subscribe for the number of shares of Common Stock indicated as the total of A [and B] above upon the terms and conditions specified in the Prospectus and incorporated by reference herein. I understand and agree that I will be obligated to pay an additional amount if the Subscription Price as determined on the Expiration Date, as it may be extended, is in excess of the Estimated Subscription Price. I hereby agree that if I fail to pay in full for the

---

<sup>2</sup> If a Rights Holder is a Record Date Stockholder, the Over-Subscription Privilege may only be exercised if its Basic Subscription is exercised in full.

---



shares of Common Stock for which I have subscribed, the Company may exercise any of the remedies provided for in the Prospectus.

[TO SELL: If I have checked the box on line D, I authorize the sale of Rights by the Subscription Agent according to the procedures described in the Prospectus.]

\_\_\_\_\_  
Signature(s) of Subscriber(s)

\_\_\_\_\_  
Address for delivery of certificate representing unexercised Rights

If permanent change of address, check here

Daytime telephone number: ( ) [ ]

Evening telephone number: ( ) [ ]

Email address: \_\_\_\_\_

Please complete all applicable information and return to: [ ]

Any questions regarding this Subscription Certificate and the Offering may be directed to the Information Agent, [ ], toll free at [ ].

**[D. Sell any unexercised Rights**

**[E. Deliver a certificate representing [ ] unexercised Rights to the address in Section 1.**

**[F. Transfer [ ] Rights to the transferee designed in Section 2.**

**[SECTION 2. TO TRANSFER RIGHTS (Per Line F):** For value received, [ ] of the Rights represented by this Subscription Certificate are assigned to:

\_\_\_\_\_  
(Print full name of Assignee and Social Security Number)

\_\_\_\_\_  
(Print full address)

\_\_\_\_\_  
(Signature(s) of Assignor(s))

The signature(s) on the Subscription Certificate must correspond with the name(s) of the Rights Holder(s) exactly as it appears on the Subscription Certificate without any alteration or change whatsoever. In the case of joint Rights Holders, each person must sign the Subscription Certificate in accordance with the foregoing. If you sign the Subscription Certificate in your capacity as a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other fiduciary or representative, you must indicate the capacity in which you are signing when you sign and, if requested by the Subscription Agent in its sole and absolute discretion, you must present to the Subscription Agent satisfactory evidence of your authority to sign in that capacity.

---

The signature must be guaranteed by an Eligible Guarantor Institution, as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended, which may include: (a) a commercial bank or trust company; (b) a member firm of a domestic stock exchange; or (c) a savings bank or credit union.

Signature (name of bank or firm): \_\_\_\_\_

Guaranteed by (signature/title): \_\_\_\_\_

BY FIRST CLASS MAIL ONLY: BY OVERNIGHT DELIVERY:

**DELIVERY OF THIS SUBSCRIPTION CERTIFICATE TO AN ADDRESS OTHER  
THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY**

**HORIZON TECHNOLOGY FINANCE CORPORATION**

**(Issuer)**

**and**

[\_\_\_\_\_]

**(Trustee)**

**Indenture**

**Dates as of [\_\_\_\_], 20[\_\_],**

**Providing for the Issuance**

**of**

**Debt Securities**

---

## TABLE OF CONTENTS

	Page
ARTICLE ONE DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION	4
Section 1.01. Definitions	4
Section 1.02. Compliance Certificates and Opinions	14
Section 1.03. Form of Documents Delivered to Trustee	15
Section 1.04. Acts of Holders	15
Section 1.05. Notices, Etc., to Trustee and Company	16
Section 1.06. Notice to Holders; Waiver	17
Section 1.07. Effect of Headings and Table of Contents	18
Section 1.08. Successors and Assigns	18
Section 1.09. Separability Clause	18
Section 1.10. Benefits of Indenture	18
Section 1.11. Governing Law	18
Section 1.12. Legal Holidays	18
Section 1.13. Submission to Jurisdiction	19
ARTICLE TWO SECURITIES FORMS	19
Section 2.01. Forms of Securities	19
Section 2.02. Form of Trustee's Certificate of Authentication	19
Section 2.03. Securities Issuable in Global Form	20
ARTICLE THREE THE SECURITIES	21
Section 3.01. Amount Unlimited; Issuable in Series	21
Section 3.02. Denominations	24
Section 3.03. Execution, Authentication, Delivery and Dating	24
Section 3.04. Temporary Securities	26
Section 3.05. Registration, Registration of Transfer and Exchange	27
Section 3.06. Mutilated, Destroyed, Lost and Stolen Securities	29
Section 3.07. Payment of Interest; Interest Rights Preserved; Optional Interest Reset	30
Section 3.08. Optional Extension of Maturity	32
Section 3.09. Persons Deemed Owners	33
Section 3.10. Cancellation	33
Section 3.11. Computation of Interest	34

---

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Section 3.12. Currency and Manner of Payments in Respect of Securities	34
Section 3.13. Appointment and Resignation of Successor Exchange Rate Agent	37
Section 3.14. CUSIP Numbers	38
<b>ARTICLE FOUR SATISFACTION AND DISCHARGE</b>	<b>38</b>
Section 4.01. Satisfaction and Discharge of Indenture	38
Section 4.02. Application of Trust Funds	39
<b>ARTICLE FIVE REMEDIES</b>	<b>39</b>
Section 5.01. Events of Default	39
Section 5.02. Acceleration of Maturity; Rescission and Annulment	41
Section 5.03. Collection of Indebtedness and Suits for Enforcement by Trustee	42
Section 5.04. Trustee May File Proofs of Claim	43
Section 5.05. Trustee May Enforce Claims Without Possession of Securities	44
Section 5.06. Application of Money Collected	44
Section 5.07. Limitation on Suits	45
Section 5.08. Unconditional Right of Holders to Receive Principal, Premium and Interest	45
Section 5.09. Restoration of Rights and Remedies	45
Section 5.10. Rights and Remedies Cumulative	46
Section 5.11. Delay or Omission Not Waiver	46
Section 5.12. Control by Holders of Securities	46
Section 5.13. Waiver of Past Defaults	46
Section 5.14. Waiver of Stay or Extension Laws	47
<b>ARTICLE SIX THE TRUSTEE</b>	<b>47</b>
Section 6.01. Notice of Defaults	47
Section 6.02. Certain Rights of Trustee	48
Section 6.03. Not Responsible for Recitals or Issuance of Securities	50
Section 6.04. May Hold Securities	50
Section 6.05. Money Held in Trust	51

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Section 6.06. Compensation and Reimbursement and Indemnification of Trustee	51
Section 6.07. Corporate Trustee Required; Eligibility	51
Section 6.08. Disqualification; Conflicting Interests	52
Section 6.09. Resignation and Removal; Appointment of Successor	52
Section 6.10. Acceptance of Appointment by Successor	53
Section 6.11. Merger, Conversion, Consolidation or Succession to Business	54
Section 6.12. Appointment of Authenticating Agent	55
<b>ARTICLE SEVEN HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY</b>	<b>57</b>
Section 7.01. Disclosure of Names and Addresses of Holders	57
Section 7.02. Preservation of Information; Communications to Holders	57
Section 7.03. Reports by Trustee	57
Section 7.04. Reports by Company	58
Section 7.05. Calculation of Original Issue Discount	58
<b>ARTICLE EIGHT CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER</b>	<b>58</b>
Section 8.01. Company May Consolidate, Etc., Only on Certain Terms	58
Section 8.02. Successor Person Substituted	59
<b>ARTICLE NINE SUPPLEMENTAL INDENTURES</b>	<b>59</b>
Section 9.01. Supplemental Indentures Without Consent of Holders	59
Section 9.02. Supplemental Indentures with Consent of Holders	60
Section 9.03. Execution of Supplemental Indentures	62
Section 9.04. Effect of Supplemental Indentures	62
Section 9.05. Conformity with Trust Indenture Act	62
Section 9.06. Reference in Securities to Supplemental Indentures	62
<b>ARTICLE TEN COVENANTS</b>	<b>62</b>
Section 10.01. Payment of Principal, Premium, if any, and Interest	62
Section 10.02. Maintenance of Office or Agency	63
Section 10.03. Money for Securities Payments to Be Held in Trust	63
Section 10.04. Additional Amounts	64

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Section 10.05. Statement as to Compliance	65
Section 10.06. Payment of Taxes and Other Claims	65
Section 10.07. Waiver of Certain Covenants	66
<b>ARTICLE ELEVEN REDEMPTION OF SECURITIES SECTION</b>	<b>66</b>
Section 11.01. Applicability of Article	66
Section 11.02. Election to Redeem; Notice to Trustee	66
Section 11.03. Selection by Trustee of Securities to Be Redeemed	67
Section 11.04. Notice of Redemption	67
Section 11.05. Deposit of Redemption Price	68
Section 11.06. Securities Payable on Redemption Date	68
Section 11.07. Securities Redeemed in Part	69
<b>ARTICLE TWELVE SINKING FUNDS</b>	<b>69</b>
Section 12.01. Applicability of Article	69
Section 12.02. Satisfaction of Sinking Fund Payments with Securities	70
Section 12.03. Redemption of Securities for Sinking Fund	70
<b>ARTICLE THIRTEEN REPAYMENT AT THE OPTION OF HOLDERS</b>	<b>71</b>
Section 13.01. Applicability of Article	71
Section 13.02. Repayment of Securities	71
Section 13.03. Exercise of Option	71
Section 13.04. When Securities Presented for Repayment Become Due and Payable	72
Section 13.05. Securities Repaid in Part	72
<b>ARTICLE FOURTEEN DEFEASANCE AND COVENANT DEFEASANCE</b>	<b>72</b>
Section 14.01. Applicability of Article; Company's Option to Effect Defeasance or Covenant Defeasance	72
Section 14.02. Defeasance and Discharge	73
Section 14.03. Covenant Defeasance	73
Section 14.04. Conditions to Defeasance or Covenant Defeasance	74
Section 14.05. Deposited Money and Government Obligations to Be Held in Trust; Other Miscellaneous Provisions	75
<b>ARTICLE FIFTEEN MEETINGS OF HOLDERS OF SECURITIES</b>	<b>76</b>

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Section 15.01. Purposes for Which Meetings May Be Called	76
Section 15.02. Call, Notice and Place of Meetings	77
Section 15.03. Persons Entitled to Vote at Meetings	77
Section 15.04. Quorum; Action	77
Section 15.05. Determination of Voting Rights; Conduct and Adjournment of Meetings	78
Section 15.06. Counting Votes and Recording Action of Meetings	79
ARTICLE SIXTEEN SUBORDINATION OF SECURITIES	80
Section 16.01. Agreement to Subordinate	80
Section 16.02. Distribution on Dissolution, Liquidation and Reorganization; Subrogation of Subordinated Securities	80
Section 16.03. No Payment on Subordinated Securities in Event of Default on Senior Indebtedness	82
Section 16.04. Payments on Subordinated Securities Permitted	82
Section 16.05. Authorization of Holders to Trustee to Effect Subordination	82
Section 16.06. Notices to Trustee	83
Section 16.07. Trustee as Holder of Senior Indebtedness	83
Section 16.08. Reliance on Judicial Order or Certificate of Liquidating Agent	84



**HORIZON TECHNOLOGY FINANCE CORPORATION**

Reconciliation and tie between Trust Indenture Act of 1939  
and Indenture, dated as of [\_\_\_\_], 20[\_\_\_\_],

<b>Trust Indenture Act Section</b>	<b>Indenture Section</b>
§310 (a)(1)	6.07
(a)(2)	6.07
(b)	6.09
§312 (c)	7.01
§314 (a)	7.04
(a)(4)	10.05
(c)(1)	1.02
(c)(2)	1.02
(e)	1.02
§315 (b)	6.01
§316 (a) (last sentence)	1.01 (“Outstanding”)
(a)(1)(A)	5.02, 5.12
(a)(1)(B)	5.13
(b)	5.08
§317 (a)(1)	5.03
(a)(2)	5.04
§318 (a)	1.11
(c)	1.11

---

NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

---

INDENTURE, dated as of [\_\_\_\_], 20[\_\_\_], between Horizon Technology Finance Corporation, a Delaware corporation (the “Company”), and [\_\_\_\_], a [\_\_\_\_], as Trustee (as trustee in such capacity and not in its individual capacity, the “Trustee”).

#### RECITALS OF THE COMPANY

WHEREAS, the Company deems it necessary to issue from time to time for its lawful purposes debt securities (hereinafter called the “Securities”) evidencing its secured or unsecured indebtedness, which may or may not be convertible into or exchangeable for any securities of any Person (including the Company), and has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of the Securities, to be issued in one or more series, unlimited as to principal amount, to bear such rates of interest, to mature at such times and to have such other provisions as shall be fixed as hereinafter provided;

WHEREAS, this Indenture (as defined herein) is subject to the provisions of the Trust Indenture Act, as amended, that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions; and

WHEREAS, all things necessary to make this Indenture a valid and legally binding agreement of, and enforceable against, the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders (as defined herein) thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities, or of a series thereof, as follows:

#### ARTICLE ONE

##### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

###### Section 1.01. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular and, pursuant to Section 3.01, any such item may, with respect to any particular series of Securities, be amended or modified or specified as being inapplicable;

(b) all other terms used herein which are defined in the Trust Indenture Act (as defined herein), either directly or by reference therein, have the meanings assigned to them therein, and the terms “cash transaction” and “self-liquidating paper”, as used in Section 311 of the Trust Indenture Act, shall have the meanings assigned to them in the rules of the Commission (as defined herein) adopted under the Trust Indenture Act;

---

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States of America;

(d) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(e) “or” is not exclusive;

(f) provisions apply to successive events and transactions; and

(g) references to sections of or rules under the Securities Exchange Act of 1934, as amended, shall be deemed to include substitute, replacement of successor sections or rules adopted by the Commission from time to time.

Certain terms, used in other Articles herein, are defined in those Articles.

“Act”, when used with respect to any Holder of a Security, has the meaning specified in Section 1.04.

“Additional Amounts” means any additional amounts that are required by a Security or by or pursuant to a Board Resolution, under circumstances specified therein, to be paid by the Company in respect of certain taxes imposed on certain Holders and that are owing to such Holders.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing; *provided*, that Affiliate shall not include any portfolio company of the Company which the Company may have control or in which the Company may have an investment from time to time.

“Authenticating Agent” means any authenticating agent appointed by the Trustee pursuant to Section 6.12 to act on behalf of the Trustee to authenticate Securities of one or more series.

“Authorized Newspaper” means a newspaper, in the English language or in an official language of the country of publication, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

“Bankruptcy Law” has the meaning specified in Section 5.01.

---

“Board of Directors” means the board of directors of the Company or any committee of that board duly authorized to act hereunder.

“Board Resolution” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“Business Day”, when used with respect to any Place of Payment or any other particular location referred to in this Indenture or in the Securities, means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in that Place of Payment or particular location are authorized or obligated by law or executive order to close.

“Clearstream” means Clearstream International or its successor.

“Commission” means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties on such date.

“Company” means the Person named as the “Company” in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Company” shall mean such successor corporation.

“Company Request” and “Company Order” mean, respectively, a written request or order signed in the name of the Company by the Chairman of the Board, the Chief Executive Officer, the Chief Investment Officer, the Chief Financial Officer, the Chief Operating Officer (or, in each case, any permitted designee of such Person as may be identified as such in a writing delivered to the Trustee from time to time), and by any Co-President, the Treasurer, or the Secretary of the Company, and delivered to the Trustee.

“Component Currency” has the meaning specified in Section 3.12(h).

“Conversion Date” has the meaning specified in Section 3.12(d).

“Conversion Event” means the cessation of use of (i) a Foreign Currency both by the government of the country which issued such currency and for the settlement of transactions by a central bank or other public institutions of or within the international banking community, (ii) the Euro both within the European Monetary System and for the settlement of transactions by public institutions of or within the European Communities or (iii) any currency unit (or composite currency) other than the Euro for the purposes for which it was established.

“Corporate Trust Office” means the office of the Trustee at which, at any particular time, its corporate trust business shall be principally administered, which office at the date hereof is located at [\_\_\_\_\_]; provided that for purposes of presentment or surrender of securities for transfer or payment or exchange, such office is located at [\_\_\_\_\_], or such other address as the Trustee may designate from time to time by notice to the Holders and the Issuer, or the

---

principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

“corporation” includes corporations, associations, companies and business trusts.

“Currency” means any currency or currencies, composite currency or currency unit or currency units, including, without limitation, the Euro, issued by the government of one or more countries or by any reorganized confederation or association of such governments.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Defaulted Interest” has the meaning specified in Section 3.07(a).

“Dollar” or “\$” means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

“Euro” means the official currency of the eurozone.

“Election Date” has the meaning specified in Section 3.12(h).

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System, or its successor as operator of the Euroclear System.

“European Communities” means the European Union.

“European Monetary System” means the European Monetary System established by the Resolution of December 5, 1978 of the Council of the European Communities.

“Event of Default” has the meaning specified in Section 5.01.

“Exchange Rate Agent”, with respect to Securities of or within any series, means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, a New York Clearing House bank designated pursuant to Section 3.01 or Section 3.13.

“Exchange Rate Officer’s Certificate” means a certificate setting forth (i) the applicable Market Exchange Rate or the applicable bid quotation and (ii) the Dollar or Foreign Currency amounts of principal (and premium, if any) and interest, if any (on an aggregate basis and on the basis of a Security having the lowest denomination principal amount determined in accordance with Section 3.02 in the relevant Currency), payable with respect to a Security of any series on the basis of such Market Exchange Rate or the applicable bid quotation signed by the Chief Financial Officer or any Vice President of the Company.

“Extension Notice” has the meaning specified in Section 3.08.

“Extension Period” has the meaning specified in Section 3.08.

---

“Final Maturity” has the meaning specified in Section 3.08.

“Foreign Currency” means any Currency other than the Dollar, including, without limitation, the Euro.

“Government Obligations” means securities that are (i) direct obligations of the United States of America or the government which issued the Foreign Currency in which the Securities of a particular series are payable, for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America or such government that issued the Foreign Currency in which the Securities of such series are payable, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America or such other government, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt.

“Holder” means the Person in whose name a Security is registered in the Security Register.

“Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, and shall include the terms of particular series of Securities established as contemplated by Section 3.01; provided, however, that, if at any time more than one Person is acting as Trustee under this instrument, “Indenture” shall mean, with respect to any one or more series of Securities for which such Person is Trustee, this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of the or those particular series of Securities for which such Person is Trustee established as contemplated by Section 3.01, exclusive, however, of any provisions or terms that relate solely to other series of Securities for which such Person is not Trustee, regardless of when such terms or provisions were adopted, and exclusive of any provisions or terms adopted by means of one or more indentures supplemental hereto executed and delivered after such Person had become such Trustee but to which such Person, as such Trustee, was not a party.

“Indexed Security” means a Security as to which all or certain interest payments and/or the principal amount payable at Maturity are determined by reference to prices, changes in prices, or differences between prices, of securities, Currencies, intangibles, goods, articles or commodities or by such other objective price, economic or other measures as are specified in Section 3.01 hereof.

---

“Interest”, when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity, and, when used with respect to a Security which provides for the payment of Additional Amounts pursuant to Section 10.04, includes such Additional Amounts.

“Interest Payment Date”, when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

“Investment Company Act” means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

“Junior Subordinated Security” or “Junior Subordinated Securities” means any Security or Securities designated pursuant to Section 3.01 as a Junior Subordinated Security.

“Junior Subordinated Indebtedness” means the principal of (and premium, if any) and unpaid interest on (i) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, which in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such indebtedness ranks junior in right of payment to the Company’s Senior Indebtedness and Senior Subordinated Indebtedness and equally and *pari passu* in right of payment to any other Junior Subordinated Indebtedness, (ii) Junior Subordinated Securities and (iii) renewals, extensions, modifications and refinancings of any such indebtedness.

“Market Exchange Rate” means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, (i) for any conversion involving a currency unit on the one hand and Dollars or any Foreign Currency on the other, the exchange rate between the relevant currency unit and Dollars or such Foreign Currency calculated by the method specified pursuant to Section 3.01 for the Securities of the relevant series, (ii) for any conversion of Dollars into any Foreign Currency, the noon buying rate for such Foreign Currency for cable transfers quoted in New York City as certified for customs purposes by the Federal Reserve Bank of New York and (iii) for any conversion of one Foreign Currency into Dollars or another Foreign Currency, the spot rate at noon local time in the relevant market at which, in accordance with normal banking procedures, the Dollars or Foreign Currency into which conversion is being made could be purchased with the Foreign Currency from which conversion is being made from major banks located in either New York City, London or any other principal market for Dollars or such purchased Foreign Currency, in each case determined by the Exchange Rate Agent. Unless otherwise specified with respect to any Securities pursuant to Section 3.01, in the event of the unavailability of any of the exchange rates provided for in the foregoing clauses (i), (ii) and (iii), the Exchange Rate Agent shall use, in its sole discretion and without liability on its part, such quotation of the Federal Reserve Bank of New York as of the most recent available date, or quotations from one or more major banks in New York City, London or other principal market for such currency or currency unit in question, or such other quotations as the Exchange Rate Agent shall deem appropriate. Unless otherwise specified by the Exchange Rate Agent, if there is more than one market for dealing in any currency or currency unit by reason of foreign exchange regulations or otherwise, the market to be used in respect of such currency or currency unit shall be that upon which a nonresident issuer of securities designated in such currency or currency unit

---

would purchase such currency or currency unit in order to make payments in respect of such securities as determined by the Exchange Rate Agent, in its sole discretion.

“Maturity”, when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, notice of option to elect repayment, notice of exchange or conversion or otherwise.

“Notice of Default” has the meaning provided in Section 5.01.

“Officers’ Certificate” means a certificate signed by the Chairman of the Board, the Chief Executive Officer, the Chief Investment Officer, the Chief Financial Officer, the Chief Operating Officer (or, in each case, any permitted designee of such Person as may be identified as such in a writing delivered to the Trustee from time to time), and by any Co-President, the Treasurer, or the Secretary of the Company and delivered to the Trustee.

“Opinion of Counsel” means a written opinion of counsel, who may be counsel for the Company or who may be an employee of or other counsel for the Company.

“Optional Reset Date” has the meaning specified in Section 3.07(b).

“Original Issue Discount Security” means any Security that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02.

“Original Stated Maturity” has the meaning specified in Section 3.08.

“Outstanding”, when used with respect to Securities or any series of Securities, means, as of the date of determination, all Securities or all Securities of such series, as the case may be, theretofore authenticated and delivered under this Indenture, except:

- (i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;
  - (ii) Securities, or portions thereof, for whose payment or redemption or repayment at the option of the Holder, money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities, provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;
  - (iii) Securities, except to the extent provided in Sections 14.02 and 14.03, with respect to which the Company has effected defeasance and/or covenant defeasance as provided in Article Fourteen; and
  - (iv) Securities that have been paid pursuant to Section 3.06 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other
-



than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a protected purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders for quorum purposes, and for the purpose of making the calculations required by TIA Section 313, (i) the principal amount of an Original Issue Discount Security that may be counted in making such determination or calculation and that shall be deemed to be Outstanding for such purpose shall be equal to the amount of principal thereof that would be (or shall have been declared to be) due and payable, at the time of such determination, upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02, (ii) the principal amount of any Security denominated in a Foreign Currency that may be counted in making such determination or calculation and that shall be deemed Outstanding for such purpose shall be equal to the Dollar equivalent, determined as of the date such Security is originally issued by the Company as set forth in an Exchange Rate Officer's Certificate delivered to the Trustee, of the principal amount (or, in the case of an Original Issue Discount Security or Indexed Security, the Dollar equivalent as of such date of original issuance of the amount determined as provided in clause (i) above or (iii) below, respectively) of such Security, (iii) the principal amount of any Indexed Security that may be counted in making such determination or calculation and that shall be deemed outstanding for such purpose shall be equal to the principal face amount of such Indexed Security at original issuance, unless otherwise provided with respect to such Security pursuant to Section 3.01, and (iv) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

“Paying Agent” means any Person authorized by the Company to pay the principal of (or premium, if any) or interest, if any, on any Securities on behalf of the Company.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof, or any other entity.

“Place of Payment”, when used with respect to the Securities of or within any series, means the place or places where the principal of (and premium, if any) and interest, if any, on such Securities are payable as specified and as contemplated by Sections 3.01 and 10.02.

“Predecessor Security” of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and,

---

for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security.

“Redemption Date”, when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

“Redemption Price”, when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

“Registered Security” means any Security that is registered in the Security Register.

“Regular Record Date” for the interest payable on any Interest Payment Date on the Registered Securities of or within any series means the date specified for that purpose as contemplated by Section 3.01, whether or not a Business Day.

“Repayment Date” means, when used with respect to any Security to be repaid at the option of the Holder, means the date fixed for such repayment by or pursuant to this Indenture.

“Repayment Price” means, when used with respect to any Security to be repaid at the option of the Holder, means the price at which it is to be repaid by or pursuant to this Indenture.

“Reset Notice” has the meaning specified in Section 3.07(b).

“Responsible Officer”, when used with respect to the Trustee, means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters and who shall have direct responsibility for the administration of this Indenture.

“Security” or “Securities” has the meaning stated in the first recital of this Indenture and, more particularly, means any Security or Securities authenticated and delivered under this Indenture; provided, however, that, if at any time there is more than one Person acting as Trustee under this Indenture, “Securities” with respect to the Indenture as to which such Person is Trustee shall have the meaning stated in the first recital of this Indenture and shall more particularly mean Securities authenticated and delivered under this Indenture, exclusive, however, of Securities of any series as to which such Person is not Trustee.

“Security Register” and “Security Registrar” have the respective meanings specified in Section 3.05.

“Senior Indebtedness” means the principal of (and premium, if any) and unpaid interest on (i) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that such indebtedness is not senior or prior in right of payment to Subordinated Indebtedness, (ii) Senior Securities and (iii) renewals, extensions, modifications and refinancings of any such indebtedness.

“Senior Security” or “Senior Securities” means any Security or Securities designated pursuant to Section 3.01 as a Senior Security.

---

“Senior Subordinated Indebtedness” means the principal of (and premium, if any) and unpaid interest on (i) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, that in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such indebtedness ranks junior in right of payment to the Company’s Senior Indebtedness, equally and *pari passu* in right of payment with all other Senior Subordinated Indebtedness and senior in right of payment to any Junior Subordinated Indebtedness, (ii) Senior Subordinated Securities and (iii) renewals, extensions, modifications and refinancings of any such indebtedness.

“Senior Subordinated Security” or “Senior Subordinated Securities” means any Security or Securities designated pursuant to Section 3.01 as a Senior Subordinated Security.

“Special Record Date” for the payment of any Defaulted Interest on the Registered Securities of or within any series means a date fixed by the Trustee pursuant to Section 3.07.

“Specified Amount” has the meaning specified in Section 3.12(h).

“Stated Maturity”, when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable, as such date may be extended pursuant to the provisions of Section 3.08.

“Subordinated Indebtedness” means any Senior Subordinated Indebtedness or Junior Subordinated Indebtedness.

“Subsequent Interest Period” has the meaning specified in Section 3.07(b).

“Subsidiary” means (i) any corporation a majority of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries of the Company, (ii) any other Person (other than a corporation) in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has a majority ownership interest or (iii) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner and in which such Person, directly or indirectly, at the date of determination thereof has a majority ownership interest. For the purposes of this definition, “voting stock” means stock having voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Trust Indenture Act” or “TIA” means the Trust Indenture Act of 1939, as amended, as in force at the date as of which this Indenture was executed, except as provided in Section 9.05.

“Trustee” means the Person named as the “Trustee” in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Trustee” shall mean or include each Person who is then a Trustee hereunder; provided, however, that if at any time there is more than one such Person, “Trustee” as used with respect to the Securities of any series shall mean only the Trustee with respect to Securities of that series.

---

“United States” means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, the United States of America (including the states and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

“United States person” means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, any individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state thereof or the District of Columbia (other than a partnership that is not treated as a United States Person under any applicable Treasury regulations), any estate the income of which is subject to United States federal income taxation regardless of its source, or any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in the Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date that elect to continue to be treated as United States Persons, will also be United States persons.

“Valuation Date” has the meaning specified in Section 3.12(c).

“Yield to Maturity” means the yield to maturity, computed at the time of issuance of a Security (or, if applicable, at the most recent redetermination of interest on such Security) and as set forth in such Security in accordance with generally accepted United States bond yield computation principles.

**Section 1.02. Compliance Certificates and Opinions.**

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers’ Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than pursuant to Section 10.05) shall include:

- (a) a statement that each individual signing such certificate or opinion has read such condition or covenant and the definitions herein relating thereto;
  - (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
  - (c) a statement that such individual signing the certificate or opinion has made such examination or investigation as is necessary to enable such individual to express an informed opinion as to whether or not such condition or covenant has been complied with; and
-

(d) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

**Section 1.03. Form of Documents Delivered to Trustee.**

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion as to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, or a certificate or representations by counsel, unless such officer knows, or in the exercise of reasonable care should know, that the opinion, certificate or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such Opinion of Counsel or certificate or representations may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information as to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations as to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

**Section 1.04. Acts of Holders.**

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of the Outstanding Securities of all series or one or more series, as the case may be, may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments or so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company and any agent of the Trustee or the Company, if made in the manner provided in this Section. The record of any meeting of Holders of Securities shall be proved in the manner provided in Section 15.06.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof.

---

Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner that the Trustee deems reasonably sufficient.

(c) The ownership of Registered Securities shall be proved by the Security Register.

(d) If the Company shall solicit from the Holders of Registered Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, in or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. Notwithstanding TIA Section 316(c), such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 calendar days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than eleven months after the record date.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee, any Security Registrar, any Paying Agent, any Authenticating Agent or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

**Section 1.05. Notices, Etc., to Trustee and Company.**

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(i) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid or sent via overnight courier guaranteeing next day delivery or same day messenger service to the Trustee at its Corporate Trust Office, Attention: [\_\_\_\_\_], or

(ii) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, or sent via overnight courier guaranteeing next day delivery or same day

---

messenger service, to the Company, to the attention of its Chief Financial Officer at 312 Farmington Avenue, Farmington, Connecticut 06032.

The Company or the Trustee, by notice to the other, may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: (i) at the time delivered by hand, if personally delivered; (ii) five Business Days after being deposited in the mail, postage prepaid; and (iii) the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

**Section 1.06. Notice to Holders; Waiver.**

Where this Indenture provides for notice of any event to Holders of Registered Securities by the Company or the Trustee, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, or by overnight courier guaranteeing next day delivery to each such Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. Any notice or communication shall also be so mailed to any Person described in TIA Section 3.13(c), to the extent required by the TIA. In any case where notice to Holders of Registered Securities is given by mail or by overnight courier guaranteeing next day delivery, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders of Registered Securities. Any notice mailed or sent to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder, whether or not such Holder actually receives such notice.

If by reason of the suspension of or irregularities in regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification to Holders of Registered Securities as shall be made with the approval of the Trustee shall constitute a sufficient notification to such Holders for every purpose hereunder.

Any request, demand, authorization, direction, notice, consent or waiver required or permitted under this Indenture shall be in the English language, except that any published notice may be in an official language of the country of publication.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**Section 1.07. Effect of Headings and Table of Contents.**

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

---

**Section 1.08. Successors and Assigns.**

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

**Section 1.09. Separability Clause.**

In case any provision in this Indenture or in any Security shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**Section 1.10. Benefits of Indenture.**

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, any Security Registrar, any Paying Agent, any Authenticating Agent and their successors hereunder and the Holders any benefit or any legal or equitable right, remedy or claim under this Indenture.

**Section 1.11. Governing Law.**

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York without regard to principles of conflicts of laws that would cause the application of laws of another jurisdiction. This Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions.

**Section 1.12. Legal Holidays.**

In any case where any Interest Payment Date, Redemption Date, Repayment Date, sinking fund payment date, Stated Maturity or Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or any Security other than a provision in the Securities of any series which specifically states that such provision shall apply in lieu of this Section), payment of principal (or premium, if any) or interest, if any, need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date, Redemption Date, Repayment Date or sinking fund payment date, or at the Stated Maturity or Maturity; provided that no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date, Repayment Date, sinking fund payment date, Stated Maturity or Maturity, as the case may be.

**Section 1.13. Submission to Jurisdiction.**

The Company hereby irrevocably submits to the non-exclusive jurisdiction of any New York State or federal court sitting in The City of New York in any action or proceeding arising out of or relating to the Indenture and the Securities of any series, and the Company hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State or federal court. The Company hereby irrevocably waives, to

---



the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding.

**ARTICLE TWO**  
**SECURITIES FORMS**

**Section 2.01. Forms of Securities.**

The Registered Securities, if any, of each series, the temporary global Securities of each series, if any, and the permanent global Securities of each series, if any, to be endorsed thereon shall be in substantially the forms as shall be established in one or more indentures supplemental hereto or approved from time to time by or pursuant to a Board Resolution in accordance with Section 3.01, shall have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or any indenture supplemental hereto, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements placed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Securities may be listed, or to conform to usage.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on a steel engraved border or steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

**Section 2.02. Form of Trustee's Certificate of Authentication.**

Subject to Section 6.11, the Trustee's certificate of authentication shall be in substantially the following form: This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[ \_\_\_\_\_ ]  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

**Section 2.03. Securities Issuable in Global Form.**

If Securities of or within a series are issuable in global form, as specified as contemplated by Section 3.01, then, notwithstanding clause (viii) of Section 3.01 and the provisions of Section 3.02, any such Security shall represent such of the Outstanding Securities of such series as shall be specified therein and may provide that it shall represent the aggregate amount of Outstanding Securities of such series from time to time endorsed thereon and that the aggregate amount of Outstanding Securities of such series represented thereby may from time to time be increased or decreased to reflect exchanges. Any endorsement of a Security in global form to reflect the

---

amount or any increase or decrease in the amount of Outstanding Securities represented thereby shall be made by the Trustee or the Security Registrar in such manner and upon instructions given by such Person or Persons as shall be specified therein or in the Company Order to be delivered to the Trustee pursuant to Section 3.03 or 3.04. Subject to the provisions of Section 3.03 and, if applicable, Section 3.04, the Trustee or the Security Registrar shall deliver and redeliver any Security in permanent global form in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Company Order. If a Company Order pursuant to Section 3.03 or 3.04 has been, or simultaneously is, delivered, any instructions by the Company with respect to endorsement, delivery or redelivery of a Security in global form shall be in writing but need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel.

The provisions of the last sentence of Section 3.03 shall apply to any Security represented by a Security in global form if such Security was never issued and sold by the Company and the Company delivers to the Trustee or the Security Registrar the Security in global form together with written instructions (which need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel) with regard to the reduction in the principal amount of Securities represented thereby, together with the written statement contemplated by the last sentence of Section 3.03.

Notwithstanding the provisions of Section 3.07, unless otherwise specified as contemplated by Section 3.01, payment of principal of (and premium, if any) and interest, if any, on any Security in permanent global form shall be made to the Person or Persons specified therein.

Notwithstanding the provisions of Section 3.09 and except as provided in the preceding paragraph, the Company, the Trustee and any agent of the Company and the Trustee shall treat as the Holder of such principal amount of Outstanding Securities represented by a permanent global Security (i) in the case of a permanent global Security in registered form, the Holder of such permanent global Security in registered form or (ii) in the case of a permanent global Security in bearer form, Euroclear or Clearstream.

## ARTICLE THREE

### THE SECURITIES

#### **Section 3.01. Amount Unlimited; Issuable in Series.**

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series and shall be designated as Senior Securities, Senior Subordinated Securities or Junior Subordinated Securities. Senior Securities are unsubordinated, shall rank equally and *pari passu* with all of the Company's Senior Indebtedness and senior to all Subordinated Securities. Senior Subordinated Securities shall rank junior to the Company's Senior Indebtedness, equally and *pari passu* with all other Senior

---

Subordinated Indebtedness and senior to any Junior Subordinated Indebtedness. Junior Subordinated Securities shall rank junior to the Company's Senior Indebtedness and any Senior Subordinated Indebtedness and equally and *pari passu* with all other Junior Subordinated Indebtedness. There shall be established in one or more Board Resolutions or pursuant to authority granted by one or more Board Resolutions and, subject to Section 3.03, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, any or all of the following, as applicable (each of which (except for the matters set forth in clauses (i), (ii) and (xv) below), if so provided, may be determined from time to time by the Company with respect to unissued Securities of the series when issued from time to time):

- (i) the title of the Securities of the series including CUSIP numbers (which shall distinguish the Securities of such series from all other series of Securities);
  - (ii) any limit upon the aggregate principal amount of the Securities of the series that may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 3.04, 3.05, 3.06, 9.06, 11.07 or 13.05, and except for any Securities which, pursuant to Section 3.03, are deemed never to have been authenticated and delivered hereunder);
  - (iii) the date or dates, or the method by which such date or dates will be determined or extended, on which the principal of the Securities of the series shall be payable;
  - (iv) the rate or rates at which the Securities of the series shall bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue or the method by which such date or dates shall be determined, the Interest Payment Dates on which such interest will be payable and the Regular Record Date, if any, for the interest payable on any Registered Security on any Interest Payment Date, or the method by which such date shall be determined, and the basis upon which such interest shall be calculated if other than that of a 360-day year of twelve 30-day months;
  - (v) the place or places, if any, other than or in addition to the Borough of Manhattan, The City of New York, where the principal of (and premium, if any) and interest, if any, on Securities of the series shall be payable, any Registered Securities of the series may be surrendered for registration of transfer, Securities of the series may be surrendered for exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices or demands to or upon the Company in respect of the Securities of the series and this Indenture may be served;
  - (vi) the period or periods within which, or the date or dates on which, the price or prices at which, the Currency or Currencies in which, and other terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company, if the Company is to have the option;
  - (vii) the obligation, if any, of the Company to redeem, repay or purchase Securities of the series pursuant to any sinking fund or analogous provision or at the option of a Holder
-

thereof, and the period or periods within which or the date or dates on which, the price or prices at which, the Currency or Currencies in which, and other terms and conditions upon which Securities of the series shall be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;

(viii) if other than denominations of \$1,000 and any integral multiple thereof, the denomination or denominations in which any Registered Securities of the series shall be issuable;

(ix) if other than the Trustee, the identity of each Security Registrar and/or Paying Agent;

(x) if other than the principal amount thereof, the portion of the principal amount of Securities of the series that shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 5.02, upon redemption of the Securities of the series which are redeemable before their Stated Maturity, upon surrender for repayment at the option of the Holder, or which the Trustee shall be entitled to claim pursuant to Section 5.04 or the method by which such portion shall be determined;

(xi) if other than Dollars, the Currency or Currencies in which payment of the principal of (or premium, if any) or interest, if any, on the Securities of the series shall be made or in which the Securities of the series shall be denominated and the particular provisions applicable thereto in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;

(xii) whether the amount of payments of principal of (or premium, if any) or interest, if any, on the Securities of the series may be determined with reference to an index, formula or other method (which index, formula or method may be based, without limitation, on one or more Currencies, commodities, equity indices or other indices), and the manner in which such amounts shall be determined;

(xiii) whether the principal of (or premium, if any) or interest, if any, on the Securities of the series are to be payable, at the election of the Company or a Holder thereof, in one or more Currencies other than that in which such Securities are denominated or stated to be payable, the period or periods within which (including the Election Date), and the terms and conditions upon which, such election may be made, and the time and manner of determining the exchange rate between the Currency or Currencies in which such Securities are denominated or stated to be payable and the Currency or Currencies in which such Securities are to be paid, in each case in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;

(xiv) provisions, if any, granting special rights to the Holders of Securities of the series, including, without limitation, with respect to any collateral securing such Securities;

(xv) any deletions from, modifications of or additions to the Events of Default or covenants (including any deletions from, modifications of or additions to any of the provisions of Section 10.07) of the Company with respect to Securities of the series, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein;

---

(xvi) whether any Securities of the series are to be issuable initially in temporary global form with or without coupons and whether any Securities of the series are to be issuable in permanent global form with or without coupons and, if so, whether beneficial owners of interests in any such permanent global Security may exchange such interests for Securities of such series in certificated form and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner provided in Section 3.05;

(xvii) the date as of which of the series and temporary global Security representing Outstanding Securities of the series shall be dated if other than the date of original issuance of the first Security of the series to be issued;

(xviii) the Person to whom any interest on any Registered Security of the series shall be payable, if other than the Person in whose name such Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, and the extent to which, or the manner in which, any interest payable on a temporary global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 3.04; and the extent to which, or the manner in which, any interest payable on a permanent global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 3.07;

(xix) the applicability, if any, of Sections 14.02 and/or 14.03 to the Securities of the series and any provisions in modification of, in addition to or in lieu of any of the provisions of Article Fourteen;

(xx) if the Securities of such series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, then the form and/or terms of such certificates, documents or conditions;

(xxi) whether, under what circumstances and the Currency in which, the Company will pay Additional Amounts as contemplated by Section 10.04 on the Securities of the series to any Holder who is not a United States person (including any modification to the definition of such term) in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Securities rather than pay such Additional Amounts (and the terms of any such option);

(xxii) the designation of the initial Exchange Rate Agent, if any;

(xxiii) if the Securities of the series are to be issued upon the exercise of warrants, the time, manner and place for such Securities to be authenticated and delivered;

(xxiv) if the Securities of the series are to be convertible into or exchangeable for any securities of any Person (including the Company), the terms and conditions upon which such Securities will be so convertible or exchangeable;

(xxv) if the Securities of the series are to be listed on a securities exchange, the name of such exchange; and

---

(xxvi) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture or the requirements of the Trust Indenture Act), including, but not limited to, secured Securities and guarantees of Securities.

All Securities of any one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the Holders, for issuances of additional Securities of such series.

If any of the terms of the Securities of any series are established by action taken pursuant to one or more Board Resolutions, a copy of an appropriate record of such action(s) shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the Securities of such series.

**Section 3.02. Denominations.**

The Securities of each series shall be issuable in such denominations as shall be specified as contemplated by Section 3.01. With respect to Securities of any series denominated in Dollars, in the absence of any such provisions with respect to the Securities of any series, the Registered Securities of such series, other than Registered Securities issued in global form (which may be of any denomination) shall be issuable in denominations of \$1,000 and any integral multiple thereof.

**Section 3.03. Execution, Authentication, Delivery and Dating.**

The Securities shall be executed on behalf of the Company by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer or one of its Co-Presidents, under its corporate seal reproduced thereon, and attested by its Secretary. The signature of any of these officers on the Securities may be manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Securities.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company, to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If all the Securities of any series are not to be issued at one time and if the Board Resolution or supplemental indenture establishing such series shall so permit, such Company Order may set forth procedures acceptable to the Trustee for the issuance of such Securities and determining the terms of particular Securities of such series, such as interest rate, maturity date, date of issuance and date from which interest shall accrue. In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to TIA Section 315(a) through 315(d)) shall be fully protected in relying upon,

---

(a) an Opinion of Counsel stating,

(i) that the form or forms of such Securities have been established in conformity with the provisions of this Indenture;

(ii) that the terms of such Securities have been established in conformity with the provisions of this Indenture; and

(iii) that such Securities, when completed by appropriate insertions and executed and delivered by the Company to the Trustee for authentication in accordance with this Indenture, authenticated and delivered by the Trustee in accordance with this Indenture and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute legal, valid and binding obligations of the Company, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting the enforcement of creditors' rights, to general equitable principles and to such other qualifications as such counsel shall conclude do not materially affect the rights of Holders of such Securities; and

(b) an Officers' Certificate stating, to the best of the knowledge of the signers of such certificate, that no Event of Default with respect to any of the Securities shall have occurred and be continuing.

Notwithstanding the provisions of Section 3.01 and of this Section 3.03, if all the Securities of any series are not to be issued at one time, it shall not be necessary to deliver an Officers' Certificate otherwise required pursuant to Section 3.01 or the Company Order, Opinion of Counsel or Officers' Certificate otherwise required pursuant to the preceding paragraph at the time of issuance of each Security of such series, but such order, opinion and certificates, with appropriate modifications to cover such future issuances, shall be delivered at or before the time of issuance of the first Security of such series.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties, obligations or immunities under the Securities and this Indenture or otherwise in a manner that is not reasonably acceptable to the Trustee. Notwithstanding the generality of the foregoing, the Trustee will not be required to authenticate Securities denominated in a Foreign Currency if the Trustee reasonably believes that it would be unable to perform its duties with respect to such Securities.

Each Registered Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee or an Authenticating Agent by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the

---

foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 3.10 together with a written statement (which need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

**Section 3.04. Temporary Securities.**

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form, or, if authorized, in bearer form with one or more coupons or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities. In the case of Securities of any series, such temporary Securities may be in global form.

Except in the case of temporary Securities in global form (which shall be exchanged in accordance with this Section 3.04 and Section 3.05 or as otherwise provided in or pursuant to a Board Resolution), if temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount and like tenor of definitive Securities of the same series of authorized denominations. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

**Section 3.05. Registration, Registration of Transfer and Exchange.**

The Company shall cause to be kept at the Corporate Trust Office of the Trustee or in any office or agency of the Company in a Place of Payment a register for each series of Securities (the registers maintained in such office or in any such office or agency of the Company in a Place of Payment being herein sometimes referred to collectively as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Registered Securities and of transfers of Registered Securities. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. The Trustee, at its Corporate Trust Office, is hereby initially appointed "Security Registrar" for the purpose of registering Registered Securities and transfers of Registered Securities on such Security Register as herein provided, and for facilitating exchanges of temporary global Securities for permanent global Securities or definitive Securities, or both,

---



or of permanent global Securities for definitive Securities, or both, as herein provided. In the event that the Trustee shall cease to be Security Registrar, it shall have the right to examine the Security Register at all reasonable times.

Upon surrender for registration or transfer of any Registered Security of any series at any office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Registered Securities of the same series, of any authorized denominations and of a like aggregate principal amount, bearing a number not contemporaneously outstanding and containing identical terms and provisions.

At the option of the Holder, Registered Securities of any series may be exchanged for other Registered Securities of the same series, of any authorized denomination or denominations and of a like aggregate principal amount, containing identical terms and provisions, upon surrender of the Registered Securities to be exchanged at any such office or agency. Whenever any Registered Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Registered Securities that the Holder making the exchange is entitled to receive.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities that the Holder making the exchange is entitled to receive.

Notwithstanding the foregoing, except as otherwise specified as contemplated by Section 3.01, any permanent global Security shall be exchangeable only as provided in this paragraph. If any beneficial owner of an interest in a permanent global Security is entitled to exchange such interest for Securities of such series and of like tenor and principal amount of another authorized form and denomination, as specified as contemplated by Section 3.01 and provided that any applicable notice provided in the permanent global Security shall have been given, then without unnecessary delay but in any event not later than the earliest date on which such interest may be so exchanged, the Company shall deliver to the Trustee definitive Securities in aggregate principal amount equal to the principal amount of such beneficial owner's interest in such permanent global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such permanent global Security shall be surrendered by the London office of a depository or common depository or such other depository as shall be specified in the Company Order with respect thereto to the Trustee, as the Company's agent for such purpose, or to the Security Registrar, to be exchanged, in whole or from time to time in part, for definitive Securities of the same series without charge and the Trustee shall authenticate and deliver, in exchange for each portion of such permanent global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such permanent global Security to be exchanged; provided, however, that no such exchanges may occur during a period beginning at the opening of business 15 calendar days before any selection of Securities to be redeemed and ending on the relevant Redemption Date if the Security for which exchange is requested may be among those selected for redemption. If a Registered Security is issued in exchange for any portion of a permanent global Security after the close of business at the office or agency where such exchange occurs on (i) any Regular Record Date and before the opening of business at such office or agency on the

---

relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest or interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Security, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such permanent global Security is payable in accordance with the provisions of this Indenture.

All Securities issued upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar or any transfer agent) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney or any transfer agent duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company or the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.04, 9.06, 11.07 or 13.05 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Security if such Security may be among those selected for redemption during a period beginning at the opening of business 15 calendar days before selection of the Securities to be redeemed under Section 11.03 and ending at the close of business on the day of the mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange any Registered Security so selected for redemption in whole or in part, except, in the case of any Registered Security to be redeemed in part, the portion thereof not to be redeemed or (iii) to issue, register the transfer of or exchange any Security that has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Security not to be so repaid.

**Section 3.06. Mutilated, Destroyed, Lost and Stolen Securities.**

If any mutilated Security is surrendered to the Trustee or the Company, together with, in proper cases, such security or indemnity as may be required by the Company or the Trustee to save each of them or any agent of either of them harmless, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and principal amount, containing identical terms and provisions and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and to the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security, and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a

---

protected purchaser, the Company shall, subject to the following paragraph, execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and principal amount, containing identical terms and provisions and bearing a number not contemporaneously outstanding.

Notwithstanding the provisions of the previous two paragraphs, in case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

**Section 3.07. Payment of Interest; Interest Rights Preserved; Optional Interest Reset**

(a) Except as otherwise specified with respect to a series of Securities in accordance with the provisions of Section 3.01, interest, if any, on any Registered Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 10.02; provided, however, that each installment of interest, if any, on any Registered Security may at the Company's option be paid by (i) mailing a check for such interest, payable to or upon the written order of the Person entitled thereto pursuant to Section 3.09, to the address of such Person as it appears on the Security Register or (ii) transfer to an account maintained by the payee located in the United States.

Except as otherwise specified with respect to a series of Securities in accordance with the provisions of Section 3.01, any interest on any Registered Security of any series that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date

---

for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment (which shall not be less than 20 calendar days after such notice is received by the Trustee), and at the same time the Company shall deposit with the Trustee an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 calendar days and not less than 10 calendar days prior to the date of the proposed payment and not less than 10 calendar days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Registered Securities of such series at his address as it appears in the Security Register not less than 10 calendar days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (ii).

(ii) The Company may make payment of any Defaulted Interest on the Registered Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause (and certification by the Company that the proposed manner of payment complies with the requirements of this clause (ii)), such manner of payment shall be deemed practicable by the Trustee.

(b) The provisions of this Section 3.07(b) may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) on any Security of such series may be reset by the Company on the date or dates specified on the face of such Security (each an "Optional Reset Date"). The Company may exercise such option with respect to such Security by notifying the Trustee of such exercise at least 45 but not more than 60 calendar days prior to an Optional Reset Date for such Security. Not later than 40 calendar days prior to each Optional Reset Date, the Trustee shall transmit, in the manner provided for in Section 1.06, to the Holder of any such Security a notice (the "Reset Notice") indicating whether the Company has elected to reset the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable), and if so (i) such new interest rate (or such new spread or spread multiplier, if applicable) and (ii)

---

the provisions, if any, for redemption during the period from such Optional Reset Date to the next Optional Reset Date or if there is no such next Optional Reset Date, to the Stated Maturity of such Security (each such period a "Subsequent Interest Period"), including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the Subsequent Interest Period.

Notwithstanding the foregoing, not later than 20 calendar days prior to the Optional Reset Date (or if 20 days does not fall on a Business Day, the next succeeding Business Day), the Company may, at its option, revoke the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) provided for in the Reset Notice and establish a higher interest rate (or a spread or spread multiplier providing for a higher interest rate, if applicable) for the Subsequent Interest Period by causing the Trustee to transmit, in the manner provided for in Section 1.06, notice of such higher interest rate (or such higher spread or spread multiplier providing for a higher interest rate, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) is reset on an Optional Reset Date, and with respect to which the Holders of such Securities have not tendered such Securities for repayment (or have validly revoked any such tender) pursuant to the next succeeding paragraph, will bear such higher interest rate (or such higher spread or spread multiplier providing for a higher interest rate, if applicable).

The Holder of any such Security will have the option to elect repayment by the Company of the principal of such Security on each Optional Reset Date at a price equal to the principal amount thereof plus interest accrued to such Optional Reset Date. In order to obtain repayment on an Optional Reset Date, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 calendar days prior to such Optional Reset Date and except that, if the Holder has tendered any Security for repayment pursuant to the Reset Notice, the Holder may, by written notice to the Trustee, revoke such tender or repayment until the close of business on the tenth day before such Optional Reset Date.

Subject to the foregoing provisions of this Section and Section 3.05, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Security.

**Section 3.08. Optional Extension of Maturity.**

The provisions of this Section 3.08 may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The Stated Maturity of any Security of such series may be extended at the option of the Company for the period or periods specified on the face of such Security (each an "Extension Period") up to but not beyond the date (the "Final Maturity") set forth on the face of such Security. The Company may exercise such option with respect to any Security by notifying the Trustee of such exercise at least 45 but not more than 60 calendar days prior to the Stated Maturity of such Security in effect prior to the exercise of such option (the "Original Stated Maturity"). If the Company exercises such option, the Trustee shall transmit, in

---

the manner provided for in Section 1.06, to the Holder of such Security not later than 40 calendar days prior to the Original Stated Maturity a notice (the "Extension Notice"), prepared by the Company, indicating (i) the election of the Company to extend the Stated Maturity, (ii) the new Stated Maturity, (iii) the interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable), if any, applicable to the Extension Period and (iv) the provisions, if any, for redemption during such Extension Period. Upon the Trustee's transmittal of the Extension Notice, the Stated Maturity of such Security shall be extended automatically and, except as modified by the Extension Notice and as described in the next paragraph, such Security will have the same terms as prior to the transmittal of such Extension Notice.

Notwithstanding the foregoing, not later than 20 calendar days before the Original Stated Maturity (or if 20 calendar days does not fall on a Business Day, the next succeeding Business Day) of such Security, the Company may, at its option, revoke the interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable) provided for in the Extension Notice and establish a higher interest rate (or spread, spread multiplier or other formula to calculate such higher interest rate, if applicable) for the Extension Period by causing the Trustee to transmit, in the manner provided for in Section 1.06, notice of such higher interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the Stated Maturity is extended will bear such higher interest rate.

If the Company extends the Stated Maturity of any Security, the Holder will have the option to elect repayment of such Security by the Company on the Original Stated Maturity at a price equal to the principal amount thereof, plus interest accrued to such date. In order to obtain repayment on the Original Stated Maturity once the Company has extended the Stated Maturity thereof, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders, except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 calendar days prior to the Original Stated Maturity and except that, if the Holder has tendered any Security for repayment pursuant to an Extension Notice, the Holder may by written notice to the Trustee revoke such tender for repayment until the close of business on the tenth day before the Original Stated Maturity.

**Section 3.09. Persons Deemed Owners.**

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Registered Security is registered as the owner of such Registered Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Sections 3.05 and 3.07) interest, if any, on such Registered Security and for all other purposes whatsoever, whether or not such Registered Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Security in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

---

Notwithstanding the foregoing, with respect to any global temporary or permanent Security, nothing herein shall prevent the Company, the Trustee, or any agent of the Company or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by any depository, as a Holder, with respect to such global Security or impair, as between such depository and owners of beneficial interests in such global Security, the operation of customary practices governing the exercise of the rights of such depository (or its nominee) as Holder of such global Security.

**Section 3.10. Cancellation.**

All Securities surrendered for payment, redemption, repayment at the option of the Holder, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee, and any such Securities surrendered directly to the Trustee for any such purpose shall be promptly cancelled by the Trustee. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. If the Company shall so acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are surrendered to the Trustee for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. Cancelled Securities held by the Trustee shall be destroyed by the Trustee in accordance with its customary procedures, unless by a Company Order the Company directs the Trustee to deliver a certificate of such destruction to the Company or to return them to the Company.

**Section 3.11. Computation of Interest.**

Except as otherwise specified as contemplated by Section 3.01 with respect to Securities of any series, interest, if any, on the Securities of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Section 3.12. Currency and Manner of Payments in Respect of Securities.**

(a) Unless otherwise specified with respect to any Securities pursuant to Section 3.01, with respect to Registered Securities of any series not permitting the election provided for in paragraph (b) below or the Holders of which have not made the election provided for in paragraph (b) below, payment of the principal of (and premium, if any) and interest, if any, on any Registered Security of such series will be made in the Currency in which such Registered Security is payable. The provisions of this Section 3.12 may be modified or superseded with respect to any Securities pursuant to Section 3.01.

(b) It may be provided pursuant to Section 3.01 with respect to Registered Securities of any series that Holders shall have the option, subject to paragraphs (d) and (e) below, to receive payments of principal of (or premium, if any) or interest, if any, on such Registered Securities in

---

any of the Currencies which may be designated for such election by delivering to the Trustee for such series of Registered Securities a written election with signature guarantees and in the applicable form established pursuant to Section 3.01, not later than the close of business on the Election Date immediately preceding the applicable payment date. If a Holder so elects to receive such payments in any such Currency, such election will remain in effect for such Holder or any transferee of such Holder until changed by such Holder or such transferee by written notice to the Trustee for such series of Registered Securities (but any such change must be made not later than the close of business on the Election Date immediately preceding the next payment date to be effective for the payment to be made on such payment date and no such change of election may be made with respect to payments to be made on any Registered Security of such series with respect to which an Event of Default has occurred or with respect to which the Company has deposited funds pursuant to Article Four or Fourteen or with respect to which a notice of redemption has been given by the Company or a notice of option to elect repayment has been sent by such Holder or such transferee). Any Holder of any such Registered Security who shall not have delivered any such election to the Trustee of such series of Registered Securities not later than the close of business on the applicable Election Date will be paid the amount due on the applicable payment date in the relevant Currency as provided in Section 3.12(a). The Trustee for each such series of Registered Securities shall notify the Exchange Rate Agent as soon as practicable after the Election Date of the aggregate principal amount of Registered Securities for which Holders have made such written election.

(c) Unless otherwise specified pursuant to Section 3.01, if the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01, then, unless otherwise specified pursuant to Section 3.01, not later than the fourth Business Day after the Election Date for each payment date for Registered Securities of any series, the Exchange Rate Agent will deliver to the Company a written notice specifying the Currency in which Registered Securities of such series are payable, the respective aggregate amounts of principal of (and premium, if any) and interest, if any, on the Registered Securities to be paid on such payment date, specifying the amounts in such Currency so payable in respect of the Registered Securities as to which the Holders of Registered Securities denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above. If the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01 and if at least one Holder has made such election, then, unless otherwise specified pursuant to Section 3.01, on the second Business Day preceding such payment date the Company will deliver to the Trustee for such series of Registered Securities an Exchange Rate Officer's Certificate in respect of the Dollar or Foreign Currency or Currencies payments to be made on such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar or Foreign Currency or Currencies amount receivable by Holders of Registered Securities who have elected payment in a Currency as provided in paragraph (b) above shall be determined by the Company on the basis of the applicable Market Exchange Rate in effect on the second Business Day (the "Valuation Date") immediately preceding each payment date, and such determination shall be conclusive and binding for all purposes, absent manifest error.

(d) If a Conversion Event occurs with respect to a Foreign Currency in which any of the Securities are denominated or payable other than pursuant to an election provided for pursuant to paragraph (b) above, then with respect to each date for the payment of principal of (and premium, if any) and interest, if any on the applicable Securities denominated or payable in such

---



Foreign Currency occurring after the last date on which such Foreign Currency was used (the “Conversion Date”), the Dollar shall be the currency of payment for use on each such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar amount to be paid by the Company to the Trustee of each such series of Securities and by such Trustee or any Paying Agent to the Holders of such Securities with respect to such payment date shall be, in the case of a Foreign Currency other than a currency unit, the Dollar Equivalent of the Foreign Currency or, in the case of a currency unit, the Dollar Equivalent of the Currency Unit, in each case as determined by the Exchange Rate Agent in the manner provided in paragraph (f) or (g) below.

(e) Unless otherwise specified pursuant to Section 3.01, if the Holder of a Registered Security denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above, and a Conversion Event occurs with respect to such elected Currency, such Holder shall receive payment in the Currency in which payment would have been made in the absence of such election; and if a Conversion Event occurs with respect to the Currency in which payment would have been made in the absence of such election, such Holder shall receive payment in Dollars as provided in paragraph (d) of this Section 3.12.

(f) The “Dollar Equivalent of the Foreign Currency” shall be determined by the Exchange Rate Agent and shall be obtained for each subsequent payment date by converting the specified Foreign Currency into Dollars at the Market Exchange Rate on the Conversion Date.

(g) The “Dollar Equivalent of the Currency Unit” shall be determined by the Exchange Rate Agent and subject to the provisions of paragraph (h) below shall be the sum of each amount obtained by converting the Specified Amount of each Component Currency into Dollars at the Market Exchange Rate for such Component Currency on the Valuation Date with respect to each payment.

(h) For purposes of this Section 3.12, the following terms shall have the following meanings:

A “Component Currency” shall mean any currency which, on the Conversion Date, was a component currency of the relevant currency unit.

A “Specified Amount” of a Component Currency shall mean the number of units of such Component Currency or fractions thereof which were represented in the relevant currency unit on the Conversion Date. If after the Conversion Date the official unit of any Component Currency is altered by way of combination or subdivision, the Specified Amount of such Component Currency shall be divided or multiplied in the same proportion. If after the Conversion Date two or more Component Currencies are consolidated into a single currency, the respective Specified Amounts of such Component Currencies shall be replaced by an amount in such single currency equal to the sum of the respective Specified Amounts of such consolidated Component Currencies expressed in such single currency, and such amount shall thereafter be a Specified Amount and such single currency shall thereafter be a Component Currency. If after the Conversion Date any Component Currency shall be divided into two or more currencies, the Specified Amount of such Component Currency shall be replaced by amounts of such two or more currencies, having an aggregate Dollar Equivalent value at the Market Exchange Rate on the date of such replacement equal to the Dollar Equivalent of the Specified Amount of such

---

former Component Currency at the Market Exchange Rate immediately before such division, and such amounts shall thereafter be Specified Amounts and such currencies shall thereafter be Component Currencies. If, after the Conversion Date of the relevant currency unit, a Conversion Event (other than any event referred to above in this definition of “Specified Amount”) occurs with respect to any Component Currency of such currency unit and is continuing on the applicable Valuation Date, the Specified Amount of such Component Currency shall, for purposes of calculating the Dollar Equivalent of the Currency Unit, be converted into Dollars at the Market Exchange Rate in effect on the Conversion Date of such Component Currency.

An “Election Date” shall mean the Regular Record Date for the applicable series of Registered Securities or at least 16 calendar days prior to Maturity, as the case may be, or such other prior date for any series of Registered Securities as specified pursuant to clause (xiii) of Section 3.01 by which the written election referred to in Section 3.12(b) may be made.

All decisions and determinations of the Exchange Rate Agent regarding the Dollar Equivalent of the Foreign Currency, the Dollar Equivalent of the Currency Unit, the Market Exchange Rate and changes in the Specified Amounts as specified above shall be in its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and irrevocably binding upon the Company, the Trustee for the appropriate series of Securities and all Holders of such Securities denominated or payable in the relevant Currency. The Exchange Rate Agent shall promptly give written notice to the Company and the Trustee for the appropriate series of Securities of any such decision or determination.

In the event that the Company determines in good faith that a Conversion Event has occurred with respect to a Foreign Currency, the Company will immediately give written notice thereof and of the applicable Conversion Date to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent (and such Trustee will promptly thereafter give notice in the manner provided in Section 1.06 to the affected Holders) specifying the Conversion Date. In the event the Company so determines that a Conversion Event has occurred with respect to the Euro or any other currency unit in which Securities are denominated or payable, the Company will immediately give written notice thereof to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent (and such Trustee will promptly thereafter give notice in the manner provided in Section 1.06 to the affected Holders) specifying the Conversion Date and the Specified Amount of each Component Currency on the Conversion Date. In the event the Company determines in good faith that any subsequent change in any Component Currency as set forth in the definition of Specified Amount above has occurred, the Company will similarly give written notice to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent.

The Trustee of the appropriate series of Securities shall be fully justified and protected in relying and acting upon information received by it from the Company and the Exchange Rate Agent and shall not otherwise have any duty or obligation to determine the accuracy or validity of such information independent of the Company or the Exchange Rate Agent.

---

**Section 3.13. Appointment and Resignation of Successor Exchange Rate Agent.**

(a) Unless otherwise specified pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a Foreign Currency or (ii) may be payable in a Foreign Currency, or so long as it is required under any other provision of this Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will cause the Exchange Rate Agent to make the necessary foreign exchange determinations at the time and in the manner specified pursuant to Section 3.01 for the purpose of determining the applicable rate of exchange and, if applicable, for the purpose of converting the issued Foreign Currency into the applicable payment Currency for the payment of principal (and premium, if any) and interest, if any, pursuant to Section 3.12.

(b) No resignation of the Exchange Rate Agent and no appointment of a successor Exchange Rate Agent pursuant to this Section shall become effective until the acceptance of appointment by the successor Exchange Rate Agent as evidenced by a written instrument delivered to the Company and the Trustee of the appropriate series of Securities accepting such appointment executed by the successor Exchange Rate Agent.

(c) If the Exchange Rate Agent shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Exchange Rate Agent for any cause, with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Exchange Rate Agent or Exchange Rate Agents with respect to the Securities of that or those series (it being understood that any such successor Exchange Rate Agent may be appointed with respect to the Securities of one or more or all of such series and that, unless otherwise specified pursuant to Section 3.01, at any time there shall only be one Exchange Rate Agent with respect to the Securities of any particular series that are originally issued by the Company on the same date and that are initially denominated and/or payable in the same Currency).

**Section 3.14. CUSIP Numbers.**

In issuing the Securities the Company may use CUSIP numbers (if then generally in use), and, if so, the Trustee shall indicate the respective CUSIP numbers of the Securities in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall advise the Trustee as promptly as practicable in writing of any change in the CUSIP numbers.

**ARTICLE FOUR**

**SATISFACTION AND DISCHARGE**

**Section 4.01. Satisfaction and Discharge of Indenture.**

Except as set forth below, this Indenture shall upon Company Request cease to be of further effect with respect to any series of Securities specified in such Company Request (except

---

as to any surviving rights of registration of transfer or exchange of Securities of such series expressly provided for herein or pursuant hereto, any surviving rights of tender for repayment at the option of the Holders and any right to receive Additional Amounts, as provided in Section 10.04), and the Trustee, upon receipt of a Company Order, and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture as to such series when

(a) either

(i) all Securities of such series theretofore authenticated and delivered have been delivered to the Trustee for cancellation; or

(ii) all Securities of such series

(1) have become due and payable, or

(2) will become due and payable at their Stated Maturity within one year, or

(3) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust for such purpose, solely for the benefit of the Holders, an amount in the Currency in which the Securities of such series are payable, sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(b) the Company has irrevocably paid or caused to be irrevocably paid all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee and any predecessor Trustee under Section 6.06, the obligations of the Company to any Authenticating Agent under Section 6.12 and, if money shall have been deposited with the Trustee pursuant to subclause (ii) of clause (a) of this Section, the obligations of the Trustee under Section 4.02 and the last paragraph of Section 10.03 shall survive any termination of this Indenture.

---

**Section 4.02. Application of Trust Funds.**

Subject to the provisions of the last paragraph of Section 10.03, all money deposited with the Trustee pursuant to Section 4.01 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest, if any, for whose payment such money has been deposited with or received by the Trustee, but such money need not be segregated from other funds except to the extent required by law.

**ARTICLE FIVE**

**REMEDIES**

**Section 5.01. Events of Default.**

“Event of Default”, wherever used herein with respect to any particular series of Securities, means any one of the following events (whatever the reason for such Event of Default and whether or not it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), unless it is either inapplicable to a particular series or is specifically deleted or modified in or pursuant to the supplemental indenture or a Board Resolution establishing such series of Securities or is in the form of Security for such series:

- (i) default in the payment of any interest upon any Security when such interest becomes due and payable, and continuance of such default for a period of 30 calendar days; or
  - (ii) default in the payment of the principal of (or premium, if any) any Security of that series when it becomes due and payable at its Maturity, and continuance of such default for a period of five (5) calendar days; or
  - (iii) default in the deposit of any sinking fund payment, when and as due by the terms of any Security of that series, and continuance of such default for a period of five (5) calendar days; or
  - (iv) default in the performance, or breach, of any covenant or agreement of the Company in this Indenture with respect to any Security of that series (other than a covenant or agreement a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or that has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 60 calendar days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or
  - (v) the Company, pursuant to or within the meaning of any Bankruptcy Law:
-

(1) commences a voluntary case or proceeding under any Bankruptcy Law,

(2) consents to the commencement of any bankruptcy or insolvency case or proceeding against it, or files a petition or answer or consent seeking reorganization or relief against it,

(3) consents to the entry of a decree or order for relief against it in an involuntary case or proceeding,

(4) consents to the filing of such petition or to the appointment of or taking possession by a Custodian of the Company or for all or substantially all of its property, or

(5) makes an assignment for the benefit of creditors, or admits in writing of its inability to pay its debts generally as they become due or takes any corporate action in furtherance of any such action; or

(vi) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(1) is for relief against the Company in an involuntary case or proceeding, or

(2) adjudges the Company bankrupt or insolvent, or approves as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company, or

(3) appoints a Custodian of the Company or for all or substantially all of its property, or

(4) orders the winding up or liquidation of the Company,

and the continuance of any such decree or order for relief or any such other decree or order remains unstayed and in effect for a period of 60 calendar days; or

(vii) if, pursuant to Sections 18(a)(1)(c)(ii) and 61 of the Investment Company Act, on the last business day of each of 24 consecutive calendar months any class of Securities shall have an asset coverage (as such term is used in the Investment Company Act of 1940) of less than 100%; or

(viii) any other Event of Default provided with respect to Securities of that series.

The term "Bankruptcy Law" means title 11, U.S. Code or any applicable federal or state bankruptcy, insolvency, reorganization or other similar law. The term "Custodian" means any custodian, receiver, trustee, assignee, liquidator, sequestrator or other similar official under any Bankruptcy Law.

---

**Section 5.02. Acceleration of Maturity; Rescission and Annulment.**

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal (or, if any Securities are Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be specified in the terms thereof) of all the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the Holders), and upon any such declaration such principal or specified portion thereof shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(i) the Company has paid or deposited with the Trustee a sum sufficient to pay in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)):

(1) all overdue installments of interest, if any, on all Outstanding Securities of that series,

(2) the principal of (and premium, if any) all Outstanding Securities of that series that have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by or provided for in such Securities,

(3) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates borne by or provided for in such Securities, and

(4) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(ii) all Events of Default with respect to Securities of that series, other than the nonpayment of the principal of (or premium, if any) or interest on Securities of that series that have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

---

**Section 5.03. Collection of Indebtedness and Suits for Enforcement by Trustee.**

The Company covenants that if

(i) default is made in the payment of any installment of interest on any Security of any series and payable and such default continues for a period of 30 calendar days, or

(ii) default is made in the payment of the principal of (or premium, if any) any Security of any series at its Maturity

then the Company will, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of Securities of such series, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, if any, with interest upon any overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installments of interest, if any, at the rate or rates borne by or provided for in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon Securities of such series and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities of such series, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

**Section 5.04. Trustee May File Proofs of Claim.**

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities of any series shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any overdue principal, premium or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(i) to file and prove a claim for the whole amount of principal (or in the case of Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be provided for in the terms thereof) (and premium, if any) and interest, if any, owing and unpaid in respect

---



of the Securities and to file such other papers or documents (and take such other actions, including serving on a committee of creditors) as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Securities of such series to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel, and any other amounts due the Trustee or any predecessor Trustee under Section 6.06.

Subject to Article Eight and Section 9.02 and unless otherwise provided as contemplated by Section 3.01, nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of a Security in any such proceeding.

**Section 5.05. Trustee May Enforce Claims Without Possession of Securities.**

All rights of action and claims under this Indenture or any of the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

**Section 5.06. Application of Money Collected.**

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, if any, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee and any predecessor Trustee under Section 6.06;

SECOND: To the payment of the amounts then due and unpaid upon any Senior Securities for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any

---

kind, according to the aggregate amounts due and payable on such Senior Securities for principal (and premium, if any) and interest, if any, respectively;

THIRD: To the payment of the amounts then due and unpaid upon any Senior Subordinated Securities for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Senior Subordinated Securities for principal (and premium, if any) and interest, if any, respectively;

FOURTH: To the payment of the amounts then due and unpaid upon any Junior Subordinated Securities for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Junior Subordinated Securities for principal (and premium, if any) and interest, if any, respectively;

FIFTH: To the payment of the amounts then due and unpaid upon any other Securities for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Securities for principal (and premium, if any) and interest, if any, respectively; and

SIXTH: To the payment of the remainder, if any, to the Company or any other Person or Persons entitled thereto.

**Section 5.07. Limitation on Suits.**

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (i) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;
  - (ii) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
  - (iii) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
  - (iv) the Trustee for 60 calendar days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
  - (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;
-

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

**Section 5.08. Unconditional Right of Holders to Receive Principal, Premium and Interest.**

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Sections 3.05 and 3.07) interest, if any, on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date or, in the case of repayment at the option of the Holders on the Repayment Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

**Section 5.09. Restoration of Rights and Remedies.**

If the Trustee or any Holder of a Security has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Company, the Trustee and the Holders of Securities shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

**Section 5.10. Rights and Remedies Cumulative.**

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders of Securities is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**Section 5.11. Delay or Omission Not Waiver.**

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of Securities, as the case may be.

---

**Section 5.12. Control by Holders of Securities.**

Subject to Section 6.02(v), the Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities of such series, provided that

- (i) such direction shall not be in conflict with any rule of law or with this Indenture,
- (ii) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction, and
- (iii) the Trustee need not take any action that might involve it in personal liability or be unjustly prejudicial to the Holders of Securities of such series not consenting.

**Section 5.13. Waiver of Past Defaults.**

Subject to Section 5.02, the Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to Securities of such series and its consequences, except a default

- (i) in the payment of the principal of (or premium, if any) or interest, if any, on any Security of such series, or
- (ii) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

**Section 5.14. Waiver of Stay or Extension Laws.**

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

---

**ARTICLE SIX**  
**THE TRUSTEE**

**Section 6.01. Notice of Defaults.**

(a) Within 90 calendar days after the occurrence of any Default hereunder with respect to the Securities of any series, the Trustee shall transmit in the manner and to the extent provided in TIA Section 313(c), notice of such Default hereunder known to the Trustee, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal of (or premium, if any) or interest, if any, on any Security of such series, or in the payment of any sinking or purchase fund installment with respect to the Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Securities of such series; and provided further that in the case of any Default or breach of the character specified in Section 5.01(iv) with respect to the Securities of such series, no such notice to Holders shall be given until at least 90 calendar days after the occurrence thereof.

(b) Prior to the time when the occurrence of an Event of Default becomes known to a Responsible Officer of the Trustee and after the curing or waiving of all such Events of Default with respect to a series of Securities that may have occurred:

(i) the duties and obligations of the Trustee shall with respect to the Securities of any series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to the Securities except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee;

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein); and

(iii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

**Section 6.02. Certain Rights of Trustee.**

Subject to the provisions of TIA Section 315(a) through 315(d):

---

(i) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee need not investigate any fact or matter stated in any document.

(ii) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order (other than delivery of any Security to the Trustee for authentication and delivery pursuant to Section 3.03 which shall be sufficiently evidenced as provided therein) and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution.

(iii) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a Board Resolution, an Opinion of Counsel or an Officers' Certificate.

(iv) The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(v) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including the reasonable fees and expenses of its agents and counsel) which might be incurred by it in compliance with such request or direction.

(vi) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled upon reasonable notice and at reasonable times during normal business hours to examine the books, records and premises of the Company, personally or by agent or attorney.

(vii) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(viii) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture.

---

(ix) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder.

(x) The permissive rights of the Trustee enumerated herein shall not be construed as duties.

(xi) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Outstanding Securities of a series relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to such Securities.

(xii) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate (unless other evidence is specifically prescribed herein). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate.

(xiii) The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(xiv) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(xv) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

(xvi) Anything in this Indenture notwithstanding, in no event shall the Trustee be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to loss of profit), even if the Trustee has been advised as to the likelihood of such loss or damage and regardless of the form of action.

(xvii) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including acts of God; earthquakes; fire; flood; terrorism; wars and other military disturbances; sabotage; epidemics; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communication services; accidents; labor disputes; acts of civil or military authority and governmental action.

The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of

---

its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

**Section 6.03. Not Responsible for Recitals or Issuance of Securities.**

The recitals contained herein and in the Securities, except the Trustee's certificate of authentication shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder and that the statements made by it in a Statement of Eligibility on Form T-1 supplied to the Company are true and accurate, subject to the qualifications set forth therein. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

**Section 6.04. May Hold Securities.**

The Trustee, any Paying Agent, Security Registrar, Authenticating Agent or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to TIA Sections 310(b) and 311, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar, Authenticating Agent or such other agent.

**Section 6.05. Money Held in Trust.**

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

**Section 6.06. Compensation and Reimbursement and Indemnification of Trustee.**

The Company agrees:

(i) To pay to the Trustee or any predecessor Trustee from time to time such reasonable compensation for all services rendered by it hereunder as has been agreed upon from time to time in writing (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(ii) Except as otherwise expressly provided herein, to reimburse each of the Trustee and any predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or any predecessor Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith.

(iii) To indemnify each of the Trustee or any predecessor Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its own part, arising out of or in connection with the acceptance or administration of the trust or

---



trusts hereunder, including the costs and expenses (including the reasonable fees and expenses of its agents and counsel) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a claim prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (or premium, if any) or interest, if any, on particular Securities.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 5.01 occurs, the expenses and compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

The provisions of this Section 6.06 shall survive the resignation or removal of the Trustee and the satisfaction, termination or discharge of this Indenture.

**Section 6.07. Corporate Trustee Required; Eligibility.**

There shall at all times be a Trustee hereunder that shall be eligible to act as Trustee under TIA Section 310(a)(1) and shall have a combined capital and surplus of at least \$50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of federal, state, territorial or the District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

**Section 6.08. Disqualification; Conflicting Interests.**

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

**Section 6.09. Resignation and Removal; Appointment of Successor.**

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.10.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company.

(c) The Trustee may be removed at any time with respect to the Securities of any series by (i) the Company, by an Officers' Certificate delivered to the Trustee, provided that contemporaneously therewith (x) the Company immediately appoints a successor Trustee with respect to the Securities of such series meeting the requirements of Section 6.07 hereof and (y) the terms of Section 6.10 hereof are complied with in respect of such appointment (the Trustee

---

being removed hereby agreeing to execute the instrument contemplated by Section 6.10(b) hereof, if applicable, under such circumstances) and provided further that no Default with respect to such Securities shall have occurred and then be continuing at such time, or (ii) Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Trustee and to the Company.

(d) If at any time:

(i) the Trustee shall fail to comply with the provisions of TIA Section 310(b) after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(ii) the Trustee shall cease to be eligible under Section 6.07 and shall fail to resign after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by or pursuant to a Board Resolution may remove the Trustee and appoint a successor Trustee with respect to all Securities, or (ii) subject to TIA Section 315(e), any Holder of a Security who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 calendar days after the giving of a notice of resignation or the delivery of an Act of removal, the Trustee resigning or being removed may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series). If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders of Securities and accepted

---

appointment in the manner hereinafter provided, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to Securities of such series.

(g) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series in the manner provided for notices to the Holders of Securities in Section 1.06.

Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

**Section 6.10. Acceptance of Appointment by Successor.**

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder, subject nevertheless to its claim, if any, provided for in Section 6.06.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and that (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (ii) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee and (iii) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to

---

the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates. Whenever there is a successor Trustee with respect to one or more (but less than all) series of securities issued pursuant to this Indenture, the terms "Indenture" and "Securities" shall have the meanings specified in the provisos to the respective definition of those terms in Section 1.01 which contemplate such situation.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments reasonably necessary to more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

**Section 6.11. Merger, Conversion, Consolidation or Succession to Business.**

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities. In case any Securities shall not have been authenticated by such predecessor Trustee, any such successor Trustee may authenticate and deliver such Securities, in either its own name or that of its predecessor Trustee, with the full force and effect which this Indenture provides for the certificate of authentication of the Trustee; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

**Section 6.12. Appointment of Authenticating Agent.**

At any time when any of the Securities remain Outstanding, the Trustee may appoint an Authenticating Agent or Agents (which may be an Affiliate or Affiliates of the Company) with respect to one or more series of Securities that shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue or upon exchange, registration of transfer or partial redemption thereof, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Any such appointment shall be evidenced by an instrument in writing signed by a Responsible Officer of the Trustee, a copy of which instrument shall be promptly furnished to the Company. Wherever reference is made in this Indenture to the authentication

---

and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and, except as may otherwise be provided pursuant to Section 3.01, shall at all times be a bank or trust company or corporation organized and doing business and in good standing under the laws of the United States of America or of any State or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authorities. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent for any series of Securities may at any time resign by giving written notice of resignation to the Trustee for such series and to the Company. The Trustee for any series of Securities may at any time terminate the agency of an Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee for such series may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall promptly give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve in the manner set forth in Section 1.06. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent herein. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation including reimbursement of its reasonable expenses for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to or in lieu of the Trustee's

---

certificate of authentication, an alternate certificate of authentication substantially in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[ ]

By: \_\_\_\_\_  
as Authenticating Agent

By: \_\_\_\_\_  
Authorized Officer

If all of the Securities of a series may not be originally issued at one time, and the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel), shall appoint in accordance with this Section an Authenticating Agent (which, if so requested by the Company, shall be an Affiliate of the Company) having an office in a Place of Payment designated by the Company with respect to such series of Securities, provided that the terms and conditions of such appointment are reasonably acceptable to the Trustee.

## ARTICLE SEVEN

### HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

#### **Section 7.01. Disclosure of Names and Addresses of Holders.**

Every Holder of Securities by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any Authenticating Agent nor any Paying Agent nor any Security Registrar nor any agent of any of them shall be held accountable by reason of the disclosure of any information as to the names and addresses of the Holders of Securities in accordance with TIA Section 312, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under TIA Section 312(b).

#### **Section 7.02. Preservation of Information; Communications to Holders.**

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.01 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

---

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

**Section 7.03. Reports by Trustee.**

Within 60 calendar days after May 15 of each year commencing with the first May 15 after the first issuance of Securities pursuant to this Indenture, the Trustee shall transmit by mail to all Holders Securities as provided in TIA Section 313(c) a report dated as of such May 15 which meets the requirements of TIA Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange, if any, upon which the Securities are listed, with the Commission and with the Company. The Company will promptly notify the Trustee of the listing of the Securities on any stock exchange. In the event that, on any such reporting date, no events have occurred under the applicable sections of the TIA within the 12 months preceding such reporting date, the Trustee shall be under no duty or obligation to provide such reports.

**Section 7.04. Reports by Company.**

The Company will file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to the Trust Indenture Act; provided, that any such information, documents or reports filed electronically with the Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, shall be deemed filed with and delivered to the Trustee and the Holders at the same time as filed with the Commission.

Delivery of such reports, information, and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely exclusively on Officers' Certificates).

**Section 7.05. Calculation of Original Issue Discount.**

Upon request of the Trustee, the Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods), if any, accrued on Outstanding Securities as of the end of such year.

---

## ARTICLE EIGHT

### CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

#### **Section 8.01. Company May Consolidate, Etc., Only on Certain Terms.**

Unless otherwise provided in the terms of such Securities, the Company shall not consolidate with or merge with or into any other corporation or convey or transfer all or substantially all of its properties and assets to any Person, unless:

(i) either the Company shall be the continuing corporation, or the corporation (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer all or substantially all of the properties and assets of the Company shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing; and

(iii) the Company and the successor Person have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

#### **Section 8.02. Successor Person Substituted.**

Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 8.01, the successor corporation formed by such consolidation or into which the Company is merged or the successor Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein; and in the event of any such conveyance or transfer, the Company shall be discharged from all obligations and covenants under this Indenture and the Securities and may be dissolved and liquidated.

## ARTICLE NINE

### SUPPLEMENTAL INDENTURES

#### **Section 9.01. Supplemental Indentures Without Consent of Holders.**

Without the consent of any Holders of Securities, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form reasonably satisfactory to the Trustee, for any of the following purposes:

---



(i) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities contained; or

(ii) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(iii) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such Events of Default are to be for the benefit of less than all series of Securities, stating that such Events of Default are expressly being included solely for the benefit of such series); provided, however, that in respect of any such additional Events of Default such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the Holders of a majority in aggregate principal amount of that or those series of Securities to which such additional Events of Default apply to waive such default; or

(iv) to change or eliminate any of the provisions of this Indenture; provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision; or

(v) to secure the Securities pursuant to the requirements of Section 8.01 or 10.06, or otherwise; or

(vi) to establish the form or terms of Securities of any series as permitted by Sections 2.01 and 3.01, including the provisions and procedures relating to Securities convertible into or exchangeable for any securities of any Person (including the Company); or

(vii) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee; or

(viii) to cure any ambiguity, to correct or supplement any provision herein that may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture; provided that such action shall not adversely affect the interests of the Holders of Securities of any series in any material respect; or

(ix) to supplement any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Securities pursuant to Sections 4.01, 14.02 and 14.03; provided that any such action shall not adversely affect the interests of the Holders of Securities of such series and any related coupons or any other series of Securities in any material respect.

---

**Section 9.02. Supplemental Indentures with Consent of Holders.**

With the consent of the Holders of not less than a majority in aggregate principal amount of all Outstanding Securities affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture that affects such series of Securities or of modifying in any manner the rights of the Holders of such series of Securities under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby:

(i) change the Stated Maturity of the principal of (or premium, if any) or any installment of principal of or interest on, any Security, subject to the provisions of Section 3.08; or the terms of any sinking fund with respect to any Security; or reduce the principal amount thereof or the rate of interest (or change the manner of calculating the rate of interest, thereon, or any premium payable upon the redemption thereof, or change any obligation of the Company to pay Additional Amounts pursuant to Section 10.04 (except as contemplated by Section 8.01(i) and permitted by Section 9.01(i)), or reduce the portion of the principal of an Original Issue Discount Security or Indexed Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02, or upon the redemption thereof or the amount thereof provable in bankruptcy pursuant to Section 5.04, or adversely affect any right of repayment at the option of the Holder of any Security, or change any Place of Payment where, or the Currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption or repayment at the option of the Holder, on or after the Redemption Date or the Repayment Date, as the case may be), or adversely affect any right to convert or exchange any Security as may be provided pursuant to Section 3.01 herein, or modify the subordination provisions set forth in Article Sixteen in a manner that is adverse to the Holder of any Security; or

(ii) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver with respect to such series (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or reduce the requirements of Section 15.04 for quorum or voting; or

(iii) modify any of the provisions of this Section, Section 5.13 or Section 10.07, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder of a Security with respect to changes in the references to “the Trustee” and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 6.10(b) and 9.01 (vii).

---

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

A supplemental indenture that changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or that modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Persons entitled to consent to any indenture supplemental hereto. If a record date is fixed, the Holders on such record date, or their duly designated proxies, and only such Persons, shall be entitled to consent to such supplemental indenture, whether or not such Holders remain Holders after such record date; provided, that unless such consent shall have become effective by virtue of the requisite percentage having been obtained prior to the date that is eleven months after such record date, any such consent previously given shall automatically and without further action by any Holder be cancelled and of no further effect.

**Section 9.03. Execution of Supplemental Indentures.**

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, in addition to the documents required by Section 1.02 of this Indenture, an Officers' Certificate and an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and that all conditions precedent to such supplemental indenture have been complied with. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

**Section 9.04. Effect of Supplemental Indentures.**

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

**Section 9.05. Conformity with Trust Indenture Act.**

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

**Section 9.06. Reference in Securities to Supplemental Indentures.**

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall, if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental

---

indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

**ARTICLE TEN**  
**COVENANTS**

**Section 10.01. Payment of Principal, Premium, if any, and Interest**

The Company covenants and agrees for the benefit of the Holders of each series of Securities that it will duly and punctually pay the principal of (and premium, if any) and interest, if any, on the Securities of that series in accordance with the terms of such series of Securities and this Indenture. Unless otherwise specified with respect to Securities of any series pursuant to Section 3.01, at the option of the Company, all payments of principal may be paid by check to the registered Holder of the Registered Security or other person entitled thereto against surrender of such Security.

**Section 10.02. Maintenance of Office or Agency**

The Company shall maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency. If at any time the Company shall fail to maintain any such required office or agency in respect of any series of Securities or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee and the Company hereby appoints the Trustee as its agent to receive such respective presentations, surrenders, notices and demands, and the Company hereby appoints the Trustee at its Corporate Trust Office its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all of such purposes, and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in accordance with the requirements set forth above for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. Unless otherwise specified with respect to any Securities pursuant to Section 3.01 with respect to a series of Securities, the Company hereby designates as a Place of Payment for each series of Securities the office or agency of the Company in the Borough of Manhattan, The City of New

---

York, and initially appoints the Trustee as Paying Agent with its office at [\_\_\_\_\_], and as its agent to receive all such presentations, surrenders, notices and demands.

Unless otherwise specified with respect to any Securities pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a currency other than Dollars or (ii) may be payable in a currency other than Dollars, or so long as it is required under any other provision of the Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will notify the Trustee of the name and address of any Exchange Rate Agent retained by it.

**Section 10.03. Money for Securities Payments to Be Held in Trust**

If the Company shall at any time act as its own Paying Agent with respect to any series of any Securities, it will, on or before each due date of the principal of (or premium, if any) or interest, if any, on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the principal (and premium, if any) and interest, if any, on Securities of such series so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or before each due date of the principal of (or premium, if any) or interest, if any, on any Securities of that series, deposit with a Paying Agent a sum (in the Currency or Currencies described in the preceding paragraph) sufficient to pay the principal (or premium, if any) or interest, if any, so becoming due, such sum of money to be held in trust for the benefit of the Persons entitled to such principal, premium or interest and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums of money held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Except as otherwise provided in the Securities of any series, any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (or premium, if any) or interest, if any, on any Security of any series and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company upon Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such money held in trust, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent,

---

before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 calendar days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

**Section 10.04. Additional Amounts.**

If the Securities of a series provide for the payment of Additional Amounts, the Company will pay to the Holder of any Security of such series such Additional Amounts as may be specified as contemplated by Section 3.01. Whenever in this Indenture there is mentioned, in any context, the payment of the principal of (or premium, if any) or interest, if any, on any Security of any series or the net proceeds received on the sale or exchange of any Security of any series, such mention shall be deemed to include mention of the payment of Additional Amounts provided for by the terms of such series established pursuant to Section 3.01 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to such terms and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Except as otherwise specified as contemplated by Section 3.01, if the Securities of a series provide for the payment of Additional Amounts, at least 10 calendar days prior to the first Interest Payment Date with respect to that series of Securities (or if the Securities of that series will not bear interest prior to Maturity, the first day on which a payment of principal premium is made), and at least 10 calendar days prior to each date of payment of principal, premium or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and the Company's principal Paying Agent or Paying Agents, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal, premium or interest on the Securities of that series shall be made to Holders of Securities of that series who are not United States persons without withholding for or on account of any tax, assessment or other governmental charge described in the Securities of that series. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities of that series and the Company will pay to the Trustee or such Paying Agent the Additional Amounts required by the terms of such Securities. In the event that the Trustee or any Paying Agent, as the case may be, shall not so receive the above-mentioned certificate, then the Trustee or such Paying Agent shall be entitled (i) to assume that no such withholding or deduction is required with respect to any payment of principal or interest with respect to any Securities of a series until it shall have received a certificate advising otherwise and (ii) to make all payments of principal and interest with respect to the Securities of a series without withholding or deductions until otherwise advised. The Company covenants to indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers' Certificate furnished pursuant to this Section or in reliance on the Company's not furnishing such an Officers' Certificate.

---

**Section 10.05. Statement as to Compliance.**

The Company will deliver to the Trustee, within 120 calendar days after the end of each fiscal year ending after the date hereof so long as any Security is Outstanding hereunder, an Officers' Certificate stating to the knowledge of the signers thereof whether the Company is in default in the performance of any of the terms, provisions or conditions of this Indenture. For purposes of this Section 10.05, such default shall be determined without regard to any period of grace or requirement of notice under this Indenture.

**Section 10.06. Payment of Taxes and Other Claims.**

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or upon the income, profits or property of the Company, and (2) all lawful claims for labor, materials and supplies that, if unpaid, might by law become a lien upon the property of the Company, except where the failure to do so would not be reasonably expected to have a material adverse effect on the business, assets, financial condition or results of operations of the Company; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

**Section 10.07. Waiver of Certain Covenants.**

The Company may omit in any particular instance to comply with any covenant or condition set forth in Section 10.06, and, as specified pursuant to Section 3.01(xv) for Securities of any series, in any covenants of the Company added to Article Ten pursuant to Section 3.01(xiv) or Section 3.01(xv) in connection with the Securities of a series, if before or after the time for such compliance the Holders of at least a majority in aggregate principal amount of all Outstanding Securities of such series, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

**ARTICLE ELEVEN**

**REDEMPTION OF SECURITIES SECTION**

**Section 11.01. Applicability of Article.**

Securities of any series that are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 3.01 for Securities of any series) in accordance with this Article.

---

**Section 11.02. Election to Redeem; Notice to Trustee.**

The election of the Company to redeem any Securities shall be evidenced by or pursuant to a Board Resolution. In case of any redemption at the election of the Company of less than all of the Securities of any series, the Company shall, at least 60 calendar days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Securities of such series to be redeemed, and, if applicable, of the tenor of the Securities to be redeemed, and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Securities to be redeemed pursuant to Section 11.03. In the case of any redemption of Securities of any series prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

**Section 11.03. Selection by Trustee of Securities to Be Redeemed.**

If less than all the Securities of any series issued on the same day with the same terms are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 calendar days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series issued on such date with the same terms not previously called for redemption, by such method as the Trustee shall deem fair and appropriate; provided that such method complies with the rules of any national securities exchange or quotation system on which the Securities are listed (which rules shall be certificated to the Trustee by the Company or such national securities exchange at the Trustee's request), and may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Security not redeemed to less than the minimum authorized denomination for Securities of such series.

The Trustee shall promptly notify the Company and the Security Registrar (if other than itself) in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

**Section 11.04. Notice of Redemption.**

Notice of redemption shall be given in the manner provided in Section 1.06, not less than 30 calendar days nor more than 60 calendar days prior to the Redemption Date, unless a shorter period is specified by the terms of such series established pursuant to Section 3.01, to each Holder of Securities to be redeemed, but failure to give such notice in the manner herein provided to the Holder of any Security designated for redemption as a whole or in part, or any

---



defect in the notice to any such Holder, shall not affect the validity of the proceedings for the redemption of any other such Security or portion thereof.

Any notice that is mailed to the Holders of Registered Securities in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice.

All notices of redemption shall state:

- (i) the Redemption Date;
- (ii) the Redemption Price and accrued interest, if any, to the Redemption Date payable as provided in Section 11.06;
- (iii) if less than all Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amount) of the particular Security or Securities to be redeemed;
- (iv) in case any Security is to be redeemed in part only, the notice that relates to such Security shall state that on and after the Redemption Date, upon surrender of such Security, the Holder will receive, without a charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed;
- (v) that on the Redemption Date, the Redemption Price and accrued interest, if any, to the Redemption Date payable as provided in Section 11.06 will become due and payable upon each such Security, or the portion thereof, to be redeemed and, if applicable, that interest thereon shall cease to accrue on and after said date;
- (vi) the Place or Places of Payment where such Securities, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price and accrued interest, if any;
- (vii) that the redemption is for a sinking fund, if such is the case; and
- (viii) the CUSIP number of such Security, if any.

A notice of redemption published as contemplated by Section 1.06 need not identify particular Registered Securities to be redeemed. Notice of redemption of Securities to be redeemed shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

**Section 11.05. Deposit of Redemption Price.**

On or prior to 10:00 a.m., New York City time, on the Business Day prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, in accordance with the terms of this Indenture, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section

---

3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay on the Redemption Date the Redemption Price of, and (unless otherwise specified pursuant to Section 3.01) accrued interest on, all the Securities or portions thereof which are to be redeemed on that date.

**Section 11.06. Securities Payable on Redemption Date.**

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities shall if the same were interest-bearing cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that, unless otherwise specified as contemplated by Section 3.01, installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.07.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the Redemption Price shall, until paid, bear interest from the Redemption Date at the rate of interest set forth in such Security or, in the case of an Original Issue Discount Security, at the Yield to Maturity of such Security.

**Section 11.07. Securities Redeemed in Part.**

Any Registered Security that is to be redeemed only in part (pursuant to the provisions of this Article or of Article Twelve) shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security without service charge a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered. If a temporary global Security or permanent global Security is so surrendered, such new Security so issued shall be a new temporary global Security or permanent global Security, respectively. However, if less than all the Securities of any series with differing issue dates, interest rates and stated maturities are to be redeemed, the Company in its sole discretion shall select the particular Securities to be redeemed and shall notify the Trustee in writing thereof at least 45 calendar days prior to the relevant redemption date.

---

**ARTICLE TWELVE**  
**SINKING FUNDS**

**Section 12.01. Applicability of Article.**

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 3.01 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of such Securities of any series is herein referred to as an "optional sinking fund payment." If provided for by the terms of any Securities of any series, the cash amount of any mandatory sinking fund payment may be subject to reduction as provided in Section 12.02. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

**Section 12.02. Satisfaction of Sinking Fund Payments with Securities.**

The Company may, in satisfaction of all or any part of any mandatory sinking fund payment with respect to the Securities of a series, (i) deliver Outstanding Securities of such series (other than any previously called for redemption) and (ii) apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, as provided for by the terms of such Securities; provided that such Securities so delivered or applied as a credit have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the applicable Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

**Section 12.03. Redemption of Securities for Sinking Fund.**

Not less than 60 calendar days prior to each sinking fund payment date for Securities of any series, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing mandatory sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 12.02, and the optional amount, if any, to be added in cash to the next ensuing mandatory sinking fund payment, and will also deliver to the Trustee any Securities to be so delivered and credited. If such Officers' Certificate shall specify an optional amount to be added in cash to the next ensuing mandatory sinking fund payment, the Company shall thereupon be obligated to pay the amount therein specified. Not less than 30 calendar days before each such sinking fund payment date the Trustee

---

shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 11.03 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 11.04. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 11.06 and 11.07.

## ARTICLE THIRTEEN

### REPAYMENT AT THE OPTION OF HOLDERS

#### **Section 13.01. Applicability of Article.**

Repayment of Securities of any series before their Stated Maturity at the option of Holders thereof shall be made in accordance with the terms of such Securities and (except as otherwise specified by the terms of such series established pursuant to Section 3.01) in accordance with this Article.

#### **Section 13.02. Repayment of Securities.**

Securities of any series subject to repayment in whole or in part at the option of the Holders thereof will, unless otherwise provided in the terms of such Securities, be repaid at the Repayment Price thereof, together with interest, if any, thereon accrued to the Repayment Date specified in or pursuant to the terms of such Securities. The Company covenants that on or before 10:00 a.m., New York City time, on the Business Day preceding the Repayment Date it will deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the Repayment Price of, and (unless otherwise specified pursuant to Section 3.01) accrued interest on, all the Securities or portions thereof, as the case may be, to be repaid on such date.

#### **Section 13.03. Exercise of Option.**

Securities of any series subject to repayment at the option of the Holders thereof will contain an "Option to Elect Repayment" form on the reverse of such Securities. To be repaid at the option of the Holder, any Security so providing for such repayment, with the "Option to Elect Repayment" form on the reverse of such Security duly completed by the Holder (or by the Holder's attorney duly authorized in writing), must be received by the Company at the Place of Payment therefor specified in the terms of such Security (or at such other place or places of which the Company shall from time to time notify the Holders of such Securities) not earlier than 45 calendar days nor later than 30 calendar days prior to the Repayment Date. If less than the entire Repayment Price of such Security is to be repaid in accordance with the terms of such Security, the portion of the Repayment Price of such Security to be repaid, in increments of the minimum denomination for Securities of such series, and the denomination or denominations of the Security or Securities to be issued to the Holder for the portion of such Security surrendered that is not to be repaid, must be specified. Any Security providing for repayment at the option of

---

the Holder thereof may not be repaid in part if, following such repayment, the unpaid principal amount of such Security would be less than the minimum authorized denomination of Securities of the series of which such Security to be repaid is a part. Except as otherwise may be provided by the terms of any Security providing for repayment at the option of the Holder thereof, exercise of the repayment option by the Holder shall be irrevocable unless waived by the Company.

**Section 13.04. When Securities Presented for Repayment Become Due and Payable.**

If Securities of any series providing for repayment at the option of the Holders thereof shall have been surrendered as provided in this Article and as provided by or pursuant to the terms of such Securities, such Securities or the portions thereof, as the case may be, to be repaid shall become due and payable and shall be paid by the Company on the Repayment Date therein specified, and on and after such Repayment Date (unless the Company shall default in the payment of such Securities on such Repayment Date) such Securities shall, if the same were interest-bearing, cease to bear interest. Upon surrender of any such Security for repayment in accordance with such provisions, the Repayment Price of such Security so to be repaid shall be paid by the Company, together with accrued interest, if any, to the Repayment Date; provided, however, that installments of interest on Registered Securities, whose Stated Maturity is prior to (or, if specified pursuant to Section 3.01, on) the Repayment Date shall be payable (but without interest thereon, unless the Company shall default in the payment thereof) to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.07.

If any Security surrendered for repayment shall not be so repaid upon surrender thereof, the Repayment Price shall, until paid, bear interest from the Repayment Date at the rate of interest set forth in such Security or, in the case of an Original Issue Discount Security, at the Yield to Maturity of such Security.

**Section 13.05. Securities Repaid in Part.**

Upon surrender of any Registered Security that is to be repaid in part only, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge and at the expense of the Company, a new Registered Security or Securities of the same series, and of like tenor, of any authorized denomination specified by the Holder, in an aggregate principal amount equal to and in exchange for the portion of the principal of such Security so surrendered that is not to be repaid. If a temporary global Security or permanent global Security is so surrendered, such new Security so issued shall be a new temporary global Security or a new permanent global Security, respectively.

---

## ARTICLE FOURTEEN

### DEFEASANCE AND COVENANT DEFEASANCE

#### **Section 14.01. Applicability of Article; Company's Option to Effect Defeasance or Covenant Defeasance.**

If pursuant to Section 3.01 provision is made for either or both of (a) defeasance of the Securities of or within a series under Section 14.02 or (b) covenant defeasance of the Securities of or within a series under Section 14.03, then the provisions of such Section or Sections, as the case may be, together with the other provisions of this Article (with such modifications thereto as may be specified pursuant to Section 3.01 with respect to any Securities), shall be applicable to such Securities, and the Company may at its option by Board Resolution, at any time, with respect to such Securities, elect to have either Section 14.02 (if applicable) or Section 14.03 (if applicable) be applied to such Outstanding Securities upon compliance with the conditions set forth below in this Article.

#### **Section 14.02. Defeasance and Discharge.**

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be deemed to have been discharged from its obligations with respect to such Outstanding Securities on and after the date the conditions set forth in Section 14.04 are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Outstanding Securities, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 14.05 and the other Sections of this Indenture referred to in clauses (A) and (B) of this Section, and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of such Outstanding Securities receive, solely from the trust fund described in Section 14.04 and as more fully set forth in such Section, payments in respect of the principal of (and premium, if any) and interest, if any, on such Securities when such payments are due, (B) the Company's obligations with respect to such Securities under Sections 3.05, 3.06, 10.02 and 10.03 and with respect to the payment of Additional Amounts, if any, on such Securities as contemplated by Section 10.04, (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (D) this Article. Subject to compliance with this Article Fourteen, the Company may exercise its option under this Section notwithstanding the prior exercise of its option under Section 14.03 with respect to such Securities. Following a defeasance, payment of such Securities may not be accelerated because of an Event of Default.

#### **Section 14.03. Covenant Defeasance.**

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be released from its obligations under Section 10.06, and, if specified pursuant to Section 3.01, its obligations under any other covenant with respect to such Outstanding Securities and on and after the date the conditions set forth in

---

Section 14.04 are satisfied (hereinafter, “covenant defeasance”), and such Securities shall thereafter be deemed to be not “Outstanding” for the purposes of any direction, waiver, consent or declaration or Act of Holders (and the consequences of any thereof) in connection with Section 10.06, or such other covenant, but shall continue to be deemed “Outstanding” for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to such Outstanding Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section or such other covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such Section or such other covenant or by reason of reference in any such Section or such other covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.01 (iv) or 5.01(vii) or otherwise, as the case may be, but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby. Following a covenant defeasance, payment of such Securities may not be accelerated because of an Event of Default solely by reference to such Sections specified above in this Section 14.03.

**Section 14.04. Conditions to Defeasance or Covenant Defeasance.**

The following shall be the conditions to application of either Section 14.02 or Section 14.03 to any Outstanding Securities of or within a series:

(i) The Company shall have irrevocably deposited or caused to be irrevocably deposited with the Trustee (or another trustee satisfying the requirements of Section 6.07 who shall agree to comply with the provisions of this Article Fourteen applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for the benefit of, and dedicated solely to, the Holders of such Securities, (A) an amount (in such Currency in which such Securities are then specified as payable at Stated Maturity), or (B) Government Obligations applicable to such Securities (determined on the basis of the Currency in which such Securities are then specified as payable at Stated Maturity) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, without reinvestment thereof, not later than one day before the due date of any payment of principal of (and premium, if any) and interest, if any, on such Securities, money in an amount, or (C) a combination thereof in an amount, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or other qualifying trustee) to pay and discharge, (1) the principal of (and premium, if any) and interest, if any, on such Outstanding Securities on the Stated Maturity of such principal or installment of principal or interest and (2) any mandatory sinking fund payments or analogous payments applicable to such Outstanding Securities on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities.

(ii) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement or instrument to which the Company is a party or by which it is bound.

(iii) No Default or Event of Default with respect to such Securities shall have occurred and be continuing on the date of such deposit or, insofar as Sections 5.01(v) and 5.01(vi) are

---

concerned, at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(iv) In the case of an election under Section 14.02, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of this Indenture, there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of such Outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(v) In the case of an election under Section 14.03, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(vi) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to either the defeasance under Section 14.02 or the covenant defeasance under Section 14.03 (as the case may be) have been complied with.

(vii) Notwithstanding any other provisions of this Section, such defeasance or covenant defeasance shall be effected in compliance with any additional or substitute terms, conditions or limitations which may be imposed on the Company in connection therewith pursuant to Section 3.01.

**Section 14.05. Deposited Money and Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.**

Subject to the provisions of the last paragraph of Section 10.03, all money and Government Obligations (or other property as may be provided pursuant to Section 3.01) (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 14.05, the "Trustee") pursuant to Section 14.04 in respect of any Outstanding Securities of any series shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, if any, but such money need not be segregated from other funds except to the extent required by law.

Unless otherwise specified with respect to any Security pursuant to Section 3.01, if, after a deposit referred to in Section 14.04(a) has been made, (a) the Holder of a Security in respect of

---



which such deposit was made is entitled to, and does, elect pursuant to Section 3.12(b) or the terms of such Security to receive payment in a Currency other than that in which the deposit pursuant to Section 14.04(a) has been made in respect of such Security, or (b) a Conversion Event occurs as contemplated in Section 3.12(d) or 3.12(e) or by the terms of any Security in respect of which the deposit pursuant to Section 14.04(a) has been made, the indebtedness represented by such Security shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of (and premium, if any) and interest, if any, on such Security as the same becomes due out of the proceeds yielded by converting (from time to time as specified below in the case of any such election) the amount or other property deposited in respect of such Security into the Currency in which such Security becomes payable as a result of such election or Conversion Event based on the applicable Market Exchange Rate for such Currency in effect on the second Business Day prior to each payment date, except, with respect to a Conversion Event, for such Currency in effect (as nearly as feasible) at the time of the Conversion Event.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the money or Government Obligations deposited pursuant to Section 14.04 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of such Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or Government Obligations (or other property and any proceeds therefrom) held by it as provided in Section 14.04 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect a defeasance or covenant defeasance, as applicable, in accordance with this Article.

If, after the Company has made a deposit with the Trustee pursuant to Section 14.04, the Trustee is unable to apply any money in accordance with Section 14.05 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the applicable Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 14.04 until such time as the Trustee is permitted to apply all such money in accordance with this Article Fourteen; provided, however, that if the Company has made any payment of the principal of or interest on any series of Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money held by the Trustee.

Money deposited with the Trustee in trust pursuant to this Section 14.05 shall not be subject to the subordination provisions of Article Sixteen.

---

**ARTICLE FIFTEEN**  
**MEETINGS OF HOLDERS OF SECURITIES**

**Section 15.01. Purposes for Which Meetings May Be Called.**

A meeting of Holders of any series of Securities of such series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

**Section 15.02. Call, Notice and Place of Meetings.**

(a) The Trustee may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 15.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York or in London as the Trustee shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 1.06, not less than 21 nor more than 180 calendar days prior to the date fixed for the meeting.

(b) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustee to call a meeting of the Holders of Securities of such series for any purpose specified in Section 15.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first publication or mailing of the notice of such meeting within 21 calendar days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

**Section 15.03. Persons Entitled to Vote at Meetings.**

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (i) a Holder of one or more Outstanding Securities of such series, or (ii) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

**Section 15.04. Quorum; Action.**

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series; provided, however, that if any action is to be taken at such meeting with respect to a consent,

---

waiver, request, demand, notice, authorization, direction or other action that this Indenture expressly provides may be made, given or taken by the Holders of not less than a specified percentage in principal amount of the Outstanding Securities of a series, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 15.02(a), except that such notice need be given only once not less than five calendar days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of any adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by the proviso to Section 9.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Securities of that series; provided, however, that, except as limited by the proviso to Section 9.02, any resolution with respect to any consent, waiver, request, demand, notice, authorization, direction or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of that series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section shall be binding on all the Holders of Securities of such series, whether or not present or represented at the meeting.

Notwithstanding the foregoing provisions of this Section 15.04, if any action is to be taken at a meeting of Holders of Securities of any series with respect to any consent, waiver, request, demand, notice, authorization, direction or other action that this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage in principal amount of all Outstanding Securities affected thereby, or of the Holders of such series and one or more additional series:

- (i) there shall be no minimum quorum requirement for such meeting; and
  - (ii) the principal amount of the Outstanding Securities of such series that vote in favor of such consent, waiver, request, demand, notice, authorization, direction or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under this Indenture.
-

**Section 15.05. Determination of Voting Rights; Conduct and Adjournment of Meetings.**

(a) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities of a series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 1.04 and the appointment of any proxy shall be proved in the manner specified in Section 1.04. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.04 or other proof.

(b) The Trustee shall, by an instrument in writing appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 15.02(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.

(c) At any meeting of Holders, each Holder of a Security of such series or proxy shall be entitled to one vote for each \$1,000 principal amount of the Outstanding Securities of such series held or represented by such Holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.

(d) Any meeting of Holders of Securities of any series duly called pursuant to Section 15.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting, and the meeting may be held as so adjourned without further notice.

**Section 15.06. Counting Votes and Recording Action of Meetings.**

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities of such series held or represented by them. The chairman of the meeting shall appoint at least one inspector of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting a verified written report of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders of Securities of any Series shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspector of votes on any vote by ballot taken thereat and affidavits by one or more persons

---

having knowledge of the fact, setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 15.02 and, if applicable, Section 15.04. Each copy shall be signed and verified by the affidavits of the chairman and secretary of the meeting and one such copy shall be delivered to the Company and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

**ARTICLE SIXTEEN**  
**SUBORDINATION OF SECURITIES**

**Section 16.01. Agreement to Subordinate.**

The Company, for itself, its successors and assigns, covenants and agrees, and each Holder of Senior Subordinated Securities by his acceptance thereof, likewise covenants and agrees, that the payment of the principal of (and premium, if any) and interest, if any, on each and all of the Senior Subordinated Securities is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Senior Indebtedness.

The Company, for itself, its successors and assigns, covenants and agrees, and each Holder of Junior Subordinated Securities by his acceptance thereof, likewise covenants and agrees, that the payment of the principal of (and premium, if any) and interest, if any, on each and all of the Junior Subordinated Securities is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Senior Indebtedness and Senior Subordinated Indebtedness.

**Section 16.02. Distribution on Dissolution, Liquidation and Reorganization; Subrogation of Subordinated Securities.**

Upon any distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency, reorganization or receivership proceedings or upon an assignment for the benefit of creditors or any other marshalling of the assets and liabilities of the Company or otherwise (subject to the power of a court of competent jurisdiction to make other equitable provision reflecting the rights conferred in this Indenture upon the Senior Indebtedness and the holders thereof with respect to the Securities and the holders thereof by a lawful plan of reorganization under applicable bankruptcy law):

(i) the holders of all Senior Indebtedness shall be entitled to receive payment in full of the principal thereof (and premium, if any) and interest due thereon before the Holders of the Subordinated Securities are entitled to receive any payment upon the principal (or premium, if any) or interest, if any, on indebtedness evidenced by the Subordinated Securities;

(ii) the holders of all Senior Subordinated Indebtedness shall be entitled to receive payment in full of the principal thereof (and premium, if any) and interest due thereon before the Holders of the Junior Subordinated Securities are entitled to receive any payment upon the

---

principal (or premium, if any) or interest, if any, on indebtedness evidenced by the Junior Subordinated Securities;

(iii) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article Sixteen shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holders of Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the principal of (and premium, if any) and interest on the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness; and

(iv) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders of the Subordinated Securities before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over, upon written notice to the Trustee, to the holder of such Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instrument evidencing any of such Senior Indebtedness may have been issued, ratably as aforesaid, for application to payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness.

Subject to the payment in full of all Senior Indebtedness, the Holders of the Subordinated Securities shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to Senior Indebtedness until the principal of (and premium, if any) and interest, if any, on the Subordinated Securities shall be paid in full and no such payments or distributions to the Holders of the Subordinated Securities of cash, property or securities otherwise distributable to the holders of Senior Indebtedness shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Subordinated Securities be deemed to be a payment by the Company to or on account of the Subordinated Securities. It is understood that the provisions of this Article Sixteen are and are intended solely for the purpose of defining the relative rights of the Holders of the Subordinated Securities, on the one hand, and the holders of the Senior Indebtedness, on the other hand. Nothing contained in this Article Sixteen or elsewhere in this Indenture or in the Subordinated Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Subordinated Securities, the obligation of the Company, which is unconditional and absolute, to pay to the Holders of the Subordinated Securities the principal of (and premium, if any) and interest, if any, on the Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or to affect the relative rights of the Holders of the Subordinated Securities and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or in the Subordinated Securities prevent the Trustee or

---

the Holder of any Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Sixteen of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Upon any payment or distribution of assets of the Company referred to in this Article Sixteen, the Trustee, subject to the provisions of Section 6.01, shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Sixteen.

If the Trustee or any Holder of Subordinated Securities does not file a proper claim or proof of debt in the form required in any proceeding referred to above prior to 30 calendar days before the expiration of the time to file such claim in such proceeding, then the holder of any Senior Indebtedness is hereby authorized, and has the right, to file an appropriate claim or claims for or on behalf of such Holder of Subordinated Securities.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Article and no implied covenants or obligations with respect to holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee does not owe any fiduciary duties to the holders of Senior Indebtedness, including any holder of Securities other than Securities issued under this Indenture.

**Section 16.03. No Payment on Subordinated Securities in Event of Default on Senior Indebtedness.**

No payment by the Company on account of principal (or premium, if any), sinking funds or interest, if any, on the Subordinated Securities shall be made unless full payment of amounts then due for principal (premium, if any), sinking funds and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

**Section 16.04. Payments on Subordinated Securities Permitted.**

Nothing contained in this Indenture or in any of the Subordinated Securities shall (i) affect the obligation of the Company to make, or prevent the Company from making, at any time except as provided in Sections 16.02 and 16.03, payments of principal of (or premium, if any) or interest, if any, on the Subordinated Securities or (ii) prevent the application by the Trustee of any moneys deposited with it hereunder to the payment of or on account of the principal of (or premium, if any) or interest, if any, on the Subordinated Securities, unless the Trustee shall have received at its Corporate Trust Office written notice of any event prohibiting the making of such payment more than three Business Days prior to the date fixed for such payment.

**Section 16.05. Authorization of Holders to Trustee to Effect Subordination.**

Each Holder of Subordinated Securities by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the

---

subordination as provided in this Article Sixteen and appoints the Trustee his attorney-in-fact for any and all such purposes.

**Section 16.06. Notices to Trustee.**

Notwithstanding the provisions of this Article or any other provisions of this Indenture, neither the Trustee nor any Paying Agent (other than the Company) shall be charged with knowledge of the existence of any Senior Indebtedness or of any event which would prohibit the making of any payment of moneys to or by the Trustee or such Paying Agent, unless and until the Trustee or such Paying Agent shall have received (in the case of the Trustee, at its Corporate Trust Office) written notice thereof from the Company or from the holder of any Senior Indebtedness or from the trustee for any such holder, together with proof reasonably satisfactory to the Trustee of such holding of Senior Indebtedness or of the authority of such trustee; provided, however, that if at least three Business Days prior to the date upon which by the terms hereof any such moneys may become payable for any purpose (including, without limitation, the payment of either the principal (or premium, if any) or interest, if any, on any Subordinated Security) the Trustee shall not have received with respect to such moneys the notice provided for in this Section 16.06, then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such moneys and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary, which may be received by it within three Business Days prior to such date. The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee on behalf of such holder) to establish that such a notice has been given by a holder of Senior Indebtedness or a trustee on behalf of any such holder. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article Sixteen, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article Sixteen and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

**Section 16.07. Trustee as Holder of Senior Indebtedness.**

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Sixteen in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

Nothing in this Article Sixteen shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06. Section 16.08. Modifications of Terms of Senior Indebtedness.

Any renewal or extension of the time of payment of any Senior Indebtedness or the exercise by the holders of Senior Indebtedness of any of their rights under any instrument creating or evidencing Senior Indebtedness, including, without limitation, the waiver of default

---



thereunder, may be made or done all without notice to or assent from the Holders of the Subordinated Securities or the Trustee.

No compromise, alteration, amendment, modification, extension, renewal or other change of, or waiver, consent or other action in respect of, any liability or obligation under or in respect of, or of any of the terms, covenants or conditions of any indenture or other instrument under which any Senior Indebtedness is outstanding or of such Senior Indebtedness, whether or not such release is in accordance with the provisions of any applicable document, shall in any way alter or affect any of the provisions of this Article Sixteen or of the Subordinated Securities relating to the subordination thereof.

**Section 16.08. Reliance on Judicial Order or Certificate of Liquidating Agent.**

Upon any payment or distribution of assets of the Company referred to in this Article Sixteen, the Trustee and the Holders of the Securities shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of Subordinated Securities, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Sixteen.

\*\*\*\*\*

This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, as of the day and year first above written.

HORIZON TECHNOLOGY FINANCE CORPORATION

By: \_\_\_\_\_

Name:

Title:

[\_\_\_\_\_] , as Trustee

By: \_\_\_\_\_

Name:

Title:

---

**EXHIBIT A**

**FORM OF CERTIFICATE TO BE GIVEN BY EUROCLEAR AND  
CLEARSTREAM IN CONNECTION WITH THE EXCHANGE OF  
A PORTION OF A TEMPORARY GLOBAL SECURITY  
OR TO OBTAIN INTEREST PAYABLE PRIOR  
TO THE EXCHANGE DATE  
CERTIFICATE**

[Insert title or sufficient description of Securities to be delivered]

This is to certify that, based solely on written certifications that we have received in writing, by tested telex or by electronic transmission from each of the persons appearing in our records as persons entitled to a portion of the principal amount set forth below (our "Member Organizations") substantially in the form attached hereto, as of the date hereof, [U.S. \$\_\_\_\_] principal amount of the above-captioned Securities (i) is owned by person(s) that are not "United States persons" ("United States Person(s)") within the meaning of Section 7701(a)(30) of the United States Internal Revenue Code of 1986, as amended (the "Code"), (ii) is owned by United States person(s) that are (a) foreign branches of United States financial institutions (financial institutions, as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v)(iv)) are herein referred to as "financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such financial institution has agreed, on its own behalf or through its agent, that we may advise Horizon Technology Finance Corporation or its agent that such financial institution will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Code and the United States Treasury Regulations thereunder), or (iii) is owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and, to the further effect, that financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We further certify that (i) we are not making available herewith for exchange (or, if relevant, collection of any interest) any portion of the temporary global Security representing the above-captioned Securities excepted in the above-referenced certificates of Member Organizations and (ii) as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any portion of the part submitted herewith for exchange (or, if relevant, collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

---

We understand that this certification is required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated: [\_\_\_\_\_]

[To be dated no earlier than the Exchange Date or the relevant Interest Payment Date occurring prior to the Exchange Date, as applicable]

[\_\_\_\_\_] ,  
as Operator of the Euroclear System

By: \_\_\_\_\_

Name:

Title:

**SUBSCRIPTION AGENT AGREEMENT**  
**By AND BETWEEN**  
**HORIZON TECHNOLOGY FINANCE CORPORATION**  
**and**  
 \_\_\_\_\_

This Subscription Agent Agreement (the "Agreement") is made as of \_\_\_\_\_, 20[ ] between Horizon Technology Finance Corporation, a Delaware corporation (the "Company"), and \_\_\_\_\_, a \_\_\_\_\_ (the "Subscription Agent"), and relates to the base prospectus included in the Registration Statement on Form N-2, File No. 333-\_\_\_\_\_, filed by the Company with the Securities and Exchange Commission on \_\_\_\_\_, 20[ ], as amended by any amendment filed with respect thereto (the "Registration Statement") and any supplemental prospectus (together with the base prospectus, the "Prospectus"). Capitalized terms not otherwise defined herein shall have the meanings given to them in the Subscription Certificate (as defined below).

WHEREAS, the Company proposes to make a subscription offer by issuing subscription certificates in the form designated by the Company ("Subscription Certificates") to stockholders of record (the "Record Date Stockholders") of its common stock, par value \$0.001 per share ("Common Stock"), as of a record date specified by the Company (the "Record Date") in the Prospectus, pursuant to which each Record Date Stockholder, or any transferee of a Record Date Stockholder (such Record Date Stockholders and transferees thereof, the "Rights Holders") shall have certain rights (the "Rights") to subscribe for shares of Common Stock, as described in and upon such terms as are set forth in the Prospectus, a final copy of which has been or, upon availability shall promptly be, delivered to the Subscription Agent; and

WHEREAS, the Company wishes the Subscription Agent to perform certain acts on behalf of the Company, and the Subscription Agent is willing to so act, in connection with the distribution of the Subscription Certificates and the issuance and exercise of the Rights, all upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual agreements set forth herein, each of the parties agrees as follows:

**1. Appointment.**

The Company hereby appoints the Subscription Agent to act as subscription and distribution agent in connection with the distribution of Subscription Certificates and the issuance and exercise of the Rights (the "Offering") in accordance with the terms set forth in the Agreement, and the Subscription Agent hereby accepts such appointment.

**2. Form and Execution of Subscription Certificates.**

Each Subscription Certificate shall be [irrevocable and transferable upon the terms and conditions set forth in the Prospectus]. The Subscription Agent shall maintain a register of Subscription Certificates and of the Rights Holders.

**3. Rights and Issuance of Subscription Certificates.**

- A. Each Subscription Certificate shall evidence the Rights of the Rights Holders therein named to purchase Common Stock upon the terms and conditions therein set forth.
-

- B. Upon the written advice of the Company, signed by any of its duly authorized officers, as to the Record Date, the Subscription Agent shall, from a list of the Record Date Stockholders to be prepared by the Subscription Agent, prepare and record Subscription Certificates in the names of such Record Date Stockholders, setting forth the number of Rights to subscribe for shares of Common Stock calculated on the basis of [one Right for each share of Common Stock] recorded on the books in the name of each such Record Date Stockholder as of the Record Date. [No fractional Rights shall be issued.] Each Subscription Certificate shall be dated as of the Record Date and shall be executed manually or by facsimile signature of a duly authorized officer of the Subscription Agent.
- C. Upon receipt of such written advice, signed as aforesaid, as to the effective date of the Registration Statement, the Subscription Agent shall promptly countersign and deliver the Subscription Certificates together with a copy of the Prospectus, the instruction letter and any other documents as the Company deems necessary or appropriate, to all Record Date Stockholders with record addresses in the United States (including its territories and possessions and the District of Columbia). Delivery shall be by first class mail (without registration or insurance).
- D. The Subscription Agent shall mail a copy of the Prospectus, instruction letter, a special notice and such other documents as the Company may deem necessary or appropriate, if any, but not Subscription Certificates to Record Date Stockholders whose record addresses are outside the United States (including its territories and possessions and the District of Columbia) (“Foreign Record Date Stockholders”). Those Record Date Stockholders having a registered address outside the United States (who shall only receive copies of the Prospectus, instruction letter and such other documents as the Company may deem necessary or appropriate, if any) delivery shall be by air mail (without registration or insurance) or by first class mail (without registration or insurance) to those Record Date Stockholders having an APO or FOP address. The Rights to which such Subscription Certificates relate shall be held by the Subscription Agent for such Foreign Record Date Stockholders’ accounts until instructions are received to exercise, sell or transfer such Rights.
- E. The Subscription Agent shall perform their respective duties hereunder in accordance with the terms and provisions of the Fee and Service Schedule attached hereto as Exhibit B, and shall act at all times in accordance with the description of the Offering and the Subscription Agent’s duties set forth herein and in the Prospectus.

**4. [Over-Subscription Privilege.**

If any shares of Common Stock available for purchase pursuant to the Offering are not subscribed for by Rights Holders pursuant to the Basic Subscription, the Subscription Agent shall allot such shares to Rights Holders who have properly subscribed for such shares pursuant to an over-subscription privilege on the terms and subject to the conditions set forth in the Prospectus, including as to proration. In addition, any Rights Holder other than a Record Date Stockholder who exercises Rights is entitled to subscribe for any Remaining Shares that are not otherwise subscribed for by Record Date Stockholders pursuant to their over-subscription privilege, on the terms and subject to the conditions set forth in the Prospectus, including as to proration. We refer to these over-subscription privileges as the “Over-Subscription Privilege.”]

---

5. *Exercise.*

- A. Rights Holders may acquire shares of Common Stock by delivery to the Subscription Agent no later than 5:00 p.m. on the Expiration Date, as defined below, or on any extended Expiration Date, of (i) a properly completed and duly executed Subscription Certificate and a money order or check or bank draft drawn on a bank or branch located in the United States and payable to [“\_\_\_\_\_”] for an amount equal to the number of shares of Common Stock subscribed for pursuant to the Basic Subscription [and the Over-Subscription Privilege] multiplied by the Estimated Subscription Price, each as defined in the Subscription Certificate (the “Exercise Price”); or (ii) a Notice of Guaranteed Delivery guaranteeing delivery of (A) a properly completed and duly executed Subscription Certificate and (B) a money order or check or bank draft drawn on a bank or branch located in the United States and payable to [“\_\_\_\_\_”] for an amount equal to the Exercise Price. Payment must be made in U.S. dollars. For the purpose of this Agreement, “Business Day” shall mean any day on which trading is conducted on The NASDAQ Global Market.
  - B. The Offering shall terminate on such date as the Company shall designate to the Subscription Agent in writing (the “Expiration Date”). For the purpose of determining the time of the exercise of any Rights, delivery of any materials to the Subscription Agent shall be deemed to occur when such materials are received by the Subscription Agent specified in the Prospectus.
  - C. Within ten Business Days following the Expiration Date (the “Confirmation Date”), the Subscription Agent shall send to each exercising Rights Holder (or, if rights are held by Cede & Co. or any other depository or nominee, to Cede & Co. or such other depository or nominee, as applicable) a confirmation showing (i) the number of shares purchased pursuant to the Basic Subscription; [(ii) the number of shares, if any, acquired pursuant to the Over-Subscription Privilege;] (iii) the per share and total purchase price for such shares; and (iv) any additional amount payable to the Company by such Rights Holder or any excess to be refunded by the Company to such Rights Holder, in each case based on the Subscription Price as determined on the Expiration Date[, along with a letter explaining the allocation of shares of Common Stock pursuant to the Over-Subscription Privilege, if applicable].
  - D. Any additional payment required from an exercising Rights Holder must be received by the Subscription Agent within ten Business Days after the Confirmation Date and any excess payment to be refunded by the Company to an exercising Rights Holder shall be mailed by the Subscription Agent as promptly as practicable after the Confirmation Date and, in no event, later than ten Business Days after the Confirmation Date. [If a Rights Holder does not make timely payment of any additional amounts due in accordance with Section 4, the Subscription Agent shall consult with the Company in accordance with Section 5 as to the appropriate action to be taken.] The Subscription Agent shall not issue shares of Common Stock for shares of Common Stock subscribed for until payment in full therefore has been received by the Subscription Agent, including clearance of checks and payment pursuant to Notices of Guaranteed Delivery.
  - E. As soon as practicable after the exercise of any Rights and the clearance of the funds in payment of the Exercise Price, the Company shall issue to the Rights Holder in book entry form the number of full shares of Common Stock to which such holder is entitled upon exercise of the Rights, registered in such name or names as may be directed by him,
-

her or it, and if the Rights Holder shall not have exercised all Rights held by such holder, a new Subscription Certificate for such number of Rights as were not exercised.

**6. *Validity of Subscriptions.***

Irregular, incomplete or unpaid subscriptions not otherwise covered by specific instructions herein shall be submitted to an appropriate officer of the Company and handled in accordance with his or her instructions. Such instructions shall be reasonably documented by the Subscription Agent indicating, among other things, the instructing officer and the date thereof.

**7. *Delivery of Shares.***

The Subscription Agent shall deliver statements of holding reflecting new shares of Common Stock purchased pursuant to the Basic Subscription [and, if applicable, those shares purchased pursuant to the exercise of the Over-Subscription Privilege] as soon as practicable after the Expiration Date, after all allocations have been effected and full payment for such shares has been received and cleared.

**8. *Holding Proceeds of Rights Offering.***

- A. All proceeds received by the Subscription Agent from Rights Holders in respect of the exercise of Rights pursuant to the Basic Subscription [and the Over-Subscription Privilege] shall be held by the Subscription Agent on behalf of the Company in a segregated account (the "Account"). Interest shall accrue for the benefit of the Company at [\_\_\_\_] and not for the benefit of the Subscription Agent or any Rights Holders, on funds held in the Account [pending any disbursement required pursuant to Section 4 above].
- B. The Subscription Agent shall deliver all proceeds received in respect of the exercise of Rights[, other than those to be refunded to exercising Rights Holders pursuant to Section 4 above,] to the Company as promptly as practicable, but in no event later than one Business Day after the Confirmation Date.
- C. The Subscription Agent acknowledges that the Account maintained in connection with the services provided under this Agreement shall be in its name and held in trust for the benefit of the Company.

**9. *Reports.***

Daily, during the period commencing on the date of mailing the Subscription Certificates until and including the Confirmation Date, the Subscription Agent shall report by telephone, facsimile or electronic mail to a designated representative(s) of the Company, as instructed by such designated representative(s), the following information:

- (i) the names of all Rights Holders exercising Rights pursuant to the Basic Subscription [and the Over-Subscription Privilege];
  - (ii) the total number of Rights exercised by each Rights Holder during the immediately preceding day pursuant to the Basic Subscription [and the Over-Subscription Privilege];
  - (iii) the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed, and all payments received in connection therewith;
-

- (iv) with respect to the dealer managers and each soliciting dealer, the number of Rights exercised on forms indicating the dealer manager or such soliciting dealer, as the case may be, as the broker-dealer with respect to such exercise; and
- (v) such other information as may be reasonably requested by the Company or such designated representative(s).

The Subscription Agent shall report by telephone, facsimile or electronic mail, as instructed by such designated representative(s), not later than 5:00 p.m., New York City time, on the first Business Day following the Expiration Date, (i) the total number of Rights exercised by each Rights Holder pursuant to the Basic Subscription [and the Over-Subscription Privilege and shares of Common Stock related thereto], (ii) the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed, and all payments received in connection therewith, (iii) with respect to the dealer managers and each soliciting dealer, the number of Rights exercised on forms indicating the dealer manager or such soliciting dealer, as the case may be, as the broker-dealer with respect to such exercise, and (iv) any such other information as may be reasonably requested by the Company or such designated representative(s).

In addition, the Subscription Agent shall perform the services set forth in Exhibit A.

**10. *Loss or Mutilation.***

If any Subscription Certificate is lost, stolen, mutilated or destroyed, the Subscription Agent may, on such terms as will serve to indemnify and protect the Company and the Subscription Agent as the Subscription Agent may in its reasonable discretion impose on the relevant Rights Holder (which shall, in the case of a mutilated Subscription Certificate, include the surrender and cancellation thereof), issue a new Subscription Certificate to such Rights Holder of like denomination in substitution for the Subscription Certificate so lost, stolen, mutilated or destroyed.

**11. *Compensation for Services.***

The Company agrees that it shall pay to the Subscription Agent compensation for their respective services hereunder in accordance with the Fee and Service Schedule attached hereto as Exhibit B. The Company further agrees that it shall reimburse the Subscription Agent for its reasonable, documented out-of-pocket expenses incurred in the performance of its respective duties as such; provided, however, that the Company shall not be required to reimburse the Subscription Agent for any such expenses incurred which exceed \$[\_\_\_\_\_] in the aggregate without its prior written consent.

**12. *Instructions, Indemnification and Limitation of Liability.***

The Subscription Agent undertakes the respective duties and obligations imposed by this Agreement upon the following terms and conditions:

- A. The Subscription Agent shall be entitled to rely upon any instructions or directions furnished to it by an officer of the Company listed on the attached Schedule A (an "Appropriate Officer"). Without limiting the generality of the foregoing or any other provision of this Agreement, the Subscription Agent, in connection with its duties hereunder, shall not be under any duty or obligation to inquire into the validity or invalidity or authority or lack thereof of any instruction or direction from an Appropriate Officer of the Company which the Subscription Agent reasonably believes to be genuine.
-



- B. The Company shall indemnify the Subscription Agent and its partners, directors, officers, managers, employees, attorneys and representatives against, and hold them harmless from, all liability and expense for any claim, action, suit, proceeding or investigation (each, a “Claim”) against any such party that arises out of or in connection with the services described in this Agreement to be performed by the Subscription Agent or the instructions or directions furnished to the Subscription Agent relating to this Agreement by an Appropriate Officer of the Company; provided that the Company shall not be so obligated for any liability or expense (i) which shall arise out of the gross negligence, bad faith or willful misconduct of the Subscription Agent or the partners, directors, officers, managers, employees, attorneys or representatives of the Subscription Agent or (ii) for any liability or expense arising out of a settlement of any Claim unless such settlement has been made with the prior written consent of the Company.

Promptly after the receipt by the Subscription Agent of notice of any Claim, the Subscription Agent shall notify the Company thereof in writing. In no case shall the Company be liable under this Section 12 to the extent it is materially prejudiced by failure of any indemnified party to deliver prompt notice of any Claim. The Company shall be entitled to participate at its own expense in the defense of any Claim, and, if it so elects at any time after receipt of such notice, it may assume the defense of any suit brought to enforce any Claim. For the purposes of this Section 12, the term “liability and expense” shall include all reasonable costs and expenses, including, but not limited to, reasonable counsel fees (including one local counsel, if necessary) and disbursements, paid or incurred in investigating or defending against any such claim, demand, action, suit, proceeding or investigation.

- C. The Subscription Agent shall at all times act in good faith and agree to use its commercially reasonable efforts to insure the accuracy of all services provided under this Agreement and shall indemnify and hold the Company and its subsidiaries and other affiliates and their respective partners, directors, officers, managers, employees, attorneys and representatives harmless from and against any and all liability and expenses directly or indirectly arising out of or in connection with the services described in this Agreement to be performed by the Subscription Agent or the instructions or directions furnished to the Subscription Agent relating to this Agreement by an Appropriate Officer of the Company; provided that the Subscription Agent shall not be so obligated for any liability or expense which shall arise out of the gross negligence, bad faith or willful misconduct of the Company or the partners, directors, officers, managers, employees, attorneys or representatives of the Company.

**13. Assignment/Delegation.**

- A. Except as provided in Section 13(B) below, neither this Agreement nor any rights or obligations hereunder may be assigned or delegated by any party without the prior written consent of the other parties.
  - B. The Subscription Agent may, without further consent on the part of the Company, subcontract with other parties for such systems, processing, telephone and mailing services and post-exchange activities as may be required from time to time; provided, however, that (i) the Subscription Agent shall be as fully responsible to the Company for the acts and omissions of any subcontractor in the same manner and to the same extent as it is for its own acts and omissions, and (ii) no such subcontracting shall relieve the Subscription Agent of any of its obligations hereunder.
-

**14. Relationship/Third-Party Beneficiaries.**

This Agreement does not constitute an agreement for a partnership or joint venture among the parties. The Subscription Agent shall act hereunder as agent of the Company solely to the limited extent set forth in this Agreement, but shall not assume any fiduciary duties to, or have any rights, power or authority on behalf of, the Company or any of its affiliates, equity holders or creditors or of any other person or entity not expressly set forth in this Agreement. Any duties of the Subscription Agent arising out of its engagements pursuant to this Agreement shall be owed solely to the Company. No party shall make any commitments with third parties that are binding on any other party without such other party's prior written consent, and none of the Subscription Agent, employees, or representatives or contractors of the Subscription Agent shall be deemed to be employees of the Company or any of its affiliates.

Except as explicitly stated elsewhere in this Agreement, nothing under this Agreement is intended or shall be construed to give any rights, benefits, remedies or claims under or by reason of this Agreement or any part thereof to anyone other than the Subscription Agent and the Company, and the duties and responsibilities undertaken pursuant to this Agreement shall be for the sole and exclusive benefit of the Subscription Agent and the Company.

**15. Force Majeure.**

In the event any party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes, terrorist acts, equipment or transmission failure or damage reasonably beyond its control or other cause reasonably beyond its control, such party shall not be liable for damages to any other party resulting from such failure to perform or otherwise from such causes. Performance under this Agreement shall resume when the affected party or parties are able to perform substantially its or their duties.

**16. Consequential Damages.**

No party to this Agreement shall be liable to any other party for any consequential, indirect, penal, special or incidental damages under any provisions of this Agreement or for any consequential, indirect, penal, special or incidental damages arising out of any act or failure to act hereunder even if that party has been advised of or has foreseen the possibility of such damages.

**17. Severability.**

If any provision of this Agreement shall be held invalid, unlawful or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

**18. Captions.**

The captions and descriptive headings herein are for the convenience of the parties only. They do not in any way modify, amplify, alter or give full notice of the provisions hereof.

**19. Confidentiality.**

- A. Under this Agreement, each party shall have access to certain confidential information belonging to the other parties, which information shall include nonpublic information pertaining to the disclosing party, its parent, subsidiaries, affiliates, employees, customers, representatives and vendors (including without limitation information furnished prior to the date of this Agreement) furnished by or on behalf of the disclosing
-

party or its representatives to the receiving party, directly or indirectly, by any means ("Confidential Information").

- B. Each of the parties acknowledges that except as necessary for any party to perform its respective obligations under the Agreement: (i) all Confidential Information is confidential; (ii) all Confidential Information is proprietary to the disclosing party; (iii) it shall keep all Confidential Information confidential and shall not disclose the same; (iv) it shall use Confidential Information only as required by this Agreement; (v) it shall not create a list or other compilation containing any Confidential Information for any purpose other than to perform its obligations under this Agreement; and (vi) except as expressly provided for herein, it shall not provide, directly or indirectly, the Confidential Information to any other person or entity for any purpose.
- C. Each of the parties acknowledges that this Agreement shall be filed by the Company as an exhibit to the Registration Statement and that the contents of this Agreement will be accessible to the public.
- D. In the event that any party receives a request or becomes legally compelled to disclose any Confidential Information belonging to any other party, such party shall provide the other party with prompt notice of such request (provided such notice is not otherwise prohibited by applicable law or court order) and shall disclose only that portion of the Confidential Information that it is legally obligated to disclose.

**20. Term and Terminations.**

The Agreement shall remain in effect until the earlier of (i) thirty (30) days after the Expiration Date; (ii) its termination by the Company, on the one hand, or the Subscription Agent with respect to the service provided by such Subscription Agent, on the other, upon a material breach of this Agreement by the other which remains uncured for fifteen (15) days after written notice of such breach has been provided to such other party; or (iii) thirty (30) days' written notice provided by the Company, on the one hand, or the Subscription Agent, on the other. Upon termination of the Agreement, the Subscription Agent shall retain a copy of all canceled Subscription Certificates and related documentation as required by applicable law. All documentation and information related to the services performed under the Agreement shall be promptly delivered to the Company.

**21. Notices.**

Until further notice in writing by any party hereto to the other parties, all written reports, notices and other communications between the Subscription Agent, on the one hand, and the Company, on the other, required or permitted hereunder shall be delivered or mailed by first class mail, postage prepaid, facsimile or overnight courier guaranteeing next day delivery, addressed as follows:

If to the Company, to:

Horizon Technology Finance Corporation  
312 Farmington Avenue  
Farmington, Connecticut 06032  
Attn: Chief Financial Officer

With a copy (which shall not constitute notice) to:

---

Squire, Sanders & Dempsey (US) LLP  
221 East Fourth Street, Suite 2900  
Cincinnati, Ohio 45202  
Attn: Stephen C. Mahon

If to the Subscription Agent, to:

[\_\_\_\_\_]

**22. *Survival.***

The provisions of Paragraphs 8, 12, 19, 24-28 shall survive any termination, for any reason, of this Agreement.

**23. *Merger of Agreement.***

This Agreement constitutes the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes any prior agreement with respect to the subject matter hereof, whether oral or written.

**24. *Amendment.***

No term or provision of this Agreement may be amended, changed, altered or modified except by written instrument executed by the each of the parties to this Agreement.

The Subscription Agent may, without the consent or concurrence of the Rights Holders in whose names Subscription Certificates are registered but with the prior written consent of the Company, by supplemental agreement or otherwise, make any change or correction in a Subscription Certificate that it shall have been advised by counsel (who may be counsel for the Company) is appropriate to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake or manifest error therein or herein contained, and which shall not be inconsistent with the provisions of the Subscription Certificate except insofar as any such change may confer additional rights upon the Rights Holder.

**25. *Extension; Waiver.***

At any time, each of the parties hereto may, to the extent legally allowed, (i) extend the time for, or waive, the performance of any of the covenants, obligations or agreements of the other parties hereto, (ii) waive any inaccuracies or breaches in the representations and warranties contained herein or in any certificate delivered by another party pursuant hereto or (iii) waive compliance with any of the conditions of another party contained in this Agreement. Any agreement on the part of any of the parties hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed by the party or parties against whom such extension or waiver is to be enforced. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or as a waiver of any other term or condition, of this Agreement. The failure of any of the parties hereto to assert any of its rights under this Agreement shall not constitute a waiver of such rights or any other rights.

---

**26. Jurisdiction.**

Each of the parties hereto: (i) irrevocably and unconditionally submits to the exclusive jurisdiction of the U.S. District Court for the Southern District of New York or, if such court does not have jurisdiction, the New York State Supreme Court in the Borough of Manhattan, The City of New York, in any action arising out of or relating to this Agreement, (ii) agrees that all claims in respect of the action may be heard and determined in any such court and (iii) agrees not to bring any action arising out of or relating to this Agreement in any other court.

In any such action, each of the parties hereto irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise, any claims that it is not subject to the jurisdiction of the above court, that such action is brought in an inconvenient forum or that the venue of such action is improper. Each of the parties hereto also agrees that any final and nonappealable judgment against a party hereto in connection with any action shall be conclusive and binding on such party and that such award or judgment may be enforced in any court of competent jurisdiction, either within or outside of the United States. A certified or exemplified copy of such award or judgment shall be conclusive evidence of the fact and amount of such award or judgment.

Without limiting the foregoing, each party hereto agrees that service of process on such party at the address provided in Section 21 shall be deemed effective service of process on such party.

**27. Waiver of Jury Trial.**

Each of the parties hereto irrevocably waives any and all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement.

**28. Governing Law.**

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

**29. Counterparts.**

This Agreement may be executed in one or more counterparts (including by facsimile or electronic transmission), each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

---

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers, hereunto duly authorized, as of the day and year first above written.

**HORIZON TECHNOLOGY FINANCE CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**[SUBSCRIPTION AGENT]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

**EXHIBIT A**  
**ADDITIONAL SERVICES**  
**TO BE PERFORMED BY SUBSCRIPTION AGENT**

- **Advance Review of Offering Materials**—Review and comment on all Offering materials in advance of final printing and dissemination.
  - **Financial Printer**—Work directly with the financial printer, providing format suggestions and delivery instructions.
  - **Financial Public Relations**—Assist in the preparation and placement of advertisements/tombstones in newspapers (at prevailing market rates).
  - **Bank and Broker Communications and Mailings**—Survey the bank and brokerage communities to obtain material requirements and to ensure that they are aware of the Offering. Coordinate the mailing of the Offering materials to them for forwarding to their beneficial owners.
  - **Registered Holder Mailings**—Coordinate the mailing of the Offering materials to registered holders.
  - **Incoming Telephone Calls**—Set up a toll-free telephone number to enable security holders and their advisors to call with questions. Keep a record of all incoming calls and notify the appropriate individual at the Company upon the receipt of calls outside the normal course.
  - **Outgoing Telephone Calls**—As requested by the Company, initiate follow-up calls to a targeted group of security holders in order to maximize participation in the Offering.
  - **Depository Communications**—Initiate and maintain communications with the Company's Depository and the reorganization departments of bank and brokerage firms to monitor the progress of the Offering.
  - **Progress Updates**—Inform the Company of security holder comments and reactions to the Offering, and gauge the expected level of participation in the Offering. Track shifts in the ownership of shares through the use of Depository Trust Company (DTC) listings, and analyze those shifts.
-

**EXHIBIT B**  
**FEE AND SERVICE SCHEDULE**

---



**SCHEDULE A**  
**LIST OF APPROPRIATE OFFICERS**

**WARRANT AGREEMENT**  
**BY AND BETWEEN**  
**HORIZON TECHNOLOGY FINANCE CORPORATION**  
**AND**

[\_\_\_\_\_]

This Warrant Agreement (this "Agreement") is made as of [\_\_\_\_], 20[\_\_\_] between HORIZON TECHNOLOGY FINANCE CORPORATION, a Delaware corporation ("Company"), and [\_\_\_\_], a [\_\_\_\_], ("Warrant Agent").

WHEREAS, the Company is engaged in a public offering ("Public Offering") of warrants (the "Warrants") to public investors, each of such Warrants evidencing the right of the holder thereof to purchase [shares of common stock/shares of preferred stock/debt securities] ("Securities"), for \$[\_\_\_\_], subject to adjustment as described herein; and

WHEREAS, the Company has filed with the Securities and Exchange Commission a Registration Statement on Form N-2, No. 333-[\_\_\_\_] ("Registration Statement"), for the registration, under the Securities Act of 1933, as amended ("Act"), of, among other securities, the Warrants and Securities issuable upon exercise of the Warrants; and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing to so act, in connection with the issuance, registration, transfer, exchange, redemption and exercise of the Warrants; and

WHEREAS, the Company desires to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised and the respective rights, limitation of rights and immunities of the Company, the Warrant Agent and the holders of the Warrants; and

WHEREAS, all acts and things have been done and performed which are necessary to make the Warrants, when executed on behalf of the Company and countersigned by or on behalf of the Warrant Agent, as provided herein, the valid, binding and legal obligations of the Company, and to authorize the execution and delivery of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. Appointment of Warrant Agent. The Company hereby appoints the Warrant Agent to act as agent for the Company for the Warrants, and the Warrant Agent hereby accepts such appointment and agrees to perform the same in accordance with the terms and conditions set forth in this Agreement.

2. Warrants.

2.1. Form of Warrant. Each Warrant shall be issued to its holder in registered form, and each such holder's Warrants shall be represented by a certificate (a "Warrant Certificate") in substantially the form of Exhibit A hereto, the provisions of which are incorporated herein and shall be signed by, or bear the facsimile signature of, the Chairman of the Board, Chief Executive Officer, Treasurer or the Secretary of the Company. In the event the person whose facsimile signature has been placed upon any Warrant Certificate shall have ceased to serve in the capacity in which such person signed the Warrant before such

---

Warrant is issued, it may be issued with the same effect as if he or she had not ceased to hold such office at the date of issuance.

2.2. Effect of Countersignature. Unless and until countersigned by the Warrant Agent pursuant to this Agreement, a Warrant shall be invalid and of no effect and may not be exercised by the holder thereof.

2.3. Registration.

2.3.1. Warrant Register. The Warrant Agent shall maintain books ("Warrant Register"), for the registration of original issuance and the registration of transfer of the Warrants. Upon the initial issuance of the Warrants, the Warrant Agent shall issue and register the Warrants in the names of the respective holders thereof in such denominations and otherwise in accordance with instructions delivered to the Warrant Agent by the Company.

2.3.2. Registered Holder. Prior to due presentment for registration of transfer of any Warrant, the Company and the Warrant Agent may deem and treat the person in whose name such Warrant shall be registered upon the Warrant Register ("registered holder") as the absolute owner of such Warrant and of each Warrant represented thereby (notwithstanding any notation of ownership or other writing on the Warrant Certificate made by anyone other than the Company or the Warrant Agent), for the purpose of any exercise thereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

3. Terms and Exercise of Warrants.

3.1. Warrant Price. Each Warrant shall, when countersigned by the Warrant Agent, entitle the registered holder thereof, subject to the provisions of such Warrant and of this Agreement, to purchase from the Company the number of Securities stated therein, at the price of \$[\_\_\_\_], subject to the adjustments provided in Section 4 hereof and in the last sentence of this Section 3.1 ("Warrant Price") The Company in its sole discretion may lower the Warrant Price at any time prior to the Expiration Date for a period of not less than ten (10) business days.

3.2. Duration of Warrants. A Warrant may be exercised only during the period ("Exercise Period") commencing on [\_\_\_\_], 20[\_\_\_], and terminating at 5:00 p.m., New York City time on the date fixed for redemption of the Warrants as provided in Section 6 of this Agreement ("Expiration Date"). Except with respect to the right to receive the Redemption Price (as set forth in Section 6 hereunder), each Warrant not exercised on or before the Expiration Date shall become void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at the close of business on the Expiration Date. The Company in its sole discretion may extend the duration of the Warrants by delaying the Expiration Date; provided, that the Company shall provide notice to registered holders of the Warrants of any such extension of twenty (20) days or more.

3.3. Exercise of Warrants.

3.3.1. Payment. Subject to the provisions of the Warrant Certificate and this Agreement, a Warrant may be exercised by the registered holder thereof by surrendering the Warrant Certificate, countersigned by the Warrant Agent, at the office of the Warrant Agent, or, if applicable, at the office of its successor as Warrant Agent with the subscription form, as set forth in the Warrant Certificate, duly executed, and by paying in full the Warrant Price for Securities as to which the Warrant is exercised and any and all applicable taxes due in connection with the exercise of the Warrant, the exchange of the Warrant for Securities, and the issuance of Securities, as follows:

a. in cash;

b. by certified or official bank check payable to the order of the Company;

3.3.2. Issuance of Certificates. As soon as practicable after the exercise of any Warrants and the clearance of the funds in payment of the Warrant Price, the Company shall issue to the registered holder of such Warrants in book entry form the number of Securities to which such holder is entitled, registered in such name or names as may be directed by him, her or it, and if the holder of such Warrants shall not have exercised all Warrants held by such holder, a new countersigned Warrant Certificate will be issued for the remaining Warrants. Notwithstanding the foregoing, the Company shall not be obligated to deliver any Securities pursuant to the exercise of a Warrant and shall have no obligation to settle such exercise of a Warrant unless a registration statement under the Act with respect to Securities underlying such Warrant is effective. In the event that a registration statement with respect to Securities underlying such Warrant is not effective under the Act, the holder of such Warrant shall not be entitled to exercise such Warrant and such Warrant may have no value and expire worthless. In no event shall the Company be required to net cash settle the exercise of a Warrant. Warrants may not be exercised by, or Securities issued to, any registered holder in any state in which such exercise would be unlawful.

3.3.3. Valid Issuance. All [equity/debt Securities issued upon the proper exercise of a Warrant in conformity with this Agreement shall be validly issued, fully paid and nonassessable/the valid, binding and legal obligation of the Company enforceable against the Company in accordance with their terms, subject to the effect of any applicable bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers, preferences or similar laws), reorganization, moratorium similar laws or other now and hereafter in effect relating to or affecting enforcement of creditors' rights generally, any fraudulent transfer, preference or similar law, general principles of equity and the discretion of the court or other body before which any proceeding therefor may be brought and the unenforceability under certain circumstances under law or court decisions of provisions providing for the indemnification of, or contribution to, a party with respect to a liability where such indemnification or contribution is contrary to public policy].

3.3.4. Date of Issuance. Each person in whose name any such certificate for Securities is issued shall be deemed for all purposes to have become the holder of record of such Securities on the date on which the Warrant was surrendered and payment of the Warrant Price was made; provided, however, that, if the date of such surrender and payment is a date when the transfer books of the Company are closed, such person shall be deemed to have become the holder of such Securities at the close of business on the next succeeding date on which such transfer books are open.

#### 4. Adjustments.

4.1. Dividends — Split-Ups. If after the date hereof, and subject to the provisions of Section 4.6 below, the number of outstanding Securities is increased by a dividend payable in Securities, by a split of Securities, or by any other similar event, then, on the effective date of such dividend, split-up or similar event, the number of Securities issuable on exercise of each Warrant shall be increased in proportion to such increase in outstanding Securities.

4.2. Aggregation of Securities. If after the date hereof, and subject to the provisions of Section 4.6, the number of outstanding Securities is decreased by a consolidation, combination, reverse split or reclassification of Securities or any other similar event, then, on the effective date of such consolidation, combination, reverse split, reclassification or similar event, the number of Securities

issuable on exercise of each Warrant shall be decreased in proportion to such decrease in outstanding Securities.

4.3. Adjustments in Exercise Price. Whenever the number of Securities purchasable upon the exercise of the Warrants is adjusted, as provided in Section 4.1 and 4.2 above, the Warrant Price shall be adjusted (to the nearest cent) by multiplying such Warrant Price immediately prior to such adjustment by a fraction (x) the numerator of which shall be the number of Securities purchasable upon the exercise of the Warrants immediately prior to such adjustment, and (y) the denominator of which shall be the number of Securities so purchasable immediately thereafter.

4.4. Replacement of Securities upon Reorganization, etc. In case of any reclassification or reorganization of the outstanding Securities (other than a change covered by Section 4.1 or 4.2 hereof or that solely affects the par value, if any, of such Securities), or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and that does not result in any reclassification or reorganization of the outstanding Securities), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Warrant holders shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Warrants and in lieu of Securities immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of Securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the Warrant holder would have received if such Warrant holder had exercised his, her or its Warrant(s) immediately prior to such event; and if any reclassification also results in a change in Securities covered by Section 4.1 or 4.2, then such adjustment shall be made pursuant to Sections 4.1, 4.2, 4.3 and this Section 4.4. The provisions of this Section 4.4 shall similarly apply to successive reclassifications, reorganizations, mergers or consolidations, sales or other transfers.

4.5. Notices of Changes in Warrant. Upon every adjustment of the Warrant Price or the number of Securities issuable upon exercise of a Warrant, the Company shall give written notice thereof to the Warrant Agent, which notice shall state the Warrant Price resulting from such adjustment and the increase or decrease, if any, in the number of Securities purchasable at such price upon the exercise of a Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Upon the occurrence of any event specified in Sections 4.1, 4.2, 4.3 or 4.4, then, in any such event, the Company shall give written notice to each Warrant holder, at the last address set forth for such holder in the Warrant Register, of the record date or the effective date of the event. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

4.6. No Fractional Securities. Notwithstanding any provision contained in this Agreement to the contrary, the Company shall not issue fractional Securities upon exercise of Warrants. If, by reason of any adjustment made pursuant to this Section 4, the holder of any Warrant would be entitled, upon the exercise of such Warrant, to receive a fractional interest in a Security, the Company shall, upon such exercise, round up or down to the nearest whole number the number of Securities to be issued to the Warrant holder.

4.7. Form of Warrant Certificate. The form of Warrant Certificate need not be changed because of any adjustment pursuant to this Section 4, and Warrants issued after such adjustment may state the same Warrant Price and the same number of Securities as is stated in the Warrants initially issued pursuant to this Agreement. However, the Company may at any time in its sole discretion make any change in the form of Warrant Certificate that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant Certificate thereafter issued or countersigned, whether in

exchange or substitution for an outstanding Warrant Certificate or otherwise, may be in the form as so changed.

5. Transfer and Exchange of Warrants.

5.1. Registration of Transfer. The Warrant Agent shall register the transfer, from time to time, of any outstanding Warrant upon the Warrant Register, upon surrender of the Warrant Certificate representing such Warrant, for transfer, properly endorsed with signatures properly guaranteed and accompanied by appropriate instructions for transfer. Upon any such transfer, a new Warrant Certificate representing an equal aggregate number of Warrants shall be issued and the old Warrant Certificate shall be cancelled by the Warrant Agent. The Warrants so cancelled shall be delivered by the Warrant Agent to the Company from time to time upon request.

5.2. Procedure for Surrender of Warrant Certificates. Warrant Certificates may be surrendered to the Warrant Agent, together with a written request for exchange or transfer, and thereupon the Warrant Agent shall issue in exchange therefor one or more new Warrant Certificates as requested by the registered holder of the Warrants so surrendered, representing an equal aggregate number of Warrants represented by such Warrant Certificate; provided, however, that in the event that a Warrant Certificate surrendered for transfer bears a restrictive legend, the Warrant Agent shall not cancel such Warrant Certificate and issue new Warrant Certificate(s) in exchange therefor until the Warrant Agent has received an opinion of counsel for the Company stating that such transfer may be made and indicating whether the new Warrant Certificate(s) must also bear a restrictive legend.

5.3. Fractional Warrants. The Warrant Agent shall not be required to effect any registration of transfer or exchange which would result in the issuance of a warrant certificate for a fraction of a Warrant.

5.4. Service Charges. No service charge shall be made for any registration of transfer or exchange of Warrants.

5.5. Warrant Execution and Countersignature. The Warrant Agent is hereby authorized to countersign and to deliver, in accordance with the terms of this Agreement, the Warrant Certificates required to be issued pursuant to the provisions of this Section 5, and the Company, whenever required by the Warrant Agent, shall supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purpose.

6. Redemption.

6.1. Redemption. Not less than all of the outstanding Warrants may be redeemed, at the option of the Company, at any time while they are exercisable and prior to their expiration, at the office of the Warrant Agent, upon the notice referred to in Section 6.2, at the price of \$0.001 per Warrant ("Redemption Price"), provided that [describe redemption criteria].

6.2. Date Fixed for, and Notice of, Redemption. In the event the Company shall elect to redeem all of the Warrants, the Company shall fix a date for the redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, by the Company not less than thirty (30) days prior to the date fixed for redemption to the registered holders of the Warrants to be redeemed at their last addresses as they shall appear on the Warrant Register. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the registered holder received such notice.

6.3. Exercise After Notice of Redemption. The Warrants may be exercised in accordance with Section 3.3.1 of this Agreement at any time after notice of redemption shall have been given by the Company pursuant to Section 6.2 hereof and prior to the time and date fixed for redemption. On and after the redemption date, the record holder of the Warrants shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

7. Other Provisions Relating to Rights of Warrant Holders.

7.1. No Rights as Stockholder or Debt Holder. A Warrant does not entitle the registered holder thereof to any of the rights of a stockholder or debt holder of the Company, including, without limitation, the right to receive dividends, or other distributions, exercise any preemptive rights to vote or to consent or to receive notice as stockholders in respect of the meetings of stockholders or the election of directors of the Company or any other matter.

7.2. Lost, Stolen, Mutilated or Destroyed Warrants. If any Warrant Certificate is lost, stolen, mutilated or destroyed, the Company and the Warrant Agent may on such terms as to indemnity or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant Certificate of like denomination, tenor and date as the Warrant Certificate so lost, stolen, mutilated or destroyed. Any such new Warrant Certificate shall constitute a substitute contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant Certificate shall be at any time enforceable by anyone.

7.3. Reservation of Securities. The Company shall at all times reserve and keep available a number of its authorized but unissued Securities that will be sufficient to permit the exercise in full of all outstanding Warrants issued pursuant to this Agreement.

8. Concerning the Warrant Agent and Other Matters.

8.1. Payment of Taxes. The Company shall from time to time promptly pay all taxes and charges that may be imposed upon the Company or the Warrant Agent in respect of the issuance or delivery of Securities upon the exercise of Warrants, but the Company shall not be obligated to pay any transfer taxes in respect of the Warrants or such Securities.

8.2. Resignation, Consolidation or Merger of Warrant Agent.

8.2.1. Appointment of Successor Warrant Agent. The Warrant Agent, or any successor to it hereafter appointed, may resign its duties and be discharged from all further duties and liabilities hereunder after giving sixty (60) days' notice in writing to the Company. If the office of the Warrant Agent becomes vacant by resignation or incapacity to act or otherwise, the Company shall appoint in writing a successor Warrant Agent in place of the Warrant Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after it has been notified in writing of such resignation or incapacity by the Warrant Agent or by the holder of the Warrant (who shall, with such notice, submit his Warrant for inspection by the Company), then the holder of any Warrant may apply to the [Supreme Court of the State of New York for the County of New York] for the appointment of a successor Warrant Agent at the Company's cost. Any successor Warrant Agent, whether appointed by the Company or by such court, shall be a corporation organized and existing under the laws of the State of [New York], in good standing and having its principal office in the [Borough of Manhattan, The City and State of New York], and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. After appointment, any successor Warrant Agent shall be vested with all the authority, powers, rights, immunities, duties and obligations of its predecessor Warrant

Agent with like effect as if originally named as Warrant Agent hereunder, without any further act or deed. If for any reason it becomes necessary or appropriate, the predecessor Warrant Agent shall execute and deliver, at the expense of the Company, an instrument transferring to such successor Warrant Agent all the authority, powers and rights of such predecessor Warrant Agent hereunder; and upon request of any successor Warrant Agent, the Company shall make, execute, acknowledge and deliver any and all instruments in writing for more fully and effectually vesting in and confirming to such successor Warrant Agent all such authority, powers, rights, immunities, duties and obligations.

8.2.2. Notice of Successor Warrant Agent. In the event a successor Warrant Agent shall be appointed, the Company shall give notice thereof to the predecessor Warrant Agent and the transfer agent for the Securities not later than the effective date of any such appointment.

8.2.3. Merger or Consolidation of Warrant Agent. Any corporation into which the Warrant Agent may be merged or with which it may be consolidated or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party shall be the successor Warrant Agent under this Agreement without any further act.

#### 8.3. Fees and Expenses of Warrant Agent.

8.3.1. Remuneration. The Company agrees to pay the Warrant Agent reasonable remuneration for its services as such Warrant Agent hereunder and shall reimburse the Warrant Agent upon demand for all expenditures that the Warrant Agent may reasonably incur in the execution of its duties hereunder.

8.3.2. Further Assurances. The Company agrees to perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing of the provisions of this Agreement.

#### 8.4. Liability of Warrant Agent.

8.4.1. Reliance on Company Statement. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement signed by the Chief Executive Officer, Chief Financial Officer or Chairman of the Board of the Company and delivered to the Warrant Agent. The Warrant Agent may rely upon such statement for any action taken or suffered in good faith by it pursuant to the provisions of this Agreement.

8.4.2. Indemnity. The Warrant Agent shall be liable hereunder only for its own negligence, willful misconduct or bad faith. The Company agrees to indemnify the Warrant Agent and save it harmless against any and all liabilities, including judgments, costs and reasonable counsel fees, for anything done or omitted by the Warrant Agent in the execution of this Agreement except as a result of the Warrant Agent's negligence, willful misconduct or bad faith.

8.4.3. Exclusions. The Warrant Agent shall have no responsibility with respect to the validity of this Agreement or with respect to the validity or execution of any Warrant (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant; nor shall it be responsible to make any adjustments required under the provisions of Section 4 hereof or responsible for the manner, method or



amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Securities to be issued pursuant to this Agreement or any Warrant or as to whether any Securities will when issued be [valid, fully paid and nonassessable/the valid, binding and legal obligation of the Company enforceable against the Company in accordance with their terms, subject to the effect of any applicable bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers, preferences or similar laws), reorganization, moratorium similar laws or other now and hereafter in effect relating to or affecting enforcement of creditors' rights generally, any fraudulent transfer, preference or similar law, general principles of equity and the discretion of the court or other body before which any proceeding therefor may be brought and the unenforceability under certain circumstances under law or court decisions of provisions providing for the indemnification of, or contribution to, a party with respect to a liability where such indemnification or contribution is contrary to public policy].

8.5. Acceptance of Agency. The Warrant Agent hereby accepts the agency established by this Agreement and agrees to perform the same upon the terms and conditions herein set forth and, among other things, shall account promptly to the Company with respect to Warrants exercised and concurrently account for, and pay to the Company, all moneys received by the Warrant Agent for the purchase of Securities through the exercise of Warrants.

#### 9. Miscellaneous Provisions.

9.1. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns.

9.2. Notices. Any notice, statement or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant to or on the Company shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five (5) days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:

Horizon Technology Finance Corporation  
312 Farmington Avenue  
Farmington, Connecticut 06032  
Attn: Chief Financial Officer

with a copy (which shall not constitute notice) to:

Squire, Sanders & Dempsey (US) LLP  
221 East Fourth Street, Suite 2900  
Cincinnati, Ohio 45202  
Attn: Stephen C. Mahon

Any notice, statement or demand authorized by this Agreement to be given or made by the holder of any Warrant or by the Company to or on the Warrant Agent shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five (5) days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company), as follows:

[WARRANT AGENT]

[  
\_\_\_\_\_]  
\_\_\_\_\_]

with a copy (which shall not constitute notice) to:

[WARRANT AGENT'S COUNSEL]

[  
\_\_\_\_\_]  
\_\_\_\_\_]

9.3. Applicable Law. The validity, interpretation, and performance of this Agreement and of the Warrants shall be governed in all respects by the laws of the State of New York. The Company hereby agrees that any action, proceeding or claim against it arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. The Company hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum. Any such process or summons to be served upon the Company may be served by transmitting a copy thereof by registered or certified mail, return receipt requested, postage prepaid, addressed to it at the address set forth in Section 9.2 hereof. Such mailing shall be deemed personal service and shall be legal and binding upon the Company in any action, proceeding or claim.

9.4. Persons Having Rights under this Agreement. Nothing in this Agreement expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the parties hereto and the registered holders of the Warrants, any right, remedy, or claim under or by reason of this Agreement or of any covenant, condition, stipulation, promise or agreement hereof. All covenants, conditions, stipulations, promises and agreements contained in this Agreement shall be for the sole and exclusive benefit of the parties hereto and their successors and assigns and of the registered holders of the Warrants.

9.5. Examination of this Agreement. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent in the Borough of Manhattan, The City and State of New York, for inspection by the registered holder of any Warrant. The Warrant Agent may require any such holder to submit his Warrant for inspection by it.

9.6. Counterparts. This Agreement may be executed in any number of original or facsimile counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

9.7. Effect of Headings. The Section headings herein are for convenience only and are not part of this Agreement and shall not affect the interpretation thereof.

9.8. Amendments. This Agreement may be amended by the parties hereto without the consent of any registered holder for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein or adding or changing any other provisions with respect to matters or questions arising under this Agreement as the parties may deem necessary or desirable and that the parties deem shall not to materially and adversely affect the interest of the registered holders. All other modifications or amendments, including any amendment to increase the Warrant Price or shorten the Exercise Period, shall require the written consent of the registered holders of a majority of the then outstanding Warrants. Notwithstanding the foregoing, the Company may lower the

Warrant Price or extend the duration of the Exercise Period pursuant to Sections 3.1 and 3.2, respectively, without the consent of the registered holders.

9.9. This Agreement does not constitute an agreement for a partnership or joint venture among the parties. The Warrant Agent shall act hereunder as agent of the Company solely to the limited extent set forth in this Agreement, but shall not assume any fiduciary duties to, or have any rights, power or authority on behalf of, the Company or any of its affiliates, equity holders or creditors or of any other person or entity not expressly set forth in this Agreement. Any duties of the Warrant Agent arising out of its engagements pursuant to this Agreement shall be owed solely to the Company. No party shall make any commitments with third parties that are binding on any other party without such other party's prior written consent, and none of the Warrant Agent, employees, or representatives or contractors of the Warrant Agent shall be deemed to be employees of the Company or any of its affiliates.

9.10. Except as explicitly stated elsewhere in this Agreement, nothing under this Agreement is intended or shall be construed to give any rights, benefits, remedies or claims under or by reason of this Agreement or any part thereof to anyone other than the Warrant Agent and the Company, and the duties and responsibilities undertaken pursuant to this Agreement shall be for the sole and exclusive benefit of the Warrant Agent and the Company.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first-above written.

HORIZON TECHNOLOGY FINANCE CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

[WARRANT AGENT]

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT A**  
**Form of Warrant Certificate**

A-1

---

THE WARRANTS REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN  
RESTRICTIONS ON TRANSFER DESCRIBED BELOW

[Form of Face of Warrant Certificate]

No. W-[ ]

[ ] Warrants

VOID AFTER 5:00 p.m. NEW YORK CITY TIME on [ ], 20[ ]

WARRANT CERTIFICATE FOR PURCHASE OF [SECURITIES] OF

HORIZON TECHNOLOGY FINANCE CORPORATION

THIS CERTIFIES THAT, for value received, [ ] or registered assigns (the "Registered Holder") is the owner of the number of warrants (the "Warrants") specified above. Each Warrant initially entitles the Registered Holder to purchase, subject to the terms and conditions set forth in this certificate (this "Warrant Certificate") and the Warrant Agreement (as hereinafter defined), [shares of common stock/shares of preferred stock/debt securities] ("Securities"), of HORIZON TECHNOLOGY FINANCE CORPORATION, a Delaware corporation (the "Company"), at any time during the Exercise Period (as hereinafter defined), upon the presentation and surrender of this Warrant Certificate with the Subscription Form on the reverse hereof duly executed, at the corporate office of as Warrant Agent, or its successor (the "Warrant Agent"), accompanied by payment of \$[ ] (the "Purchase Price") in lawful money of the United States of America in cash or by official bank or certified check made payable to the Company.

This Warrant Certificate and each Warrant represented hereby are issued pursuant to and are subject in all respects to the terms and conditions set forth in the Warrant Agreement (the "Warrant Agreement") dated [ ], 20[ ] by and between the Company and the Warrant Agent. The board of directors of the Company retains the right to amend the Warrant Agreement in its discretion, subject to certain restrictions set forth in the Warrant Agreement.

In the event of certain contingencies provided for in the Warrant Agreement, the Purchase Price or the number of Securities subject to purchase upon the exercise of each Warrant represented hereby are subject to modifications or adjustment.

Each Warrant represented hereby is exercisable at the option of the Registered Holder, but no fractional Securities will be issued. However, if the Registered Holder exercises all the Warrants then owned by the Registered Holder, the Company shall pay to such Registered Holder in lieu of the issuance of any fractional Securities otherwise payable, an amount in cash based on the market value of the Securities on the last trading day prior to the date of exercise of the Warrants. In the case of the exercise of less than all the Warrants represented hereby, the Company shall cancel this Warrant Certificate upon the surrender hereof and shall execute and deliver a new Warrant Certificate or Warrant Certificates of like tenor, which the Warrant Agent shall countersign, for the balance of such Warrants.

The term "Exercise Period" shall mean the period commencing on [ ], 20[ ], and terminating at 5:00 p.m., New York City time on the date fixed for redemption of the Warrants as provided in Section 6 of the Warrant Agreement.

The Company shall not be obligated to deliver any Securities pursuant to the exercise of this Warrant Certificate unless a registration statement under the Securities Act of 1933, as amended, with

respect to such securities is then effective. This Warrant Certificate shall not be exercisable by a Registered Holder in any state where such exercise would be unlawful.

This Warrant Certificate is exchangeable, upon the surrender hereof by the Registered Holder at the corporate office of the Warrant Agent, for a new Warrant Certificate or Warrant Certificates of like tenor representing an equal aggregate number of Warrants, each of such new Warrant Certificates to represent such number of Warrants as shall be designated by such Registered Holder at the time of such surrender.

Prior to due presentment for registration of transfer of any Warrant represented hereby, the Registered Holder shall not be entitled to any rights of a stockholder or debt holder of the Company, including, without limitation, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided in the Warrant Agreement.

Prior to due presentment for registration of transfer of any Warrant, the Company and the Warrant Agent may deem and treat the Registered Holder as the absolute owner of this Warrant Certificate and of each Warrant represented hereby (notwithstanding any notations of ownership or writing hereon made by anyone other than a duly authorized officer of the Company or the Warrant Agent), for the purpose of any exercise thereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

This Warrant Certificate shall be governed by and construed in accordance with the laws of the State of New York.

This Warrant Certificate is not valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed, manually or in facsimile by its officer thereunto duly authorized and a facsimile of its corporate seal to be imprinted hereon.

HORIZON TECHNOLOGY FINANCE  
CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_

[Seal]

COUNTERSIGNED:

[\_\_\_\_\_]

By: \_\_\_\_\_  
Name:  
Title:

**[Form of Reverse of Warrant Certificate]**

**NOTICE OF ELECTION TO EXERCISE**

**To Be Executed by the Registered Holder  
in Order to Exercise Warrants**

THE UNDERSIGNED REGISTERED HOLDER hereby irrevocably elects to exercise [ ] Warrants represented by this Warrant Certificate, and to purchase Securities issuable upon the exercise of such Warrants, and requests that certificates for such Securities shall be issued in the name of [insert name and social security number/other identifying number] and be deliverable to:

[ ]

[ ]

[ ]

and if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below.

The undersigned represents that the exercise of the Warrants evidenced hereby was solicited by a member of the Financial Industry Regulatory Authority ("FINRA"). If not solicited by a FINRA member, please write "unsolicited" in the space below. Unless otherwise indicated by listing the name of another FINRA member firm, it will be assumed that the exercise was solicited by [ ].

[ ]

(Name of FINRA Member)

[ ]

[ ]

Dated: [ ]

[ ]

(Address)

[ ]

(Taxpayer Identification Number)

[ ]

(Signature Guaranteed)

**ASSIGNMENT**

**To Be Executed by the Registered Holder in Order to Assign Warrants**

For value received (and, for any transfers prior to 5:00 p.m. New York City time) on [ ], 20[ ], [ ] hereby sells, assigns, and transfers unto:

[insert name and social security/other identifying number]

[ ]

[ ]

of the Warrants represented by this Warrant Certificate, and hereby irrevocably constitutes and appoints the Warrant Agent to transfer this Warrant Certificate on the books of the Company, with full power and substitution in the premises.

Dated:[\_\_\_\_], 20[\_\_]

\_\_\_\_\_  
Signature Guaranteed

THE SIGNATURE TO THE ASSIGNMENT OR SUBSCRIPTION FORM MUST CORRESPOND TO THE NAME AS WRITTEN UPON THE FACE OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER, AND MUST BE GUARANTEED BY AN ELIGIBLE INSTITUTION (AS DEFINED IN RULE 17ad-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934) WHICH MAY INCLUDE A COMMERCIAL BANK OR TRUST COMPANY, SAVINGS ASSOCIATION, CREDIT UNION OR A MEMBER FIRM OF THE AMERICAN STOCK EXCHANGE, NEW YORK STOCK EXCHANGE, PACIFIC STOCK EXCHANGE OR MIDWEST STOCK EXCHANGE.



**HORIZON TECHNOLOGY FINANCE CORPORATION**  
(a Delaware corporation)

- Shares of Common Stock (Par Value \$0.001 Per Share)
- Shares of Preferred Stock (Par Value \$0.001 Per Share)
- Warrants to Purchase Common Stock or Preferred Stock

**PURCHASE AGREEMENT**

[Name of Underwriters]

[Address]

Ladies and Gentlemen:

Horizon Technology Finance Corporation, a Delaware corporation (the "Company"), confirms its agreement with the Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom [ ] are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$0.001 per share ("Common Stock"), or Preferred Stock, par value \$0.001 per share ("Preferred Stock"), or both, or Warrants (the "Warrants") to purchase Common Stock or Preferred Stock, or both, of the Company set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase additional Securities (as hereinafter defined) to cover overallocments, if any. The stockholders of the Company named in Schedule B hereto (each a "Selling Stockholder" and collectively, the "Selling Stockholders") confirm their agreement with the Underwriters with respect to the sale by the Selling Stockholders and the purchase by the Underwriters, acting severally and not jointly, of an aggregate [ ] shares of Common Stock, and with respect to the grant by the Selling Stockholders to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase additional shares of Common Stock to cover overallocments, if any. The Preferred Stock may be offered in the form of depositary shares (the "Depositary Shares") represented by depositary receipts (the "Depositary Receipts"). The Warrants will be issued under one or more warrant agreements (the warrant agreement relating to any issue of Warrants to be sold pursuant to this Agreement is referred to herein as the "Warrant Agreement") between the Company and the Warrant Agent identified in such Warrant Agreement (the "Warrant Agent"). The Common Stock and, if applicable, the Preferred Stock or the Warrants, together, if applicable, with the Depositary Shares and the Depositary Receipts are hereinafter referred to as the "Securities". The aforesaid Securities (the "Initial Securities") to be purchased by the Underwriters and all or any part of the Securities subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Underwritten Securities"; and "Warrant Securities" shall mean the Common Stock or Preferred Stock issuable upon exercise of Warrants. The Common Stock, Preferred Stock and Warrants may be offered either together or separately. Each issue of Preferred Stock may vary, as applicable, as to the specific number of shares, title, issuance price, any redemption or sinking fund requirements, any conversion provisions and any other variable terms as set forth in the applicable certificate of designation (each, a "Certificate of Designation") relating to such Preferred Stock. Each issue of Warrants may vary, as applicable, as to the title, specific number of shares of Common Stock or Preferred Stock receivable upon exercise, issuance price, exercise dates, exercise conditions and any other variable terms as set forth in the applicable Warrant Agreement relating to such Warrants.

The Company and the Selling Stockholders understand that the Underwriters propose to make a public offering of the Underwritten Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a shelf registration statement on Form N-2 (File No. 333-•) covering the registration of the Underwritten Securities and certain of the Company's other securities under the Securities Act of 1933, as amended (the "1933 Act"), which registration statement has been declared effective by the Commission. The Company has also filed with the Commission a preliminary prospectus supplement, dated •, which contains a base prospectus, dated • (collectively,

the “preliminary prospectus”). Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430A (“Rule 430A”) of the rules and regulations of the Commission under the 1933 Act (the “1933 Act Regulations”) and Rule 497 (“Rule 497”) of the 1933 Act Regulations. The information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement pursuant to Rule 430A is referred to as “Rule 430A Information.” Unless the context otherwise requires, such registration statement, including all documents filed as a part thereof, and including any Rule 430A Information contained in a prospectus subsequently filed with the Commission pursuant to Rule 497 under the 1933 Act and deemed to be part of the registration statement and also including any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations (the “Rule 462(b) Registration Statement”), is herein called the “Registration Statement.” The final prospectus in the form filed by the Company with the Commission pursuant to Rule 497 under the 1933 Act on or before the second business day after the date hereof (or such earlier time as may be required under the 1933 Act), which will include the base prospectus, dated •, together with a final prospectus supplement, is herein called the “Prospectus.” For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system (“EDGAR”).

A Form N-54A Notification of Election to be Subject to Sections 55 through 65 of the Investment Company Act of 1940 filed Pursuant to Section 54(a) of the Investment Company Act (File No. 814-00802) (the “Notification of Election”) was filed with the Commission on October 28, 2010 under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (collectively, the “1940 Act”).

The Company has entered into an Investment Management Agreement, dated as of October 28, 2010 (the “Investment Management Agreement”), with Horizon Technology Finance Management LLC, a Delaware limited liability company registered as an investment adviser (the “Adviser”) under the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder (collectively, the “Advisers Act”).

The Company has entered into an Administration Agreement, dated as of October 28, 2010 (the “Administration Agreement”), with Horizon Technology Finance Management LLC, a Delaware limited liability company (the “Administrator”).

#### SECTION 1. Representations and Warranties.

(a) *Representations and Warranties by the Company.* The Company, the Adviser and the Administrator, jointly and severally, represent and warrant to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 1(a)(i) hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) Compliance with Registration Requirements. The Company is eligible to use Form N-2. The Registration Statement (as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, the Rule 462(b) Registration Statement, if any, and any post-effective amendments thereto became effective, at the Applicable Time and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement complied and will comply in all material respects with the requirements of the 1933 Act, the 1933 Act Regulations and the 1940 Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued, and at the Closing Time (and, if any Option Securities are purchased, at the

Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Prospectus, each preliminary prospectus and the prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto complied when so filed in all material respects with the 1933 Act, the 1933 Act Regulations and the 1940 Act except for any corrections to any preliminary prospectus that are made in the Prospectus and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

As of the Applicable Time, the preliminary prospectus supplement, dated •, together with the base prospectus, dated •, as filed with the Commission on •, and the information included on Schedule B hereto (which information the Representatives have informed the Company is being conveyed orally by the Underwriters to prospective purchasers at or prior to the Underwriters' confirmation of sales of Underwritten Securities in the offering), all considered together (collectively, the "General Disclosure Package"), did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As used in this subsection and elsewhere in this Agreement, "Applicable Time" means • [a.m.][p.m.] (Eastern Time) on • or such other time as agreed by the Company and the Representatives.

The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, Prospectus or General Disclosure Package made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package.

(ii) Independent Accountants. The accountants who certified the financial statements included in the Registration Statement are independent public accountants as required by the 1933 Act, the 1933 Act Regulations and the Securities Exchange Act of 1934, as amended (the "1934 Act").

(iii) Financial Statements. The financial statements included in the Registration Statement, the General Disclosure Package and the Prospectus, together with the related schedules and notes, present fairly in all material respects the financial position of the Company and its consolidated subsidiaries at the dates indicated and the consolidated statement of operations, consolidated statement of net assets and consolidated statement of cash flows of the Company and its consolidated subsidiaries for the periods specified; there are no financial statements that are required to be included in the Registration Statement, the General Disclosure Package or the Prospectus that are not included as required; said financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") applied on a consistent basis throughout the periods involved. The "Selected Consolidated Financial and Other Data" included in the Registration Statement, the General Disclosure Package and the Prospectus present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement, the General Disclosure Package and the Prospectus. The financial data set forth in the General Disclosure Package and in the Prospectus under the caption "Capitalization" fairly present the information set forth therein on a basis consistent with that of the audited financial statements and related notes thereto contained in the Registration Statement. [The pro forma financial information with respect to the Company included under the captions "Unaudited Selected Pro Forma Condensed Consolidated Financial Data," "Unaudited Pro Forma Per Share Data" and "Unaudited Pro Forma Condensed Consolidated Financial Statements" and elsewhere in the Registration Statement, the General Disclosure Package and the Prospectus present fairly in all material respects the information contained therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly presented on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein. There is no other pro forma financial information that is required to be included in the Registration Statement, the General Disclosure Package and the Prospectus that is not included as required.]

(iv) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package and the Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a “Material Adverse Effect”), (B) there have been no transactions entered into by the Company or its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement, the General Disclosure Package and the Prospectus and to enter into and perform its obligations under this Agreement, the Investment Management Agreement and the Administration Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect.

(vi) Subsidiaries. The Company’s only subsidiaries are Compass Horizon Funding Company LLC, a Delaware limited liability company, Horizon Credit I LLC, a Delaware limited liability company, Horizon Credit II LLC, a Delaware limited liability company, Longview SBIC GP LLC, a Delaware limited liability company and Longview SBIC LP, a Delaware limited partnership (each, a “Subsidiary” and collectively, the “Subsidiaries”). Each of the Subsidiaries has been duly organized and is validly existing as a corporation, limited liability company or limited partnership in good standing under the laws of the jurisdiction of its organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation, limited liability company or limited partnership to transact business and is in good standing in each jurisdiction in which such qualification is required, except where the failure to be so qualified or to be in good standing would not reasonably be expected to result in a Material Adverse Effect; except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and nonassessable and is owned directly or indirectly by the Company free and clear of any security interest, mortgage, pledge, lien encumbrance, claim or equity; none of the outstanding shares of capital stock of any of the Subsidiaries was issued in violation of the preemptive or other similar rights of any securityholder of such Subsidiary. Except (A) as set forth in the Registration Statement, the General Disclosure Package and the Prospectus and (B) portfolio investments made after •, the Company does not own, directly or indirectly, any shares of stock or any other equity or debt securities of any corporation or have any equity or debt interest in any firm, partnership, joint venture, association or other entity that is not a Subsidiary.

(vii) Capitalization. The authorized, issued and outstanding capital stock of the Company is as set forth in the General Disclosure Package and the Prospectus in the column entitled “Actual” under the caption “Capitalization” (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company’s Dividend Reinvestment Plan referred to in the Registration Statement, the General Disclosure Package or in the Prospectus or pursuant to the exercise of convertible securities or options, if any, referred to in the Registration Statement, the General Disclosure Package or the Prospectus). The shares of issued and outstanding capital stock of the Company (including the shares of Common Stock held by the Selling Stockholders) have been duly authorized and validly issued and are fully paid and nonassessable; none of the outstanding shares of capital stock of the Company was issued in violation of preemptive or other similar rights of any securityholder of the Company.

(viii) Authorization of Agreements.

(A) This Agreement, the Investment Management Agreement and the Administration Agreement have each been duly authorized, executed and delivered by the Company. The Investment Management Agreement and the Administration Agreement are valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors’ rights generally, including without limitation all laws relating to fraudulent transfers; (ii)

general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(B) If applicable, the Warrant Agreement will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Warrants and, when executed and delivered by the Warrant Agent, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(C) If applicable, the Deposit Agreement (as defined below) will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Underwritten Securities and, when executed by the Depositary (as defined below), and will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(ix) Authorization and Description of Underwritten Securities.

(A) The Underwritten Securities being sold pursuant to this Agreement, if applicable, the Warrant Securities issuable upon exercise of the Warrants and, if applicable, the deposit of the Preferred Stock comprising part or all of the Underwritten Securities by or on behalf of the Company in accordance with the provisions of a deposit agreement (each, a "Deposit Agreement"), among the Company, the financial institution named in the Deposit Agreement (the "Depositary") and the holders of the Depositary Receipts issued thereunder, have been duly authorized by the Company, and such Underwritten Securities have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, if applicable, the Warrant Agreement (or will have been so authorized prior to each issuance of Underwritten Securities) and, when issued and delivered by the Company pursuant to this Agreement and, if applicable, the Warrant Agreement against payment of the consideration set forth in this Agreement and, if applicable, the Warrant Agreement, will be validly issued and fully paid and nonassessable; the Warrant Securities are enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy; the Underwritten Securities being sold pursuant to this Agreement and, if applicable, the Warrant Securities issuable upon exercise of the Warrants and the Depositary Receipts, conform in all material respects to the statements relating thereto contained in the Prospectus; and the issuance of the Underwritten Securities is not subject to preemptive or other similar rights of any securityholder of the Company.

(B) If the Underwritten Securities are Common Stock (including the shares of Common Stock to be sold by the Selling Stockholders) or Preferred Stock convertible into Common Stock, the shares of issued and outstanding capital stock have been duly authorized and validly issued and are fully paid and nonassessable and such capital stock conforms in all material respects as to legal matters to the description thereof in the Prospectus.

(C) If applicable, the shares of Common Stock issuable upon conversion of any issue of the Preferred Stock will have been duly authorized and reserved for issuance upon such conversion by all necessary

corporate action and, when issued upon such conversion, will be validly issued, fully paid and nonassessable, and the issuance of such shares upon such conversion will not be subject to preemptive rights.

(D) If applicable, the Warrant Securities issuable upon exercise of the Warrants will have been duly authorized and reserved for issuance upon such exercise by all necessary corporate action and, when issued upon such exercise, will be validly issued, fully paid and nonassessable, and the issuance of such shares upon such exercise will not be subject to preemptive rights.

(E) If applicable, upon execution and delivery thereof pursuant to the terms of the Deposit Agreement, the persons in whose names the Depositary Receipts are registered will be entitled to the rights specified therein and in the Deposit Agreement, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(x) Absence of Defaults and Conflicts. Neither the Company nor any of the Subsidiaries is in violation of its certificate of incorporation, bylaws or other organizational documents. Further, neither the Company nor any of the Subsidiaries is in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them may be bound, or to which any of the property or assets of the Company or any of the Subsidiaries is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement, the Deposit Agreement, the Warrant Agreement, if applicable, the Investment Management Agreement and the Administration Agreement and the consummation of the transactions contemplated herein and therein and in the Registration Statement and General Disclosure Package (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Company with its obligations hereunder and thereunder do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to, the Agreements and Instruments, except for such conflicts, breaches, defaults or Repayment Events that would not result in a Material Adverse Effect, nor will such action result in any violation of the provisions of the certificate of incorporation, bylaws or other organizational documents of the Company or any of the Subsidiaries or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any of the Subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of the Subsidiaries.

(xi) Absence of Proceedings. Other than as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, there is no action, suit or proceeding or, to the knowledge of the Company, inquiry or investigation, before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company or any of the Subsidiaries, which is required to be disclosed in the Registration Statement, or which would result in a Material Adverse Effect, or which would materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, the Deposit Agreement, the Warrant Agreement, if applicable, the Investment Management Agreement or the Administration Agreement or the performance by the Company of its obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company or any of the Subsidiaries is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, the General Disclosure Package and the Prospectus, including ordinary routine litigation incidental to the business, would not result in a Material Adverse Effect.

(xii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits thereto which have not been so described and filed as required.

(xiii) Possession of Intellectual Property. The Company and the Subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them or proposed to be operated by them immediately following the offering of the Underwritten Securities as described in the Prospectus, except where the failure to own or possess or otherwise be able to acquire such rights in a timely manner would not otherwise reasonably be expected to result in a Material Adverse Effect, and neither the Company nor any of the Subsidiaries has received any notice of or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of the Subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in a Material Adverse Effect.

(xiv) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Underwritten Securities hereunder or the consummation of the transactions contemplated by this Agreement, the Deposit Agreement, the Warrant Agreement, if applicable, the Investment Management Agreement, the Administration Agreement or the Prospectus (including the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption "Use of Proceeds"), except (A) such as have been already obtained under the 1933 Act, the 1933 Act Regulations or the 1940 Act, (B) such as may be required under state securities laws, and (C) the filing of the Notification of Election under the 1940 Act, which has been effected.

(xv) Absence of Manipulation. Neither the Company nor to its knowledge any affiliate of the Company has taken, nor will the Company or any affiliate take, directly or indirectly, any action which is designed to or which has constituted or which would be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Underwritten Securities in violation of any law, statute, regulation or rule applicable to the Company or its affiliates.

(xvi) Possession of Licenses and Permits. The Company and the Subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them or proposed to be operated by them immediately following the offering of the Underwritten Securities as described in the Registration Statement, the General Disclosure Package and the Prospectus, except where the failure so to possess would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; the Company and the Subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; and neither the Company nor any of the Subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect.

(xvii) Investment Company Act. The Company is not required, and upon the issuance and sale of the Underwritten Securities as herein contemplated and the application of the net proceeds therefrom as described in the Registration Statement, the General Disclosure Package and the Prospectus will not be required, to register as a "registered management investment company" under the 1940 Act.

(xviii) Registration Rights. Other than as disclosed in the Registration Statement, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xix) Related Party Transactions. There are no business relationships or related party transactions involving the Company, any of the Subsidiaries or any other person required to be described in the Prospectus which have not been described as required.

(xx) Notification of Election. When the Notification of Election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the 1940 Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(xxi) Investment Management Agreement. (A) The terms of the Investment Management Agreement, including compensation terms, comply in all material respects with all applicable provisions of the 1940 Act and the Advisers Act and (B) the approvals by the board of directors and the stockholders of the Company of the Investment Management Agreement have been made in accordance with the requirements of Section 15 of the 1940 Act applicable to companies that have elected to be regulated as business development companies under the 1940 Act.

(xxii) Interested Persons. Except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus (A) no person is serving or acting as an officer, director or investment adviser of the Company, except in accordance with the provisions of the 1940 Act and the Advisers Act, and (B) to the knowledge of the Company, no director of the Company is an “interested person” (as defined in the 1940 Act) of the Company or an “affiliated person” (as defined in the 1940 Act) of any of the Underwriters.

(xxiii) Business Development Company. (A) The Company has duly elected to be treated by the Commission under the 1940 Act as a business development company, such election is effective and all required action has been taken by the Company under the 1933 Act and the 1940 Act to make the public offering and consummate the sale of the Underwritten Securities as provided in this Agreement; (B) the provisions of the certificate of incorporation and bylaws of the Company, and the investment objectives, policies and restrictions described in the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the 1940 Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the 1940 Act applicable to business development companies.

(xxiv) Absence of Labor Dispute. As of the date hereof, the Company and its Subsidiaries do not have, and on the Closing Date the Company and its Subsidiaries will not have, any employees. To the knowledge of the Company, no labor dispute with the employees of the Adviser or the Administrator exists or is imminent.

(xxv) No Extension of Credit. The Company has not, directly or indirectly, extended credit, arranged to extend credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer of the Company or any of the Subsidiaries, or to or for any family member or affiliate of any director or executive officer of the Company or any of the Subsidiaries.

(xxvi) Accounting Controls. The Company has established and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management’s authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management’s authorization; and (D) the recorded accountability for inventory assets is compared with the existing inventory assets at reasonable intervals and appropriate action is taken with respect to any differences, except, in each of the foregoing cases, where the failure to establish and maintain such controls would not result in a Material Adverse Effect.



(xxvii) Disclosure Controls. The Company has established and employs disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, as appropriate to allow timely decisions regarding disclosure, except, in each of the foregoing cases, where the failure to establish and maintain such controls and procedures would not result in a Material Adverse Effect.

(xxviii) Tax Returns. The Company and the Subsidiaries have filed all federal, state, local and foreign tax returns that are required to have been filed by them pursuant to applicable foreign, federal, state, local or other law or have duly requested extensions thereof, except insofar as the failure to file such returns or request such extensions would not reasonably be expected to result in a Material Adverse Effect, and have paid all taxes shown as due pursuant to such returns or pursuant to any assessment received by the Company and the Subsidiaries, except for such taxes or assessments, if any, as are being contested in good faith and as to which adequate reserves have been provided or where the failure to pay would not reasonably be expected to result in a Material Adverse Effect.

(xxix) No Unlawful Payments. Neither the Company nor the Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or other person associated with or acting on behalf of the Company or any of the Subsidiaries (other than the Underwriters) has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds, (C) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977 or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xxx) Compliance with Money Laundering Laws. The operations of the Company and the Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the applicable money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency and applicable to the Company and the Subsidiaries (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or the Subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(xxxi) Compliance with OFAC. None of the Company, the Subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee or affiliate (other than the Underwriters) of the Company or the Subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"); and the Company will not, directly or indirectly, use the proceeds of the offering of the Securities hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xxxii) Sarbanes-Oxley Act. Except as disclosed in the General Disclosure Package, the Company is, and to the knowledge of the Company, the Company's directors and officers, in their capacities as such, are, in compliance in all material respects with any applicable provision of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith, including Section 402 related to loans and Sections 302 and 906 related to certifications.

(b) *Representations and Warranties of the Adviser and the Administrator*. The Adviser and the Administrator, jointly and severally, represent to each Underwriter as of the date hereof, as of the Applicable Time, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter as follows:

(i) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package and the Prospectus, except as otherwise stated therein, there has been no material adverse change in the condition, financial or otherwise, or in the

earnings, business affairs, business prospects or regulatory status of the Adviser or the Administrator, whether or not arising in the ordinary course of business (an “Adviser Material Adverse Effect”).

(ii) Good Standing. Each of the Adviser and the Administrator has been duly organized and is validly existing as a limited liability company in good standing under the laws of the State of Delaware and has limited liability company power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; the Adviser has limited liability company power and authority to execute and deliver and perform its obligations under the Investment Management Agreement; the Administrator has limited liability company power and authority to enter into and perform its obligations under the Administration Agreement; and each of the Adviser and the Administrator is duly qualified to transact business as a foreign entity and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of ownership or leasing of its property or the conduct of business, except where the failure to qualify or be in good standing would not otherwise reasonably be expected to result in an Adviser Material Adverse Effect.

(iii) Registration Under Advisers Act. The Adviser is duly registered with the Commission as an investment adviser under the Advisers Act and is not prohibited by the Advisers Act or the 1940 Act from acting under the Investment Management Agreement for the Company as contemplated by the Prospectus. There does not exist any proceeding or, to the Adviser’s knowledge, any facts or circumstances the existence of which could lead to any proceeding which might adversely affect the registration of the Adviser with the Commission.

(iv) Absence of Proceedings. There is no action, suit or proceeding or, to the knowledge of the Adviser or the Administrator, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Adviser or the Administrator, threatened, against or affecting either the Adviser or the Administrator, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in an Adviser Material Adverse Effect, or which would reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in this Agreement, the Investment Management Agreement or the Administration Agreement; the aggregate of all pending legal or governmental proceedings to which the Adviser or the Administrator is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to their business, would not reasonably be expected to result in an Adviser Material Adverse Effect.

(v) Absence of Defaults and Conflicts. Neither the Adviser nor the Administrator is in violation of its limited liability company operating agreement or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Adviser or the Administrator is a party or by which it or any of them may be bound, or to which any of the property or assets of the Adviser or the Administrator is subject (collectively, the “Adviser/Administrator Agreements and Instruments”), or in violation of any law, statute, rule, regulation, judgment, order or decree except for such violations or defaults that would not reasonably be expected to result in an Adviser Material Adverse Effect; and the execution, delivery and performance of this Agreement, the Investment Management Agreement and the Administration Agreement and the consummation of the transactions contemplated herein and therein and in the Registration Statement and General Disclosure Package (including the issuance and sale of the Underwritten Securities and the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption “Use of Proceeds”) and compliance by the Adviser and the Administrator with their respective obligations hereunder and under the Investment Management Agreement and the Administration Agreement do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Adviser or the Administrator pursuant to, the Adviser/Administrator Agreements and Instruments except for such violations or defaults that would not reasonably be expected to result in an Adviser Material Adverse Effect, nor will such action result in any violation of the provisions of the limited liability company operating agreement of the Adviser or Administrator, respectively, or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Adviser or the Administrator or any of their assets, properties or operations.

(vi) Authorization of Agreements. This Agreement, the Investment Management Agreement and the Administration Agreement have been duly authorized, executed and delivered by the Adviser and the Administrator, as applicable. This Agreement, the Investment Management Agreement and the Administration Agreement are valid and binding obligations of the Adviser or the Administrator, as applicable, enforceable against them in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(vii) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Adviser or the Administrator of their obligations hereunder, in connection with the offering, issuance or sale of the Underwritten Securities hereunder or the consummation of the transactions contemplated by this Agreement, the Investment Management Agreement, the Administration Agreement, the General Disclosure Package or the Prospectus (including the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption "Use of Proceeds"), except (A) such as have been already obtained under the 1933 Act, the 1933 Act Regulations or the 1940 Act, (B) such as may be required under state securities laws and (C) the filing of the Notification of Election under the 1940 Act, which has been effected.

(viii) Description of Adviser and Administrator. The description of the Adviser and the Administrator contained in the Registration Statement, the General Disclosure Package and the Prospectus does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(ix) Possession of Licenses and Permits. The Adviser and the Administrator possess such Governmental Licenses issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them, except where the failure so to possess would not reasonably be expected to, singly or in the aggregate, result in an Adviser Material Adverse Effect; the Adviser and the Administrator are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, result in an Adviser Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not, singly or in the aggregate, result in an Adviser Material Adverse Effect; and neither the Adviser nor the Administrator has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in an Adviser Material Adverse Effect.

(x) Stabilization and Manipulation. Neither the Adviser, the Administrator nor any of their respective partners, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, under the 1934 Act, to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Underwritten Securities in violation of any law, statute, regulation or rule applicable to the Adviser, the Administrator or any of their respective partners, officers, affiliates or controlling persons.

(xi) Employment Status. Neither the Adviser nor the Administrator is aware that (i) any executive, key employee or significant group of employees of Horizon Technology Finance Management LLC plans to terminate employment with Horizon Technology Finance Management LLC, or (ii) any such executive or key employee is subject to any non-compete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Adviser or the Administrator except where such termination or violation would not reasonably be expected to have an Adviser Material Adverse Effect.

(xii) Internal Controls. The Adviser is using its commercially reasonable efforts to maintain a system of internal controls sufficient to provide reasonable assurance that (A) transactions effectuated by it under the Investment Management Agreement are executed in accordance with its management's general or specific

authorization; and (B) access to the Company's assets that are in its possession or control is permitted only in accordance with its management's general or specific authorization.

(xiii) Accounting Controls. The Administrator is using its commercially reasonable efforts to maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions for which it has bookkeeping and record keeping responsibility for under the Administration Agreement are recorded as necessary to permit preparation of the Company's financial statements in conformity with GAAP and to maintain financial statements in conformity with GAAP and to maintain accountability for the Company's assets and (B) the recorded accountability for such assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(c) *Representations and Warranties of the Selling Stockholders*. Each Selling Stockholder, severally and not jointly, represents to each Underwriter as of the date hereof, as of the Applicable Time, as of the Closing Time referred to in Section 2(c) hereof, and agrees with each Underwriter as follows:

(i) Authorization of Agreements.

(A) This Agreement has been duly authorized, executed and delivered by or on behalf of the Selling Stockholder and is a valid and binding obligation of the Selling Stockholder, enforceable against the Selling Stockholder in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law; and (iii) principles of public policy.

(B) The Custody Agreement signed by the Selling Stockholder and [ ], as custodian (the "Custodian"), relating to the deposit of the Underwritten Securities to be sold by the Selling Stockholder (the "Custody Agreement") has been duly authorized, executed and delivered by the Selling Stockholder and is a valid and binding obligation of the Selling Stockholder, enforceable against the Selling Stockholder in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law; and (iii) principles of public policy.

(C) The Power of Attorney appointing certain individuals named therein as the attorneys-in-fact for the Selling Stockholder (each, an "Attorney-in-Fact") to the extent set forth therein relating to the transactions contemplated hereby and by the General Disclosure Package and the Prospectus (the "Power of Attorney"), has been duly authorized, executed and delivered by the Selling Stockholder and is a valid and binding obligation of the Selling Stockholder, enforceable against the Selling Stockholder in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law; and (iii) principles of public policy.

(ii) Title to Underwritten Securities to be Sold. The Selling Stockholder has, and as of the Closing Time and each Date of Delivery will have, good and valid title to all of the Underwritten Securities which may be sold by the Selling Stockholder pursuant to this Agreement on such date and the legal right and power to sell, transfer and deliver all of the Underwritten Securities which may be sold by the Selling Stockholder pursuant to this Agreement and to comply with its other obligations hereunder and thereunder.

(iii) Delivery of the Underwritten Securities to be Sold. Delivery of the Underwritten Securities which are to be sold by the Selling Stockholder pursuant to this Agreement will pass with good and valid title to such Underwritten Securities, free and clear of any security interest, mortgage, pledge, lien, encumbrance or other adverse claim.

(iv) Absence of Defaults and Conflicts. The Selling Stockholder is not in violation of its charter or by-laws, partnership agreement or other organizational documents, to the extent applicable. Further, the Selling Stockholder is not in default in the performance or observance of (A) the terms of any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Selling Stockholder is a party or by which it may be bound, or to which any of the property or assets of the Selling Stockholder is subject, (B) any federal or state statute, law, rule, regulation or any judgment, order or decree of any federal or state court, regulatory body, administrative agency or governmental body having jurisdiction over the Selling Stockholder or any of its respective properties, except any such default or observance that would not reasonably be expected to adversely affect the consummation of the transactions contemplated by this Agreement or the ability of the Selling Stockholder to perform its obligations hereunder.

(v) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Selling Stockholder of its obligations hereunder, in connection with the offering, issuance or sale of the Underwritten Securities to be sold by the Selling Stockholder hereunder or the consummation of the transactions contemplated by this Agreement, the Custody Agreement, the Power of Attorney, the General Disclosure Package or the Prospectus, except (A) such as have been already obtained under the 1933 Act, the 1933 Act Regulations or the 1940 Act, (B) such as may be required under state securities laws and (C) the filing of the Notification of Election under the 1940 Act, which has been effected.

(vi) Disclosure Made by the Selling Stockholder in the Prospectus. (A) At the respective times the Registration Statement, the Rule 462(b) Registration Statement, if any, and any post-effective amendments thereto became effective, at the Applicable Time and the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (B) neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued, and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and (C) as of the Applicable Time, the General Disclosure Package did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that the representations and warranties and any agreements set forth in this Section 1(c)(vi) are limited to statements or omissions made in reliance upon information relating to the Selling Stockholder furnished to the Company in writing or on behalf of the Selling Stockholder expressly for use in the Registration Statement, the Prospectus, the General Disclosure Package or any amendments or supplements thereto.

(vii) Stabilization and Manipulation. The Selling Stockholder nor any of its partners, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, under the 1934 Act, to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Underwritten Securities in violation of any law, statute, regulation or rule applicable to the Selling Stockholder or any of its partners, officers, affiliates or controlling persons.

(viii) No Affiliations. There are no affiliations or associations between any members of FINRA and the Selling Stockholder.

(d) Officer's Certificates. Any certificate signed by any officer of the Company, any of the Subsidiaries, the Adviser or the Administrator delivered to the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company, such Subsidiary, the Adviser and/or the Administrator, as applicable, to each Underwriter as to the matters covered thereby.

SECTION 2. Sale and Delivery to Underwriters; Closing.

(a) *Initial Securities.* On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, (i) the Company agrees to sell to each Underwriter, severally and not jointly, an aggregate of [ ] Initial Securities and (ii) each of the Selling Stockholders agrees to sell to each Underwriter, severally and not jointly, that number of Initial Securities set forth on Schedule B opposite the name of such Selling Stockholder. Each Underwriter, severally and not jointly, agrees to purchase from the Company and the Selling Stockholders, at the price per share set forth in Schedule C, the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) *Option Securities.* In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional • Securities at the price per share set forth in Schedule C, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities and the Selling Stockholders hereby grant an option to the Underwriters, severally and not jointly, to purchase up to that number of additional Securities set forth on Schedule B opposite the name of such Selling Stockholder, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time on up to two occasions only for the purpose of covering overallocments which may be made in connection with the offering and distribution of the Initial Securities upon notice by the Representatives to the Company and the Selling Stockholders setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a "Date of Delivery") shall be determined by the Representatives, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, (i) the Option Securities will be sold to the Underwriters, severally and not jointly, by the Company and the Selling Stockholders on a pro rata basis between the Company, on the one hand, and the Selling Stockholders, on the other hand, in proportion to the total number of Option Securities to be sold by the Company, on the one hand, and the Selling Stockholders, on the other hand, and (ii) each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total number of Initial Securities, subject in each case to such adjustments as the Representatives in their discretion shall make to eliminate any sales or purchases of fractional shares.

(c) *Payment.* Payment of the purchase price, against delivery of certificates or, if applicable, Depositary Receipts evidencing the Depositary Shares, for the Initial Securities shall be made at the offices of [ ], counsel for the Underwriters, or at such other place as shall be agreed upon by the Representatives and the Company, at 9:00 A.M. (Eastern Time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern Time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives and the Company (with notice to the Selling Stockholders) (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price, and delivery of certificates or, if applicable, Depositary Receipts evidencing the Depositary Shares, for such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company (with notice to the Selling Stockholders), on each Date of Delivery as specified in the notice from the Representatives to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives through the facilities of The Depository Trust Company for the respective accounts of the Underwriters of certificates or receipts for the Underwritten Securities to be purchased by them. Payment shall be made to each Selling Stockholder by wire transfer of immediately available funds to a bank account designated by each Selling Stockholder against delivery to the Representatives through the facilities of the Depository Trust Company for the respective accounts of the Underwriters of certificates or receipts

for the Underwritten Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. The Representatives, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

Each Selling Stockholder hereby agrees, severally and not jointly, that (i) it will pay all stock transfer taxes, stamp duties and other similar taxes, if any, payable upon the sale or delivery of the Underwritten Securities to be sold by the Selling Stockholder to the Underwriters, or otherwise in connection with the performance of the Selling Stockholder's obligations hereunder and (ii) the Custodian is authorized to deduct for such payment any such amounts from the proceeds to the Selling Stockholder hereunder and to hold such amounts for the account of the Selling stockholder with the Custodian under the Custody Agreement.

(d) *Denominations; Registration.* The certificates or receipts for the Initial Securities and the Option Securities, if any, shall be transferred electronically at the Closing Time or the relevant Date of Delivery, as the case may be, in such denominations and registered in such names as the Representatives may request; provided that any such request must be received in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be.

### SECTION 3. Additional Covenants.

(a) *Covenants of the Company.* The Company covenants with each Underwriter as follows:

(i) Compliance with Securities Regulations and Commission Requests. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company, subject to Section 3(b), will comply with the requirements of Rule 415, Rule 430A and Rule 497 and will notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission relating to the Registration Statement, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Underwritten Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly affect the filings necessary pursuant to Rule 497 and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 497 was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company will use its reasonable efforts to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(ii) Filing of Amendments. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company will give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)) or any amendment, supplement or revision to any preliminary prospectus (including any prospectus included in the Registration Statement at the time it became effective) or to the Prospectus and will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be. The Company has given the Underwriters notice of any filings made pursuant to the 1934 Act or the rules and regulations adopted thereunder within 48 hours prior to the Applicable Time; the Company will give the Underwriters notice of its intention to make any such filing from the Applicable Time to the Closing Time and will furnish the Underwriters with copies of any such documents a reasonable amount of time prior to such proposed filing.

(iii) Delivery of Commission Filings. The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, conformed copies of the Registration Statement as originally filed, and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and conformed copies of all consents and certificates of experts, and, upon the Representatives' request, will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T, or as filed with the Commission in paper form as permitted by Regulation S-T.

(iv) Delivery of Prospectuses. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(v) Continued Compliance with Securities Laws. The Company will use its commercially reasonable efforts to comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Underwritten Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Underwritten Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(vi) Blue Sky Qualifications. The Company will use its commercially reasonable efforts, in cooperation with the Underwriters, to qualify the Underwritten Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Representatives may designate and to maintain such qualifications in effect for as long as the Representatives reasonably request; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(vii) Rule 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as reasonably practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(viii) Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Underwritten Securities in the manner specified in the General Disclosure Package and in the Prospectus under "Use of Proceeds".

(ix) Listing. The Company will use its commercially reasonable efforts to effect and maintain the quotation of [if applicable, describe Securities] on The NASDAQ Global Market.



(x) Restriction on Sale of Underwritten Securities. During a period of [ ] days from the date of the Prospectus, the Company will not, without the prior written consent of the Representatives, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any Underwritten Securities or any securities convertible into or exercisable or exchangeable for Underwritten Securities or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Underwritten Securities, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Underwritten Securities or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the registration and sale of Underwritten Securities to be sold hereunder, (B) the issuance of any Underwritten Securities issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, and any registration related thereto, or (C) any Underwritten Securities issued to directors in lieu of directors' fees, and any registration related thereto. Notwithstanding the foregoing, if: (1) during the last 17 days of such -day period the Company issues an earnings release or material news or a material event relating to the Company occurs; or (2) prior to the expiration of such -day period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day-period beginning on the last day of such -day period, the restrictions imposed in this clause (j) shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(xi) Reporting Requirements. The Company, during the period when the Prospectus is required to be delivered under the 1933 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(xii) Business Development Company Status. The Company, during a period of at least 12 months from the Closing Time, will use its commercially reasonable efforts to maintain its status as a business development company; provided, however, the Company may cease to be, or withdraw its election as, a business development company, with the approval of the board of directors and a vote of stockholders as required by Section 58 of the 1940 Act or any successor provision.

(xiii) Regulated Investment Company Status. During the 12-month period following the Closing Time, the Company will use its commercially reasonable efforts to qualify and elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), and to maintain such qualification and election in effect for each full fiscal year during which it is a business development company under the 1940 Act.

(xiv) Accounting Controls. The Company will use its commercially reasonable efforts to maintain a system of internal accounting controls sufficient to provide reasonable assurances that (A) material information relating to the Company and the assets managed by the Adviser is promptly made known to the officers responsible for establishing and maintaining the system of internal accounting controls; and (B) any significant deficiencies or weaknesses in the design or operation of internal accounting controls which could adversely affect the Company's ability to record, process, summarize and report financial data, and any fraud whether or not material that involves management or other employees who have a significant role in internal controls, are adequately and promptly disclosed to the Company's independent auditors and the audit committee of the Company's board of directors.

(b) Covenants of the Selling Stockholders. Each Selling Stockholder, severally and not jointly, covenants with each Underwriter as follows:

(i) Restriction on Sale of Underwritten Securities. During a period of [ ] days from the date of the Prospectus, the Selling Stockholder will not, without the prior written consent of the Representatives, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any Underwritten Securities or any securities convertible into or exercisable or exchangeable for Underwritten Securities or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap

or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Underwritten Securities, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Underwritten Securities or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the registration and sale of Underwritten Securities to be sold hereunder, (B) the issuance of any Underwritten Securities issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, and any registration related thereto, or (C) any Underwritten Securities issued to directors in lieu of directors' fees, and any registration related thereto. Notwithstanding the foregoing, if: (1) during the last 17 days of such -day period the Company issues an earnings release or material news or a material event relating to the Company occurs; or (2) prior to the expiration of such -day period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day-period beginning on the last day of such -day period, the restrictions imposed in this clause (j) shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

#### SECTION 4. Payment of Expenses.

(a) *Expenses.* The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the printing and delivery to the Underwriters of this Agreement, the Warrant Agreement, the Certificate of Designation, the Deposit Agreement, if applicable, any Agreement among the Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Underwritten Securities, (iii) the preparation, issuance and delivery of the certificates for the Underwritten Securities and any Warrant Securities issuable upon exercise of the Warrants to the Underwriters, (iv) the fees and disbursements of the Company's, the Adviser's and the Administrator's counsel, accountants and other advisors, (v) the fees and expenses of any special experts retained by the Company, (vi) the fees and expenses of one legal counsel selected by the holders of a majority-in-interest of the shares of the Selling Stockholders' Common Stock, not to exceed \$30,000, (vii) the qualification of the Underwritten Securities and any Warrant Securities issuable upon exercise of the Warrants under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (viii) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectus and any amendments or supplements thereto, (ix) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (x) the fees and expenses of any transfer agent or registrar for the Underwritten Securities, (xi) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the Underwritten Securities, including without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and 50% of the cost of aircraft and other transportation chartered in connection with the road show, (xii) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the Financial Industry Regulatory Authority ("FINRA") of the terms of the sale of the Underwritten Securities, (xiii) the fees and expenses incurred in connection with the inclusion of the Underwritten Securities or any Warrant Securities, if applicable, in The NASDAQ Global Market and (xiv) the costs and expenses (including without limitation any damages or other amounts payable in connection with legal or contractual liability) associated with the reforming of any contracts for sale of the Underwritten Securities made by the Underwriters (which are terminated prior to the Closing Date) caused by a breach of the representation contained in the fourth paragraph of Section 1(a)(i).

(b) *Termination of Agreement.* If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) and (ii) hereof, the Company, the Adviser and the Administrator, jointly and severally, shall reimburse the Underwriters for all of their out-of-pocket expenses incurred, including the reasonable fees and disbursements of counsel for the Underwriters.

SECTION 5. Conditions of Underwriters' Obligations. The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company, the Adviser, the Administrator and each Selling Stockholder contained in Section 1 hereof or in certificates of any officer of the

Company, the Adviser, the Administrator or any Selling Stockholder, to the performance by the Company, the Adviser, the Administrator and any Selling Stockholder of their respective covenants and other obligations hereunder, and to the following further conditions:

(a) *Effectiveness of Registration Statement.* The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A final prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 497.

(b) *Opinions of Counsel for Company.* At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Squire, Sanders & Dempsey (US) LLP, counsel for the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth on Exhibit A hereto. Such counsel may state that, insofar as such opinion involves factual matters, they have relied upon certificates of officers of the Company and/or any of the Subsidiaries and certificates of public officials.

(c) *Opinion of Counsel for Selling Stockholders.* At the Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of [ ], counsel for the Selling Stockholders, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth on Exhibit B hereto. Such counsel may state that, insofar as such opinion involves factual matters, they have relied upon certificates of officers of the Selling Stockholders, the Company and certificates of public officials.

(d) *Opinion of Counsel for Underwriters.* At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of [ ], counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York and the federal law of the United States upon the opinions of counsel reasonably satisfactory to the Representatives, including counsel of the Company. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and/or any of the Subsidiaries and certificates of public officials.

(e) *Officers' Certificates.*

(i) At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and the Subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the chief executive officer of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (A) there has been no such material adverse change, (B) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (C) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time and (D) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to their knowledge, contemplated by the Commission.

(ii) At Closing Time, the Representatives shall have received a certificate executed by the Attorney-in-Fact of each Selling Stockholder, dated as of the Closing Time, to the effect that (A) the representations and warranties of the Selling Stockholder in Section 1(c) hereof are true and correct with the same force and effect as though expressly made as of the Closing Time, and (B) the Selling Stockholder has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time.

(iii) At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or regulatory status of the Adviser or the Administrator, whether or not arising in the ordinary course of business, that would reasonably be expected to result in an Adviser Material Adverse Effect, and the Representatives shall have received a certificate of two authorized officers of each of the Adviser and the Administrator, dated as of Closing Time, to the effect that (A) there has been no such Adviser Material Adverse Effect, (B) the representations and warranties of the Adviser and Administrator in Sections 1(a) and 1(b) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (C) the Adviser and the Administrator have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time and (D) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to their knowledge, contemplated by the Commission.

(f) *Accountant's Comfort Letter and CFO Certificate.* At the time of the execution of this Agreement the Representatives shall have received:

(i) A letter from McGladrey & Pullen, LLP, independent public accountants for the Company, in form and substance reasonably satisfactory to the Representatives, covering the financial information in the Registration Statement, the General Disclosure Package and the Prospectus of the Company, together with signed or reproduced copies of such letter for each of the other Underwriters, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(ii) A certificate of the chief financial officer of the Company, in form and substance reasonably satisfactory to the Representatives and as agreed upon prior to the date hereof, covering certain financial matters of the Company, together with signed or reproduced copies of such certificate for each of the other Underwriters.

(g) *Bring-down Comfort Letter and CFO Certificate.* At Closing Time, the Representatives shall have received (i) from McGladrey & Pullen, LLP a letter with respect to the Company, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e)(i) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time and (ii) from the Company a certificate of the chief financial officer of the Company, dated as of the Closing Time, to the effect that the chief financial officer of the Company reaffirms the statements made in the certificate furnished pursuant to subsection (e)(ii) of this Section.

(h) *Approval of Listing.* At Closing Time, the [if applicable, describe Securities] shall have been approved for inclusion in The NASDAQ Global Market, subject only to official notice of issuance.

(i) *No Objection.* FINRA has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(j) *Lock-up Agreements.* At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto. Notwithstanding the foregoing or any provision of Section 3(j) of this Agreement or any lock-up agreement delivered in connection with this Section 5(i) to the contrary, the Company may pledge shares of Common Stock of the Company owned by the Company in one or more bona fide lending transactions.

(k) *Selling Stockholders' Documents.* On the date hereof, the Company and each Selling Stockholder shall have furnished for review by the Representative copies of the Power of Attorney and Custody Agreement executed by the applicable Selling Stockholder and such further information, certificates and documents as the Representative reasonably requests.

(l) *Conditions to Purchase of Option Securities.* In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations

and warranties of the Company, the Adviser and the Administrator contained herein and the statements in any certificates furnished by the Company, the Adviser and the Administrator hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) Officers' Certificates.

(A) A certificate, dated such Date of Delivery, of the chief executive officer of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d)(i) hereof remains true and correct as of such Date of Delivery.

(B) A certificate, dated such Date of Delivery, executed by the Attorney-in-Fact of each Selling Stockholder confirming that the certificate delivered at the Closing Time pursuant to Section 5(d)(ii) hereof remains true and correct as of such Date of Delivery.

(C) A certificate, dated such Date of Delivery, of two authorized officers of each of the Adviser and the Administrator confirming that the certificates delivered at the Closing Time pursuant to Section 5(d)(iii) hereof remains true and correct as of such Date of Delivery.

(ii) Opinion of Counsel for Company. The favorable opinion of Squire, Sanders & Dempsey (US) LLP, counsel for the Company, in form and substance reasonably satisfactory to the Representatives, dated such Date of Delivery, relating to the Option Securities to be sold by the Company and purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) Opinion of Counsel for the Selling Stockholders. The favorable opinion of [ ], counsel for the Selling Stockholders, in form and substance reasonably satisfactory to the Representatives, dated such Date of Delivery, relating to the Option Securities to be sold by the Selling Stockholders and purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(c) hereof.

(iv) Opinion of Counsel for Underwriters. The favorable opinion of [ ], counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(d) hereof.

(v) Bring-down Comfort Letter and CFO Certificate.

(A) A letter with respect to the Company from McGladrey & Pullen, LLP, in form and substance reasonably satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Representatives pursuant to Section 5(f)(i) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(B) A certificate, in form and substance reasonably satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the certificate furnished to the Representatives pursuant to Section 5(f)(ii) hereof.

(m) Additional Documents. At Closing Time and at each Date of Delivery, counsel for the Underwriters shall have been furnished with such documents as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Underwritten Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company, the Adviser, the Administrator and the Selling Stockholders in connection with the issuance and sale of the Underwritten Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(n) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option

Securities, on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company and the Selling Stockholders at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

**SECTION 6. Indemnification.**

(a) *Indemnification of Underwriters.* The Company, the Adviser and the Administrator, jointly and severally, agree to indemnify and hold harmless each Underwriter, its affiliates, as such term is defined in Rule 501(b) under the 1933 Act (each, an "Affiliate"), its selling agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information (including the information on Schedule B hereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or in the General Disclosure Package, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company;

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by the Representatives), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package.

(b) *Indemnification of Underwriters by the Selling Stockholders.* Each Selling Stockholder agrees, severally and not jointly, to indemnify and hold harmless each Underwriter and each other person specified in subsection (a) of this Section 6 from and against any and all loss, liability, claim, damage and expense whatsoever any such Underwriter or any such other person may incur as specified in such subsection, insofar as such loss, liability, claim, damage and expense arises out of or is based upon any of the matters specified in subsections (a)(i), (a)(ii) and (a)(iii) of this Section 6 to the extent, but only to the extent, such untrue statement or omission pertains to the information described in Section 1(c)(v) hereof with respect to such Selling Stockholder. The liability of each Selling Stockholder pursuant to this Section 6(b) shall be limited to an amount equal to the initial public offering price for the Underwritten Securities sold by the Selling Stockholder, less the underwriting discount, as set forth on the front cover page of the Prospectus.

(c) *Indemnification of Company, Directors, Officers, Adviser, Administrator and Selling Stockholders.* Each Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers, each person, if any, who controls the Company, the Adviser, the Administrator or each Selling Stockholder within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, the Adviser, the Administrator and each

Selling Stockholder against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or in the General Disclosure Package in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(d) *Actions against Parties; Notification.* Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder (an "Action"), but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Sections 6(a) or 6(b) above, counsel to the indemnified parties shall be selected by the Representatives, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Representatives and, in the case of parties indemnified pursuant to Section 6(c) above, counsel to the indemnified parties shall be selected by the Company and the Selling Stockholders, as applicable. An indemnifying party may participate at its own expense in the defense of any such Action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for, in connection with any one Action or separate but similar or related Actions in the same jurisdiction arising out of the same general allegations or circumstances, (i) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the 1933 Act or Section 20 of the 1934 Act or who are affiliates of any Underwriter within the meaning of Rule 405 under the 1933 Act, (ii) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Company, its directors, its officers and each person, if any, who controls the Company within the meaning of either such Section and (iii) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Selling Stockholders and all persons, if any, who control the Selling Stockholders within the meaning of such Sections. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (x) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (y) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Notwithstanding anything to the contrary herein, neither the assumption of the defense of any such Action nor the payment of any fees or expenses related thereto shall be deemed to be an admission by the indemnifying party that it has obligation to indemnify any person pursuant to this Agreement.

(e) *Settlement Without Consent if Failure to Reimburse.* If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(i) or 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(f) *Acknowledgement by the Company, the Adviser, the Administrator and the Selling Stockholders.* The Company, the Adviser, the Administrator and the Selling Stockholders also acknowledge and agree that (i) the purchase and sale of any Underwritten Securities pursuant to this Agreement, including the determination of the public offering price of the Underwritten Securities and any related discounts and commissions, is an arm's-length commercial transaction among the Company and the Selling Stockholders, on the one hand, and the Underwriters of such Underwritten Securities, on the other hand, (ii) in connection with the public offering of the Underwritten Securities and the process leading to such transaction the Underwriters will act solely as principals and not as agents or fiduciaries of the Company or its stockholders, creditors, employees or any other party or the Selling

Stockholders, (iii) the Underwriters will not assume an advisory or fiduciary responsibility in favor of the Company or the Selling Stockholders with respect to the offering of Underwritten Securities contemplated hereby or the process leading thereto (irrespective of whether the Underwriters have advised or are currently advising the Company or any Selling Stockholder on other matters) and the Underwriters will not have any obligation to the Company or any Selling Stockholder with respect to the Offering except the obligations expressly set forth herein, (iv) the Underwriters and their affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and the Selling Stockholders and (v) the Underwriters have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to the offering of the Underwritten Securities and the Company and each Selling Stockholder has consulted and will consult its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, the Adviser, the Administrator and the Selling Stockholders on the one hand and the Underwriters on the other hand from the offering of the Underwritten Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, the Adviser, the Administrator and the Selling Stockholders on the one hand and of the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company, the Adviser, the Administrator and the Selling Stockholders on the one hand and the Underwriters on the other hand in connection with the offering of the Underwritten Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Underwritten Securities pursuant to this Agreement (before deducting expenses) received by the Company and the Selling Stockholders and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus, bear to the aggregate initial public offering price of the Underwritten Securities as set forth on the cover of the Prospectus.

The relative fault of the Company, the Adviser, the Administrator and the Selling Stockholders on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, the Adviser, the Administrator, and the Selling Stockholders or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Adviser, the Administrator, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Underwritten Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.



For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and each Underwriter's Affiliates and selling agents shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company, and each person, if any, who controls the Company, Adviser or Administrator within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company, Adviser or Administrator, as the case may be. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

Notwithstanding any other provision of Section 6 and this Section 7, no party shall be entitled to indemnification or contribution under this Agreement in violation of Section 17(i) of the 1940 Act.

**SECTION 8. Representations, Warranties and Agreements to Survive.** All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, any of the Subsidiaries, the Adviser, the Administrator and the Selling Stockholders submitted pursuant hereto, shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or its Affiliates or selling agents, any person controlling any Underwriter, its officers or directors or any person controlling the Company or the Selling Stockholders, as the case may be, and (ii) delivery of and payment for the Underwritten Securities.

**SECTION 9. Termination of Agreement.**

(a) *Termination; General.* The Representatives may terminate this Agreement, by notice to the Company and the Selling Stockholders, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and the Subsidiaries considered as one enterprise, the Adviser or the Administrator, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable or inadvisable to market the Underwritten Securities or to enforce contracts for the sale of the Underwritten Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or The NASDAQ Global Market or The NASDAQ Global Market, or (iv) if trading generally on the American Stock Exchange or the New York Stock Exchange or in The NASDAQ Global Market or The NASDAQ Global Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the FINRA or any other governmental authority, or (v) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, or (vi) if a banking moratorium has been declared by either Federal or New York authorities.

(b) *Liabilities.* If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

**SECTION 10. Default by One or More of the Underwriters.** If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Underwritten Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(i) if the number of Defaulted Securities does not exceed 10% of the number of Underwritten Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and

not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(ii) if the number of Defaulted Securities exceeds 10% of the number of Underwritten Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the Underwriters to purchase and of the Company and the Selling Stockholders to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company and the Selling Stockholders to sell the relevant Option Securities, as the case may be, either the Representatives or the Company (with notice to the Selling Stockholders) shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement, the General Disclosure Package or the Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. Tax Disclosure. Notwithstanding any other provision of this Agreement, from the commencement of discussions with respect to the transactions contemplated hereby, the Company and/or the Selling Stockholders (and each employee, representative or other agent of the Company) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the U.S. Code and the Treasury Regulations promulgated thereunder) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

SECTION 12. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representatives at [ ], with a copy to [ ]; notices to the Company, the Adviser and Administrator shall be directed to them at Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032, Attention: Robert D. Pomeroy, Jr., with a copy to Squire, Sanders & Dempsey (US) LLP, 221 East Fourth Street, Suite 2900, Cincinnati, Ohio 45202, Attention: Stephen C. Mahon, Esq and Toby D. Merchant, Esq; and notices to the Selling Stockholders shall be directed to them at [ ] with a copy to [ ].

SECTION 13. Parties. This Agreement shall each inure to the benefit of and be binding upon the Underwriters, the Company, the Selling Stockholders and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters, the Company, the Adviser, the Administrator, the Selling Stockholders and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters, the Company, the Adviser, the Administrator, the Selling Stockholders and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Underwritten Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 14. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 15. TIME. TIME SHALL BE OF THE ESSENCE OF THIS AGREEMENT. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 16. Submission to Jurisdiction. Except as set forth below, no claim or action may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Underwriters, the Company and the Selling Stockholders consent to the jurisdiction of such courts and personal service with respect thereto. The Underwriters, the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) and the Selling Stockholders waive all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement.

SECTION 17. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

SECTION 18. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company and the Attorney-in-Fact for each Selling Stockholder a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters, the Company, the Adviser, the Administrator and the Selling Stockholders in accordance with its terms.

Very truly yours,

COMPANY:

HORIZON TECHNOLOGY FINANCE  
CORPORATION

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ADVISER:

HORIZON TECHNOLOGY FINANCE  
MANAGEMENT LLC

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ADMINISTRATOR:

HORIZON TECHNOLOGY FINANCE  
MANAGEMENT LLC

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SELLING STOCKHOLDER:

[     ]

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SELLING STOCKHOLDER:

[     ]

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

CONFIRMED AND ACCEPTED,  
as of the date first above written:

[NAME OF REPRESENTATIVE]

By \_\_\_\_\_  
Authorized Signatory

[NAME OF REPRESENTATIVE]

By \_\_\_\_\_  
Authorized Signatory

For themselves and as Representatives of the other Underwriters named in Schedule A hereto.

---

Exhibit A

[To Come.]

---

Exhibit B

[To Come.]

---

Exhibit C

[To Come.]

---



SCHEDULE A

Name of Underwriter	Number of Shares of Common Stock	Number of Shares of Preferred Stock	Number of Warrants
	•	•	•
	•	•	•

---

SCHEDULE B

[SELLING STOCKHOLDERS]

---

SCHEDULE C

HORIZON TECHNOLOGY FINANCE CORPORATION

- Shares of Common Stock (Par Value \$0.001 Per Share)
- Shares of Preferred Stock (Par Value \$0.001 Per Share)
- Warrants to Purchase Common Stock or Preferred Stock

1. The public offering price per share for the Underwritten Securities, determined as provided in Section 2, shall be \$•.
  2. The purchase price per share for the Underwritten Securities to be paid by the several Underwriters shall be \$•, being an amount equal to the public offering price set forth above less \$• per share; provided that the purchase price per share for any Option Securities purchased upon the exercise of the overallotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities.
  3. The trade date is •.
  4. The closing date will be •.
-

SCHEDULE D

List of persons and entities  
subject to lock-up

[To Come.]

**HORIZON TECHNOLOGY FINANCE CORPORATION**  
(a Delaware corporation)

**\$ • Aggregate Principal Amount Senior Securities**  
**\$ • Aggregate Principal Amount Subordinated Securities**  
**• Warrants to Purchase Debt Securities**

**PURCHASE AGREEMENT**

[Name of Underwriters]

[Address]

Ladies and Gentlemen:

Horizon Technology Finance Corporation, a Delaware corporation (the “Company”), confirms its agreement with the Underwriters named in Schedule A hereto (collectively, the “Underwriters”, which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom [ ] are acting as representatives (in such capacity, the “Representatives”), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of \$• aggregate principal amount of senior debt securities (the “Senior Securities”) or subordinated debt securities (the “Subordinated Securities”), or both, or Warrants (the “Debt Warrants”) to purchase Senior Securities or Subordinated Securities, or both, of the Company set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase additional Securities (as hereinafter defined) to cover overallocments, if any.

The [Senior Securities][Subordinated Securities] will be issued under an indenture dated as of • (the “Base Indenture”), as supplemented by a supplemental indenture, dated as of • (the “Supplemental Indenture”; together with the Base Indenture, the “Indenture”) between the Company and [ ], as trustee. The Debt Warrants will be issued under one or more warrant agreements (the warrant agreement relating to any issue of Debt Warrants to be sold pursuant to this Agreement is referred to herein as the “Warrant Agreement”) between the Company and the Warrant Agent identified in such Warrant Agreement (the “Warrant Agent”). The Senior Securities, Subordinated Securities or Debt Warrants or any combination thereof are hereinafter referred to as the “Securities”. The aforesaid Securities (the “Initial Securities”) to be purchased by the Underwriters and all or any part of the Securities subject to the option described in Section 2(b) hereof (the “Option Securities”) are hereinafter called, collectively, the “Underwritten Securities”; and “Warrant Securities” shall mean the Senior Securities or Subordinated Securities issuable upon exercise of Debt Warrants. The Senior Securities, Subordinated Securities and the Debt Warrants may be offered either together or separately. Each issue of Senior Securities, Subordinated Securities and Debt Warrants may vary, as applicable, as to aggregate principal amount, maturity date, interest rate or formula and timing of payments thereof, redemption provisions, conversion provisions and sinking fund requirements, if any, and any other variable terms which the Indenture or any Warrant Agreement, as the case may be, contemplates may be set forth in the Senior Securities, Subordinated Securities and Debt Warrants as issued from time to time. Securities issued in book-entry form will be issued to Cede & Co., as nominee of The Depository Trust Company (“DTC”), pursuant to a blanket letter of representations, to be dated on or prior to the Closing Time (the “DTC Agreement”), between the Company and DTC.

The Company understands that the Underwriters propose to make a public offering of the Underwritten Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the “Commission”) a shelf registration statement on Form N-2 (File No. 333-) covering the registration of the Underwritten Securities and certain of the Company’s other securities under the Securities Act of 1933, as amended (the “1933 Act”), which registration statement has been declared effective by the Commission. The Indenture has been qualified under the Trust Indenture Act of 1939, as amended (the “1939 Act”). The Company has also filed with the Commission a preliminary prospectus supplement, dated •, which contains a base prospectus, dated • (collectively, the “preliminary prospectus”). Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430A (“Rule 430A”) of the rules and regulations of the

Commission under the 1933 Act (the “1933 Act Regulations”) and Rule 497 (“Rule 497”) of the 1933 Act Regulations. The information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement pursuant to Rule 430A is referred to as “Rule 430A Information.” Unless the context otherwise requires, such registration statement, including all documents filed as a part thereof, and including any Rule 430A Information contained in a prospectus subsequently filed with the Commission pursuant to Rule 497 under the 1933 Act and deemed to be part of the registration statement and also including any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations (the “Rule 462(b) Registration Statement”), is herein called the “Registration Statement.” The final prospectus in the form filed by the Company with the Commission pursuant to Rule 497 under the 1933 Act on or before the second business day after the date hereof (or such earlier time as may be required under the 1933 Act), which will include the base prospectus, dated \*, together with a final prospectus supplement, is herein called the “Prospectus.” For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system (“EDGAR”).

A Form N-54A Notification of Election to be Subject to Sections 55 through 65 of the Investment Company Act of 1940 filed Pursuant to Section 54(a) of the Investment Company Act (File No. 814-00802) (the “Notification of Election”) was filed with the Commission on October 28, 2010 under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (collectively, the “1940 Act”).

The Company has entered into an Investment Management Agreement, dated as of October 28, 2010 (the “Investment Management Agreement”), with Horizon Technology Finance Management LLC, a Delaware limited liability company registered as an investment adviser (the “Adviser”) under the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder (collectively, the “Advisers Act”).

The Company has entered into an Administration Agreement, dated as of October 28, 2010 (the “Administration Agreement”), with Horizon Technology Finance Management LLC, a Delaware limited liability company (the “Administrator”).

#### SECTION 1. Representations and Warranties.

(a) *Representations and Warranties by the Company.* The Company, the Adviser and the Administrator, jointly and severally, represent and warrant to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 1(a)(i) hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) Compliance with Registration Requirements. The Company is eligible to use Form N-2. The Registration Statement (as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, the Rule 462(b) Registration Statement, if any, and any post-effective amendments thereto became effective, at the Applicable Time and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement complied and will comply in all material respects with the requirements of the 1933 Act, the 1933 Act Regulations and the 1940 Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued, and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a

material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Prospectus, each preliminary prospectus and the prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto complied when so filed in all material respects with the 1933 Act, the 1933 Act Regulations and the 1940 Act except for any corrections to any preliminary prospectus that are made in the Prospectus and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

As of the Applicable Time, the preliminary prospectus supplement, dated •, together with the base prospectus, dated •, as filed with the Commission on •, and the information included on Schedule B hereto (which information the Representatives have informed the Company is being conveyed orally by the Underwriters to prospective purchasers at or prior to the Underwriters' confirmation of sales of Underwritten Securities in the offering), all considered together (collectively, the "General Disclosure Package"), did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

As used in this subsection and elsewhere in this Agreement, "Applicable Time" means • [a.m.][p.m.] (Eastern Time) on • or such other time as agreed by the Company and the Representatives.

The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, Prospectus or General Disclosure Package made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), the part of the Registration Statement that constitutes the Statement of Eligibility and Qualification under the 1939 Act (Form T-1) of the Trustee under the Indenture, the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package.

(ii) Independent Accountants. The accountants who certified the financial statements included in the Registration Statement are independent public accountants as required by the 1933 Act, the 1933 Act Regulations and the Securities Exchange Act of 1934, as amended (the "1934 Act").

(iii) Financial Statements. The financial statements included in the Registration Statement, the General Disclosure Package and the Prospectus, together with the related schedules and notes, present fairly in all material respects the financial position of the Company and its consolidated subsidiaries at the dates indicated and the consolidated statement of operations, consolidated statement of net assets and consolidated statement of cash flows of the Company and its consolidated subsidiaries for the periods specified; there are no financial statements that are required to be included in the Registration Statement, the General Disclosure Package or the Prospectus that are not included as required; said financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") applied on a consistent basis throughout the periods involved. The "Selected Consolidated Financial and Other Data" included in the Registration Statement, the General Disclosure Package and the Prospectus present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement, the General Disclosure Package and the Prospectus. The financial data set forth in the General Disclosure Package and in the Prospectus under the caption "Capitalization" fairly present the information set forth therein on a basis consistent with that of the audited financial statements and related notes thereto contained in the Registration Statement. [The pro forma financial information with respect to the Company included under the captions "Unaudited Selected Pro Forma Condensed Consolidated Financial Data," "Unaudited Pro Forma Per Share Data" and "Unaudited Pro Forma Condensed Consolidated Financial Statements" and elsewhere in the Registration Statement, the General Disclosure Package and the Prospectus present fairly in all material respects the information contained therein, has been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and has been properly presented on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein. There is no other pro forma financial information that is required to be included in the Registration Statement, the General Disclosure Package and the Prospectus that is not included as required.]

(iv) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package and the Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a “Material Adverse Effect”), (B) there have been no transactions entered into by the Company or its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement, the General Disclosure Package and the Prospectus and to enter into and perform its obligations under this Agreement, the Investment Management Agreement, the Administration Agreement, the Indenture, the Securities and the DTC Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, except where the failure to so qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect.

(vi) Subsidiaries. The Company’s only subsidiaries are Compass Horizon Funding Company LLC, a Delaware limited liability company, Horizon Credit I LLC, a Delaware limited liability company, Horizon Credit II LLC, a Delaware limited liability company, Longview SBIC GP LLC, a Delaware limited liability company and Longview SBIC LP, a Delaware limited partnership (each, a “Subsidiary” and collectively, the “Subsidiaries”). Each of the Subsidiaries has been duly organized and is validly existing as a corporation, limited liability company or limited partnership in good standing under the laws of the jurisdiction of its organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation, limited liability company or limited partnership to transact business and is in good standing in each jurisdiction in which such qualification is required, except where the failure to be so qualified or to be in good standing would not reasonably be expected to result in a Material Adverse Effect; except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and nonassessable and is owned directly or indirectly by the Company free and clear of any security interest, mortgage, pledge, lien encumbrance, claim or equity; none of the outstanding shares of capital stock of any of the Subsidiaries was issued in violation of the preemptive or other similar rights of any securityholder of such Subsidiary. Except (A) as set forth in the Registration Statement, the General Disclosure Package and the Prospectus and (B) portfolio investments made after •, the Company does not own, directly or indirectly, any shares of stock or any other equity or debt securities of any corporation or have any equity or debt interest in any firm, partnership, joint venture, association or other entity that is not a Subsidiary.

(vii) Capitalization. The authorized, issued and outstanding capital stock of the Company is as set forth in the General Disclosure Package and the Prospectus in the column entitled “Actual” under the caption “Capitalization” (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company’s Dividend Reinvestment Plan referred to in the Registration Statement, the General Disclosure Package or in the Prospectus or pursuant to the exercise of convertible securities or options, if any, referred to in the Registration Statement, the General Disclosure Package or the Prospectus). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable; none of the outstanding shares of capital stock of the Company was issued in violation of preemptive or other similar rights of any securityholder of the Company.

(viii) Authorization of Agreements.

(A) This Agreement, the Investment Management Agreement and the Administration Agreement have each been duly authorized, executed and delivered by the Company. The Investment Management Agreement and the Administration Agreement are valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors’ rights generally, including without limitation all laws relating to fraudulent transfers; (ii)



general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(B) The Base Indenture has been duly authorized, executed and delivered by the Company and, when executed and delivered by the Trustee will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(C) If applicable, the Supplemental Indenture has been duly authorized, executed and delivered by the Company and, when executed and delivered by the Trustee will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(D) If applicable, the Warrant Agreement will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Debt Warrants and, when executed and delivered by the Warrant Agent, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(ix) Authorization and Description of Underwritten Securities.

(A) The Underwritten Securities being sold pursuant to this Agreement and, if applicable, the Warrant Securities issuable upon exercise of the Debt Warrants have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, if applicable, the Warrant Agreement (or will have been so authorized prior to each issuance of Underwritten Securities) and, when issued, authenticated and delivered by the Company and authenticated by the Trustee pursuant to this Agreement and, if applicable, the Indenture or Warrant Agreement, or both, as the case may be, relating thereto, against payment of the consideration set forth in this Agreement and, if applicable, the Warrant Agreement, will be valid and legally binding obligations of the Company, enforceable in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or thereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy; and will be entitled to the benefits of the Indenture or Warrant Agreement, or both, as the case may be, relating thereto; and the Underwritten Securities, the Indenture and the Warrant Agreement, if any, conform in all material respects to the statements relating thereto contained in the Prospectus.

(B) If applicable, upon issuance and delivery of the Underwritten Securities in accordance with this Agreement and the Indenture, the Underwritten Securities will be convertible at the option of the holder thereof into shares of Common Stock, par value \$0.001 per share, of the Company (the "Common Stock"), in accordance with the terms of the Underwritten Securities and the Indenture, the shares of Common Stock issuable

upon conversion of any issue of the Securities will have been duly authorized and reserved for issuance upon such conversion by all necessary corporate action and, when issued and delivered in accordance with the provisions of this Agreement relating thereto, will be validly issued, fully paid and nonassessable.

(x) Absence of Defaults and Conflicts. Neither the Company nor any of the Subsidiaries is in violation of its certificate of incorporation, bylaws or other organizational documents. Further, neither the Company nor any of the Subsidiaries is in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them may be bound, or to which any of the property or assets of the Company or any of the Subsidiaries is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement, the Indenture, the Underwritten Securities, the Warrant Agreement, if applicable, the Investment Management Agreement and the Administration Agreement and the consummation of the transactions contemplated herein and therein and in the Registration Statement and General Disclosure Package (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds" and, if applicable, the issuance of the shares of Common Stock upon conversion of the Securities) and compliance by the Company with its obligations hereunder and thereunder do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to, the Agreements and Instruments, except for such conflicts, breaches, defaults or Repayment Events that would not result in a Material Adverse Effect, nor will such action result in any violation of the provisions of the certificate of incorporation, bylaws or other organizational documents of the Company or any of the Subsidiaries or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any of the Subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of the Subsidiaries.

(xi) Absence of Proceedings. Other than as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, there is no action, suit or proceeding or, to the knowledge of the Company, inquiry or investigation, before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company or any of the Subsidiaries, which is required to be disclosed in the Registration Statement, or which would result in a Material Adverse Effect, or which would materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, the Indenture, the Underwritten Securities, the Warrant Agreement, if applicable, the Investment Management Agreement or the Administration Agreement or the performance by the Company of its obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company or any of the Subsidiaries is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, the General Disclosure Package and the Prospectus, including ordinary routine litigation incidental to the business, would not result in a Material Adverse Effect.

(xii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits thereto which have not been so described and filed as required.

(xiii) Possession of Intellectual Property. The Company and the Subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them or proposed to be operated by them immediately following the offering of the Underwritten Securities as described in the Prospectus, except where the failure to own or possess or otherwise be able to acquire such rights in a timely manner would not otherwise reasonably be expected to result in a Material Adverse Effect, and neither the Company nor any of the Subsidiaries

has received any notice of or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of the Subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in a Material Adverse Effect.

(xiv) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Underwritten Securities hereunder or the consummation of the transactions contemplated by this Agreement, the Indenture, the Underwritten Securities, the Warrant Agreement, if applicable, the Investment Management Agreement, the Administration Agreement, the DTC Agreement or the Prospectus (including the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption "Use of Proceeds"), except (A) such as have been already obtained under the 1933 Act, the 1933 Act Regulations or the 1940 Act, (B) such as may be required under state securities laws, and (C) the filing of the Notification of Election under the 1940 Act, which has been effected.

(xv) Absence of Manipulation. Neither the Company nor to its knowledge any affiliate of the Company has taken, nor will the Company or any affiliate take, directly or indirectly, any action which is designed to or which has constituted or which would be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Underwritten Securities in violation of any law, statute, regulation or rule applicable to the Company or its affiliates.

(xvi) Possession of Licenses and Permits. The Company and the Subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them or proposed to be operated by them immediately following the offering of the Underwritten Securities as described in the Registration Statement, the General Disclosure Package and the Prospectus, except where the failure so to possess would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; the Company and the Subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect; and neither the Company nor any of the Subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect.

(xvii) Investment Company Act. The Company is not required, and upon the issuance and sale of the Underwritten Securities as herein contemplated and the application of the net proceeds therefrom as described in the Registration Statement, the General Disclosure Package and the Prospectus will not be required, to register as a "registered management investment company" under the 1940 Act.

(xviii) Registration Rights. Other than as disclosed in the Registration Statement, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xix) Related Party Transactions. There are no business relationships or related party transactions involving the Company, any of the Subsidiaries or any other person required to be described in the Prospectus which have not been described as required.

(xx) Notification of Election. When the Notification of Election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the 1940 Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(xxi) Investment Management Agreement. (A) The terms of the Investment Management Agreement, including compensation terms, comply in all material respects with all applicable provisions of the 1940 Act and the Advisers Act and (B) the approvals by the board of directors and the stockholders of the Company of the Investment Management Agreement have been made in accordance with the requirements of Section 15 of the 1940 Act applicable to companies that have elected to be regulated as business development companies under the 1940 Act.

(xxii) Interested Persons. Except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus (A) no person is serving or acting as an officer, director or investment adviser of the Company, except in accordance with the provisions of the 1940 Act and the Advisers Act, and (B) to the knowledge of the Company, no director of the Company is an “interested person” (as defined in the 1940 Act) of the Company or an “affiliated person” (as defined in the 1940 Act) of any of the Underwriters.

(xxiii) Business Development Company. (A) The Company has duly elected to be treated by the Commission under the 1940 Act as a business development company, such election is effective and all required action has been taken by the Company under the 1933 Act and the 1940 Act to make the public offering and consummate the sale of the Underwritten Securities as provided in this Agreement; (B) the provisions of the certificate of incorporation and bylaws of the Company, and the investment objectives, policies and restrictions described in the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the 1940 Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the 1940 Act applicable to business development companies.

(xxiv) Absence of Labor Dispute. As of the date hereof, the Company and its Subsidiaries do not have, and on the Closing Date the Company and its Subsidiaries will not have, any employees. To the knowledge of the Company, no labor dispute with the employees of the Adviser or the Administrator exists or is imminent.

(xxv) No Extension of Credit. The Company has not, directly or indirectly, extended credit, arranged to extend credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer of the Company or any of the Subsidiaries, or to or for any family member or affiliate of any director or executive officer of the Company or any of the Subsidiaries.

(xxvi) Accounting Controls. The Company has established and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management’s authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management’s authorization; and (D) the recorded accountability for inventory assets is compared with the existing inventory assets at reasonable intervals and appropriate action is taken with respect to any differences, except, in each of the foregoing cases, where the failure to establish and maintain such controls would not result in a Material Adverse Effect.

(xxvii) Disclosure Controls. The Company has established and employs disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms, and is accumulated and communicated to the Company’s management, including its principal executive officer or officers and principal financial officer or officers, as appropriate to allow timely decisions regarding disclosure, except, in each of the foregoing cases, where the failure to establish and maintain such controls and procedures would not result in a Material Adverse Effect.

(xxviii) Tax Returns. The Company and the Subsidiaries have filed all federal, state, local and foreign tax returns that are required to have been filed by them pursuant to applicable foreign, federal, state, local or other law or have duly requested extensions thereof, except insofar as the failure to file such returns or request such extensions would not reasonably be expected to result in a Material Adverse Effect, and have paid all taxes shown as due pursuant to such returns or pursuant to any assessment received by the Company and the Subsidiaries, except for such taxes or assessments, if any, as are being contested in good faith and as to which adequate reserves have been provided or where the failure to pay would not reasonably be expected to result in a Material Adverse Effect.

(xxix) No Unlawful Payments. Neither the Company nor the Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or other person associated with or acting on behalf of the Company or any of the Subsidiaries (other than the Underwriters) has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds, (C) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977 or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xxx) Compliance with Money Laundering Laws. The operations of the Company and the Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the applicable money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency and applicable to the Company and the Subsidiaries (collectively, the “Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or the Subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(xxxi) Compliance with OFAC. None of the Company, the Subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee or affiliate (other than the Underwriters) of the Company or the Subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”); and the Company will not, directly or indirectly, use the proceeds of the offering of the Securities hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xxxii) Sarbanes-Oxley Act. Except as disclosed in the General Disclosure Package, the Company is, and to the knowledge of the Company, the Company’s directors and officers, in their capacities as such, are, in compliance in all material respects with any applicable provision of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith, including Section 402 related to loans and Sections 302 and 906 related to certifications.

(b) *Representations and Warranties of the Adviser and the Administrator*. The Adviser and the Administrator, jointly and severally, represent to each Underwriter as of the date hereof, as of the Applicable Time, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter as follows:

(i) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package and the Prospectus, except as otherwise stated therein, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or regulatory status of the Adviser or the Administrator, whether or not arising in the ordinary course of business (an “Adviser Material Adverse Effect”).

(ii) Good Standing. Each of the Adviser and the Administrator has been duly organized and is validly existing as a limited liability company in good standing under the laws of the State of Delaware, and has limited liability company power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; the Adviser has limited liability company power and authority to execute and deliver and perform its obligations under the Investment Management Agreement; the Administrator has limited liability company power and authority to enter into and perform its obligations under the Administration Agreement; and each of the Adviser and the Administrator is duly qualified to transact business as a foreign entity and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of ownership or leasing of its property or the conduct of business, except where the failure to qualify or be in good standing would not otherwise reasonably be expected to result in an Adviser Material Adverse Effect.

(iii) Registration Under Advisers Act. The Adviser is duly registered with the Commission as an investment adviser under the Advisers Act and is not prohibited by the Advisers Act or the 1940 Act from acting under the Investment Management Agreement for the Company as contemplated by the Prospectus. There does not exist any proceeding or, to the Adviser's knowledge, any facts or circumstances the existence of which could lead to any proceeding which might adversely affect the registration of the Adviser with the Commission.

(iv) Absence of Proceedings. There is no action, suit or proceeding or, to the knowledge of the Adviser or the Administrator, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Adviser or the Administrator, threatened, against or affecting either the Adviser or the Administrator, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in an Adviser Material Adverse Effect, or which would reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in this Agreement, the Indenture, the Securities, the Investment Management Agreement or the Administration Agreement; the aggregate of all pending legal or governmental proceedings to which the Adviser or the Administrator is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to their business, would not reasonably be expected to result in an Adviser Material Adverse Effect.

(v) Absence of Defaults and Conflicts. Neither the Adviser nor the Administrator is in violation of its limited liability company operating agreement or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Adviser or the Administrator is a party or by which it or any of them may be bound, or to which any of the property or assets of the Adviser or the Administrator is subject (collectively, the "Adviser/Administrator Agreements and Instruments"), or in violation of any law, statute, rule, regulation, judgment, order or decree except for such violations or defaults that would not reasonably be expected to result in an Adviser Material Adverse Effect; and the execution, delivery and performance of this Agreement, the Investment Management Agreement and the Administration Agreement and the consummation of the transactions contemplated herein and therein and in the Registration Statement and General Disclosure Package (including the issuance and sale of the Underwritten Securities and the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption "Use of Proceeds") and compliance by the Adviser and the Administrator with their respective obligations hereunder and under the Investment Management Agreement and the Administration Agreement do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Adviser or the Administrator pursuant to, the Adviser/Administrator Agreements and Instruments except for such violations or defaults that would not reasonably be expected to result in an Adviser Material Adverse Effect, nor will such action result in any violation of the provisions of the limited liability company operating agreement of the Adviser or Administrator, respectively, or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Adviser or the Administrator or any of their assets, properties or operations.

(vi) Authorization of Agreements. This Agreement, the Investment Management Agreement and the Administration Agreement have been duly authorized, executed and delivered by the Adviser and the Administrator, as applicable. This Agreement, the Investment Management Agreement and the Administration Agreement are valid and binding obligations of the Adviser or the Administrator, as applicable, enforceable against them in accordance with their terms, except as the enforcement thereof may be limited subject to the effect of (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, including without limitation all laws relating to fraudulent transfers; (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law); and (iii) principles of public policy.

(vii) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Adviser or the Administrator of their obligations hereunder, in connection with the offering, issuance or sale of the Underwritten Securities hereunder or the consummation of the transactions

contemplated by this Agreement, the Indenture, the Investment Management Agreement, the Administration Agreement, the General Disclosure Package or the Prospectus (including the use of the proceeds from the sale of the Underwritten Securities as described in the Prospectus under the caption "Use of Proceeds"), except (A) such as have been already obtained under the 1933 Act, the 1933 Act Regulations or the 1940 Act, (B) such as may be required under state securities laws and (C) the filing of the Notification of Election under the 1940 Act, which has been effected.

(viii) Description of Adviser and Administrator. The description of the Adviser and the Administrator contained in the Registration Statement, the General Disclosure Package and the Prospectus does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(ix) Possession of Licenses and Permits. The Adviser and the Administrator possess such Governmental Licenses issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them, except where the failure so to possess would not reasonably be expected to, singly or in the aggregate, result in an Adviser Material Adverse Effect; the Adviser and the Administrator are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, result in an Adviser Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except where the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not, singly or in the aggregate, result in an Adviser Material Adverse Effect; and neither the Adviser nor the Administrator has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in an Adviser Material Adverse Effect.

(x) Stabilization and Manipulation. Neither the Adviser, the Administrator nor any of their respective partners, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, under the 1934 Act, to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Underwritten Securities in violation of any law, statute, regulation or rule applicable to the Adviser, the Administrator or any of their respective partners, officers, affiliates or controlling persons.

(xi) Employment Status. Neither the Adviser nor the Administrator is aware that (i) any executive, key employee or significant group of employees of Horizon Technology Finance Management LLC plans to terminate employment with Horizon Technology Finance Management LLC, or (ii) any such executive or key employee is subject to any non-compete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Adviser or the Administrator except where such termination or violation would not reasonably be expected to have an Adviser Material Adverse Effect.

(xii) Internal Controls. The Adviser is using its commercially reasonable efforts to maintain a system of internal controls sufficient to provide reasonable assurance that (A) transactions effectuated by it under the Investment Management Agreement are executed in accordance with its management's general or specific authorization; and (B) access to the Company's assets that are in its possession or control is permitted only in accordance with its management's general or specific authorization.

(xiii) Accounting Controls. The Administrator is using its commercially reasonable efforts to maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions for which it has bookkeeping and record keeping responsibility for under the Administration Agreement are recorded as necessary to permit preparation of the Company's financial statements in conformity with GAAP and to maintain financial statements in conformity with GAAP and to maintain accountability for the Company's assets and (B) the recorded accountability for such assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(c) Officer's Certificates. Any certificate signed by any officer of the Company, any of the Subsidiaries, the Adviser or the Administrator delivered to the Representatives or to counsel for the Underwriters

shall be deemed a representation and warranty by the Company, such Subsidiary, the Adviser and/or the Administrator, as applicable, to each Underwriter as to the matters covered thereby.

**SECTION 2. Sale and Delivery to Underwriters; Closing.**

(a) *Initial Securities.* On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, at the price set forth in Schedule B, the aggregate principal amount of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional aggregate principal amount of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) *Option Securities.* In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional \$• aggregate principal amount of Securities at the price set forth in Schedule B. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time on up to two occasions only for the purpose of covering overallotments which may be made in connection with the offering and distribution of the Initial Securities upon notice by the Representatives to the Company setting forth the aggregate principal amount of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a "Date of Delivery") shall be determined by the Representatives, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the aggregate principal amount of Option Securities then being purchased which the aggregate principal amount of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total aggregate principal amount of Initial Securities.

(c) *Payment.* Payment of the purchase price for, against delivery of, the Initial Securities shall be made at the offices of [ ], counsel for the Underwriters, or at such other place as shall be agreed upon by the Representatives and the Company, at 9:00 A.M. (Eastern Time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern Time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, against delivery of, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company, on each Date of Delivery as specified in the notice from the Representatives to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives through the facilities of DTC for the respective accounts of the Underwriters of certificates for the Underwritten Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. The Representatives, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) *Denominations; Registration.* The certificates or receipts for the Initial Securities and the Option Securities, if any, shall be transferred electronically at the Closing Time or the relevant Date of Delivery, as the case may be, in such denominations and registered in such names as the Representatives may request; provided that any such request must be received in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be.



SECTION 3. Covenants of the Company. The Company covenants with each Underwriter as follows:

(a) *Compliance with Securities Regulations and Commission Requests*. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company, subject to Section 3(b), will comply with the requirements of Rule 415, Rule 430A and Rule 497 and will notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission relating to the Registration Statement, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Underwritten Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 497 and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 497 was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company will use its reasonable efforts to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) *Filing of Amendments*. During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the 1933 Act (but in any event through the Closing Date), the Company will give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)) or any amendment, supplement or revision to any preliminary prospectus (including any prospectus included in the Registration Statement at the time it became effective) or to the Prospectus and will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be. The Company has given the Underwriters notice of any filings made pursuant to the 1934 Act or the rules and regulations adopted thereunder within 48 hours prior to the Applicable Time; the Company will give the Underwriters notice of its intention to make any such filing from the Applicable Time to the Closing Time and will furnish the Underwriters with copies of any such documents a reasonable amount of time prior to such proposed filing.

(c) *Delivery of Commission Filings*. The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, conformed copies of the Registration Statement as originally filed, and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and conformed copies of all consents and certificates of experts, and, upon the Representatives' request, will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T, or as filed with the Commission in paper form as permitted by Regulation S-T.

(d) *Delivery of Prospectuses*. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) *Continued Compliance with Securities Laws*. The Company will use its commercially reasonable efforts to comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Underwritten Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Underwritten Securities, any

event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(f) *Blue Sky Qualifications.* The Company will use its commercially reasonable efforts, in cooperation with the Underwriters, to qualify the Underwritten Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Representatives may designate and to maintain such qualifications in effect for as long as the Representatives reasonably request; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(g) *Rule 158.* The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as reasonably practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) *DTC.* The Company will cooperate with the Representatives and use its commercially reasonable efforts to permit the Initial Securities to be eligible for clearance and settlement through the facilities of DTC.

(i) *Reservation of Shares of Common Stock.* The Company will, at all times, reserve and keep available, free of preemptive rights, enough shares of Common Stock for the purpose of enabling the Company to satisfy any obligations to issue shares of Common Stock upon conversion of the Underwritten Securities.

(j) *Use of Proceeds.* The Company will use the net proceeds received by it from the sale of the Underwritten Securities in the manner specified in the General Disclosure Package and in the Prospectus under "Use of Proceeds".

(k) *Listing.* The Company will use its commercially reasonable efforts to effect and maintain the quotation of [if applicable, describe Securities] on The NASDAQ Global Market.]

(l) *Restriction on Sale of Underwritten Securities.* During a period of [ ] days from the date of the Prospectus, the Company will not, without the prior written consent of the Representatives, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any Underwritten Securities or any securities convertible into or exercisable or exchangeable for Underwritten Securities or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Underwritten Securities, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Underwritten Securities or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the registration and sale of Underwritten Securities to be sold hereunder, (B) the issuance of any Underwritten Securities issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, and any registration related thereto, or (C) any Underwritten Securities issued to directors in lieu of directors' fees, and any registration related thereto. Notwithstanding the foregoing, if: (1) during the last 17 days of such -day period the Company issues an earnings release or material news or a material event relating to the Company occurs; or (2) prior to the expiration of such -day period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day-period beginning on the last day of such -day period, the restrictions imposed in this clause (j) shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(m) *Reporting Requirements.* The Company, during the period when the Prospectus is required to be delivered under the 1933 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(n) *Business Development Company Status.* The Company, during a period of at least 12 months from the Closing Time, will use its commercially reasonable efforts to maintain its status as a business development company; provided, however, the Company may cease to be, or withdraw its election as, a business development company, with the approval of the board of directors and a vote of stockholders as required by Section 58 of the 1940 Act or any successor provision.

(p) *Regulated Investment Company Status.* During the 12-month period following the Closing Time, the Company will use its commercially reasonable efforts to qualify and elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and to maintain such qualification and election in effect for each full fiscal year during which it is a business development company under the 1940 Act.

(q) *Accounting Controls.* The Company will use its commercially reasonable efforts to maintain a system of internal accounting controls sufficient to provide reasonable assurances that (A) material information relating to the Company and the assets managed by the Adviser is promptly made known to the officers responsible for establishing and maintaining the system of internal accounting controls; and (B) any significant deficiencies or weaknesses in the design or operation of internal accounting controls which could adversely affect the Company's ability to record, process, summarize and report financial data, and any fraud whether or not material that involves management or other employees who have a significant role in internal controls, are adequately and promptly disclosed to the Company's independent auditors and the audit committee of the Company's board of directors.

#### SECTION 4. Payment of Expenses.

(a) *Expenses.* The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the printing and delivery to the Underwriters of this Agreement, the Indenture, the DTC Agreement, the Warrant Agreement, if any, any Agreement among the Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Underwritten Securities, (iii) the preparation, issuance and delivery of the certificates for the Underwritten Securities and any Warrant Securities issuable upon exercise of the Debt Warrants to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Underwritten Securities and any Warrant Securities to the Underwriters, (iv) the fees and disbursements of the Company's, the Adviser's and the Administrator's counsel, accountants and other advisors, (v) the qualification of the Underwritten Securities and any Warrant Securities issuable upon exercise of the Debt Warrants under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectus and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of the trustee with respect to the Underwritten Securities and any transfer agent or registrar for the Underwritten Securities, (ix) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the Underwritten Securities, including without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and 50% of the cost of aircraft and other transportation chartered in connection with the road show, (x) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the Financial Industry Regulatory Authority ("FINRA") of the terms of the sale of the Underwritten Securities, (xi) the fees and expenses incurred in connection with the inclusion of the Underwritten Securities or any Warrant Securities, if applicable, in The NASDAQ Global Market and (xii) the costs and expenses (including without limitation any damages or other amounts payable in connection with legal or contractual liability) associated with the reforming of

any contracts for sale of the Underwritten Securities made by the Underwriters (which are terminated prior to the Closing Date) caused by a breach of the representation contained in the fourth paragraph of Section 1(a)(i).

(b) *Termination of Agreement.* If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) and (iii) hereof, the Company, the Adviser and the Administrator, jointly and severally, shall reimburse the Underwriters for all of their out-of-pocket expenses incurred, including the reasonable fees and disbursements of counsel for the Underwriters.

**SECTION 5. Conditions of Underwriters' Obligations.** The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company, the Adviser and the Administrator contained in Section 1 hereof or in certificates of any officer of the Company, the Adviser or the Administrator, to the performance by the Company, the Adviser and the Administrator of their respective covenants and other obligations hereunder, and to the following further conditions:

(a) *Effectiveness of Registration Statement.* The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A final prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 497.

(b) *Opinions of Counsel for Company.* At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Squire, Sanders & Dempsey (US) LLP counsel for the Company, in form and substance reasonably satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth on Exhibit A hereto. Such counsel may state that, insofar as such opinion involves factual matters, they have relied upon certificates of officers of the Company and/or any of the Subsidiaries and certificates of public officials.

(c) *Opinion of Counsel for Underwriters.* At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of [ ], counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York and the federal law of the United States upon the opinions of counsel reasonably satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and/or any of the Subsidiaries and certificates of public officials.

(d) *Officers' Certificates.*

(i) At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and the Subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the chief executive officer of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (A) there has been no such material adverse change, (B) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (C) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time and (D) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to their knowledge, contemplated by the Commission.

(ii) At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or regulatory status of the Adviser or the Administrator, whether or not arising in the ordinary course of business, that would

reasonably be expected to result in an Adviser Material Adverse Effect, and the Representatives shall have received a certificate of two authorized officers of each of the Adviser and the Administrator, dated as of Closing Time, to the effect that (A) there has been no such Adviser Material Adverse Effect, (B) the representations and warranties of the Adviser and Administrator in Sections 1(a) and 1(b) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (C) the Adviser and the Administrator have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time and (D) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to their knowledge, contemplated by the Commission.

(e) *Accountant's Comfort Letter and CFO Certificate.* At the time of the execution of this Agreement the Representatives shall have received:

(i) A letter from McGladrey & Pullen, LLP, independent public accountants for the Company, in form and substance reasonably satisfactory to the Representatives, covering the financial information in the Registration Statement, the General Disclosure Package and the Prospectus of the Company, together with signed or reproduced copies of such letter for each of the other Underwriters, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(ii) A certificate of the chief financial officer of the Company, in form and substance reasonably satisfactory to the Representatives and as agreed upon prior to the date hereof, covering certain financial matters of the Company, together with signed or reproduced copies of such certificate for each of the other Underwriters.

(f) *Bring-down Comfort Letter and CFO Certificate.* At Closing Time, the Representatives shall have received (i) from McGladrey & Pullen, LLP a letter with respect to the Company, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e)(i) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time and (ii) from the Company a certificate of the chief financial officer of the Company, dated as of the Closing Time, to the effect that the chief financial officer of the Company reaffirms the statements made in the certificate furnished pursuant to subsection (e)(ii) of this Section.

(g) *No Objection.* FINRA has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(h) *[Approval of Listing.* At Closing Time, the [if applicable, describe Securities] shall have been approved for inclusion in The NASDAQ Global Market, subject only to official notice of issuance.]

(i) *Indenture.* At or prior to the Closing Time, the Company and the Trustee shall have executed and delivered the Indenture.

(j) *Lock-up Agreements.* At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto. Notwithstanding the foregoing or any provision of Section 3(l) of this Agreement or any lock-up agreement delivered in connection with this Section 5(i) to the contrary, the Company may pledge shares of Common Stock of the Company owned by the Company in one or more bona fide lending transactions.

(k) *[Ratings.* On the Closing Date, the Underwritten Securities shall be rated at least by • and since the date of this Agreement, there shall not have occurred a downgrading in the rating assigned to the Underwritten Securities by any "nationally recognized statistical rating agency," as that term is defined by the Commission for purposes of Rule 436(g)(2) under the 1933 Act, and no such organization shall have publicly announced it has under surveillance or review its rating of the Underwritten Securities.]

(l) *Conditions to Purchase of Option Securities.* In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations and warranties of the Company, the Adviser and the Administrator contained herein and the statements in any

certificates furnished by the Company, the Adviser and the Administrator hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) Officers' Certificates.

(A) A certificate, dated such Date of Delivery, of the chief executive officer of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d)(i) hereof remains true and correct as of such Date of Delivery.

(B) A certificate, dated such Date of Delivery, of two authorized officers of each of the Adviser and the Administrator confirming that the certificates delivered at the Closing Time pursuant to Section 5(d)(ii) hereof remains true and correct as of such Date of Delivery.

(ii) Opinion of Counsel for Company. The favorable opinion of Squire, Sanders & Dempsey (US) LLP, counsel for the Company, in form and substance reasonably satisfactory to the Representatives, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) Opinion of Counsel for Underwriters. The favorable opinion of [ ], counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) Bring-down Comfort Letter and CFO Certificate.

(A) A letter with respect to the Company from McGladrey & Pullen, LLP, in form and substance reasonably satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Representatives pursuant to Section 5(f)(i) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(B) A certificate, in form and substance reasonably satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the certificate furnished to the Representatives pursuant to Section 5(f)(ii) hereof.

(m) Additional Documents. At Closing Time and at each Date of Delivery, counsel for the Underwriters shall have been furnished with such documents as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Underwritten Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company, the Adviser and the Administrator in connection with the issuance and sale of the Underwritten Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(n) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities, on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. Indemnification.

(a) Indemnification of Underwriters. The Company, the Adviser and the Administrator, jointly and severally, agree to indemnify and hold harmless each Underwriter, its affiliates, as such term is defined in Rule

501(b) under the 1933 Act (each, an “Affiliate”), its selling agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information (including the information on Schedule B hereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or in the General Disclosure Package, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company;

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by the Representatives), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package.

(b) *Indemnification of Company, Directors, Officers, Adviser and Administrator.* Each Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers, each person, if any, who controls the Company, the Adviser or the Administrator within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, the Adviser and the Administrator against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or in the General Disclosure Package in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) *Actions against Parties; Notification.* Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder (an “Action”), but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) above, counsel to the indemnified parties shall be selected by the Representatives, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such Action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one Action or separate but similar or related Actions in the same jurisdiction arising out of the same general allegations or circumstances. No

indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Notwithstanding anything to the contrary herein, neither the assumption of the defense of any such Action nor the payment of any fees or expenses related thereto shall be deemed to be an admission by the indemnifying party that it has obligation to indemnify any person pursuant to this Agreement.

(d) *Settlement Without Consent if Failure to Reimburse.* If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) or 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) *Acknowledgement by the Company, the Adviser and the Administrator.* The Company, the Adviser and the Administrator also acknowledge and agree that (i) the purchase and sale of any Underwritten Securities pursuant to this Agreement, including the determination of the public offering price of the Underwritten Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Company, on the one hand, and the Underwriters of such Underwritten Securities, on the other hand, (ii) in connection with the public offering of the Underwritten Securities and the process leading to such transaction the Underwriters will act solely as principals and not as agents or fiduciaries of the Company or its stockholders, creditors, employees or any other party, (iii) the Underwriters will not assume an advisory or fiduciary responsibility in favor of the Company with respect to the offering of Underwritten Securities contemplated hereby or the process leading thereto (irrespective of whether the Underwriters have advised or are currently advising the Company on other matters) and the Underwriters will not have any obligation to the Company with respect to the Offering except the obligations expressly set forth herein, (iv) the Underwriters and their affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and (v) the Underwriters have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to the offering of the Underwritten Securities and the Company has consulted and will consult its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, the Adviser and the Administrator on the one hand and the Underwriters on the other hand from the offering of the Underwritten Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, the Adviser and the Administrator on the one hand and of the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company, the Adviser and the Administrator on the one hand and the Underwriters on the other hand in connection with the offering of the Underwritten Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Underwritten Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus, bear to the aggregate initial public offering price of the Underwritten Securities as set forth on the cover of the Prospectus.



The relative fault of the Company, the Adviser and the Administrator on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, the Adviser and the Administrator or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Adviser, the Administrator and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Underwritten Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and each Underwriter's Affiliates and selling agents shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company, and each person, if any, who controls the Company, Adviser or Administrator within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company, Adviser or Administrator, as the case may be. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the aggregate principal amount of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

Notwithstanding any other provision of Section 6 and this Section 7, no party shall be entitled to indemnification or contribution under this Agreement in violation of Section 17(i) of the 1940 Act.

SECTION 8. Representations, Warranties and Agreements to Survive. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, any of the Subsidiaries, the Adviser and the Administrator submitted pursuant hereto, shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or its Affiliates or selling agents, any person controlling any Underwriter, its officers or directors or any person controlling the Company and (ii) delivery of and payment for the Underwritten Securities.

SECTION 9. Termination of Agreement.

(a) *Termination; General.* The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus or the General Disclosure Package, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and the Subsidiaries considered as one enterprise, the Adviser or the Administrator, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable or inadvisable to market the Underwritten Securities

or to enforce contracts for the sale of the Underwritten Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or The NASDAQ Global Market or The NASDAQ Global Market, or (iv) if trading generally on the American Stock Exchange or the New York Stock Exchange or in The NASDAQ Global Market or The NASDAQ Global Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, FINRA or any other governmental authority or (v) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, or (vi) if a banking moratorium has been declared by either Federal or New York authorities.

(b) *Liabilities.* If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. Default by One or More of the Underwriters. If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Underwritten Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(i) if the aggregate principal amount of Defaulted Securities does not exceed 10% of the aggregate principal amount of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(ii) if the aggregate principal amount of Defaulted Securities exceeds 10% of the aggregate principal amount of Underwritten Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting Underwriter.

As used in this Section only, if the Defaulted Securities include Debt Warrants, the aggregate amount or aggregate principal amount of Securities shall mean the aggregate principal amount of any Securities plus the public offering price of any Debt Warrants included in the relevant Securities.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company to sell the relevant Option Securities, as the case may be, either the Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement, the General Disclosure Package or the Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. Tax Disclosure. Notwithstanding any other provision of this Agreement, from the commencement of discussions with respect to the transactions contemplated hereby, the Company (and each employee, representative or other agent of the Company) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the U.S. Code and the Treasury Regulations promulgated thereunder) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

SECTION 12. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representatives at [ ], with a copy to [ ]; and notices to the Company, the Adviser and Administrator shall be directed to them at Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032, Attention: Robert D. Pomeroy, Jr., with a copy to Squire, Sanders & Dempsey (US) LLP, 221 East Fourth Street, Suite 2900, Cincinnati, Ohio 45202, Attention: Stephen C. Mahon, Esq and Toby D. Merchant, Esq.

SECTION 13. Parties. This Agreement shall each inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters, the Company, the Adviser and the Administrator and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters, the Company, the Adviser and the Administrator and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Underwritten Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 14. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 15. TIME. TIME SHALL BE OF THE ESSENCE OF THIS AGREEMENT. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 16. Submission to Jurisdiction. Except as set forth below, no claim or action may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and both the Underwriters and the Company consent to the jurisdiction of such courts and personal service with respect thereto. The Underwriters and the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement.

SECTION 17. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

SECTION 18. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters, the Company, the Adviser and the Administrator in accordance with its terms.

Very truly yours,

COMPANY:

HORIZON TECHNOLOGY FINANCE CORPORATION

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ADVISER:

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ADMINISTRATOR:

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

CONFIRMED AND ACCEPTED,  
as of the date first above written:

[NAME OF REPRESENTATIVE]

By \_\_\_\_\_  
Authorized Signatory

[NAME OF REPRESENTATIVE]

By \_\_\_\_\_  
Authorized Signatory

For themselves and as Representatives of the other Underwriters named in Schedule A hereto.

---

Exhibit A

[To Come.]

---

Exhibit B

[To Come.]

---

SCHEDULE A

Name of Underwriter	• •	Aggregate Principal Amount of Senior Securities	• •	Aggregate Principal Amount of Subordinated Securities	• •	Number of Warrants

---



SCHEDULE B

HORIZON TECHNOLOGY FINANCE CORPORATION

\$ • Aggregate Principal Amount Senior Securities  
\$ • Aggregate Principal Amount Subordinated Securities  
• Warrants to Purchase Debt Securities

1. The aggregate principal amount of the Underwritten Securities is \$•.
  2. The public offering price for the Underwritten Securities shall be •% of the aggregate principal amount thereof plus accrued interest, if any, from the date of issuance.
  3. The purchase price for the Underwritten Securities to be paid by the several Underwriters shall be •% of the aggregate principal amount thereof, being an amount equal to the public offering price set forth above less •% of the aggregate principal amount thereof.
  4. The interest rate is •%.
  5. The interest payment dates are [ ]. The record dates are [ ]. The first interest payment date will be [ ].
  6. The Underwritten Securities may be redeemed in whole or in part at any time or from time to time on or after [ ], upon not less than 30 nor more than 60 days' written notice, at a redemption price of \$• per security plus accrued and unpaid interest.
  7. The trade date is •.
  8. The closing date will be •.
-

SCHEDULE C

List of persons and entities  
subject to lock-up

[To Come.]

\_\_\_\_\_, 20\_\_\_\_  
Horizon Technology Finance Corporation  
312 Farmington Avenue  
Farmington, Connecticut 06032

**Re: Registration Statement on Form N-2**

Ladies and Gentlemen,

We have acted as counsel to Horizon Technology Finance Corporation, a Delaware corporation (the "Company"), in connection with the preparation and filing of a Registration Statement on Form N-2 (as amended from time to time, the "Registration Statement") as filed on December 15, 2011 with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), and under the Investment Company Act of 1940, as amended (the "Investment Company Act"), relating to the offer, issuance and sale from time to time pursuant to Rule 415 under the Securities Act of up to \$250,000,000 in aggregate of the following securities:

- (i) shares of the Company's common stock, par value \$0.001 per share (the "Common Stock");
- (ii) shares of the Company's preferred stock, par value \$0.001 per share (the "Preferred Shares" and, together with the Common Stock, "Shares");
- (iii) debt securities (the "Debt Securities");
- (iv) warrants to purchase Common Stock, Preferred Stock or Debt Securities (the "Warrants");
- (v) subscription rights to purchase Common Stock (the "Rights"); and
- (vi) units comprised of one or more of the other securities described above (the "Units" and, together with the Common Stock, the Preferred Stock, the Debt Securities, the Warrants and the Rights, the "Securities").

The Registration Statement also relates to the offer, issuance and sale from time to time by certain selling stockholders named therein (the "Selling Stockholders") of up to 1,322,669 shares of Common Stock (the "Selling Stockholder Shares").

The Registration Statement provides that the Securities and the Selling Stockholder Shares may be issued from time to time in amounts, at prices, and on terms to be set forth in one or more supplements to the final prospectus (a "Prospectus Supplement") included in the Registration Statement at the time it becomes effective. This opinion is being furnished in accordance with the requirements of Item 25 of Form N-2, and no opinion is expressed herein as to any matter other than as to the legality of the Securities and the Selling Stockholder Shares.

---

The Debt Securities are to be issued under an indenture (the "Indenture") between the Company and a trustee (the "Trustee") to be selected by the Company. The Warrants are to be issued under warrant agreements (the "Warrant Agreements") between the Company and a warrant agent to be identified in the applicable agreement. The Rights are to be issued under subscription agreements (the "Subscription Agreements") between the Company and a subscription agent to be identified in the applicable agreement.

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments and such agreements, certificates and receipts of public officials, certificates of officers or other representatives of the Company and others, and such other documents as we have deemed necessary or appropriate as a basis for rendering this opinion, including the following documents:

- (i) the Registration Statement;
- (ii) the amended and restated certificate of incorporation of the Company (the "Certificate of Incorporation");
- (iii) the bylaws of the Company (the "Bylaws");
- (iv) the form of certificate of Common Stock;
- (v) the form of certificate of designation of Preferred Stock;
- (vi) the form of Indenture;
- (vii) the form of Warrant Agreement;
- (viii) the form of Subscription Agreement and form of subscription certificate;
- (ix) the form of underwriting agreement for equity securities;
- (x) the form of underwriting agreement for debt securities;
- (xi) a certificate of good standing with respect to the Company issued by the Secretary of State of the State of Delaware as of a recent date (the "Certificate of Good Standing"); and
- (xii) the resolutions of the board of directors of the Company (the "Board") relating to, among other things, the authorization and approval of the preparation and filing of the Registration Statement (the "Resolutions").

With respect to such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as original documents and the conformity to original documents of all documents submitted to us as copies. In addition, we have assumed (i) the legal capacity of natural persons; (ii) the legal power and authority of all persons signing on behalf of the parties to all documents (other than the Company); (iii) there has been no oral or written modification of or amendment

---

to any of the documents submitted to us, by action or omission of the parties or otherwise; (iv) the Registration Statement will be declared effective by the Commission and will continue to be effective, a Prospectus Supplement will have been prepared and filed with the Commission describing the Securities and the Selling Stockholder Shares offered thereby and such Securities and the Selling Stockholder Shares will have been issued and sold in accordance with the terms of such Prospectus Supplement; (v) the terms of the Securities as established and the issuance and sale thereof comply with the applicable requirements of the Investment Company Act, (vi) the Resolutions shall remain in effect and unchanged at all times during which the Securities and the Selling Stockholder Shares are offered, sold or issued by the Company and/or the Selling Stockholders; and (vii) any underwriting agreement with respect to such Securities and the Selling Stockholder Shares, if applicable, will have been duly authorized, executed and delivered by the Company and/or the Selling Stockholders and the other parties thereto.

On the basis of and subject to the foregoing, and in reliance thereon, and subject to the limitations and qualifications set forth in this letter, we are of the opinion that:

1. Assuming (i) the issuance, offer and sale of the Shares from time to time and the final terms and conditions of such issuance, offer and sale, including those relating to the price and amount of the Shares to be issued, offered and sold, have been duly authorized and determined or otherwise established by proper action of the Board and the stockholders in accordance with the General Corporate Law of the State of Delaware (the “DGCL”), the Certificate of Incorporation, the Bylaws and the Resolutions, (ii) the Shares have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (iii) upon issuance of the Shares, the total number of shares of Common Stock, in the case that the Shares so issued are Common Stock, or Preferred Stock, in the case that the Shares so issued are Preferred Stock, issued and outstanding does not exceed the total number of shares of Common Stock, in the case that the Shares so issued are Common Stock, or Preferred Stock, in the case that the Shares so issued are Preferred Stock, that the Company is then authorized to issue under the Certificate of Incorporation, (iv) the Certificate of Good Standing remains accurate, (v) in the case of shares of Common Stock or Preferred Stock issuable upon the exercise of the Warrants or shares of Common Stock issuable upon the exercise of the Rights, the assumptions stated in paragraphs numbered (3) and (4) are true and correct and (vi) prior to the issuance of a series of Preferred Stock, an appropriate certificate of designation or board resolution relating to such series of Preferred Stock will have been duly authorized by the Company and filed with the Secretary of State of Delaware, the Shares will be duly authorized, validly issued, fully paid and nonassessable.

2. Assuming (i) the Indenture relating to the Debt Securities has been duly authorized, executed and delivered by each of the Company and the Trustee in accordance with the terms of the Indenture, (ii) the issuance, offer and sale of the Debt Securities from time to time and the final terms and conditions of the Debt Securities to be so issued, offered and sold, including those relating to price and amount of Debt Securities to be issued, offered and sold (a) have been duly authorized and determined or otherwise established by proper action of the Board and the stockholders in accordance with the Certificate of Incorporation and the Bylaws, (b) are consistent with the terms thereof in the Indenture, (c) do not violate any applicable law, (d) do not violate or result in a default under or breach of any agreement, instrument or other document binding upon the Company, and (e) comply with all requirements or restrictions imposed by any court or governmental body having jurisdiction over the Company and (iii) the Debt Securities have been (a) duly executed and delivered by the Company and duly authenticated by the Trustee in accordance with the Indenture and (b) delivered to, and the agreed

---

consideration therefor has been fully paid at the time of such delivery by, the purchasers thereof, the Debt Securities will constitute valid and legally binding obligations of the Company.

3. Assuming (i) the Warrant Agreements relating to the Warrants have been duly authorized, executed and delivered by the parties thereto, and that no terms included therein would affect the validity of the opinion expressed in this paragraph numbered (3), (ii) the issuance, offer and sale of Warrants from time to time and the final terms and conditions of the Warrants to be so issued, offered and sold, including those relating to price and amount of Warrants to be issued, offered and sold (a) have been duly authorized and determined or otherwise established by proper action of the Board and the stockholders in accordance with the Certificate of Incorporation and the Bylaws, (b) are consistent with the terms thereof in the applicable Warrant Agreement, (c) do not violate any applicable law, (d) do not violate or result in a default under or breach of any agreement, instrument or other document binding upon the Company, and (e) comply with all requirements or restrictions imposed by any court or governmental body having jurisdiction over the Company and (iii) the Warrants have been (a) duly executed and delivered by the Company and duly countersigned in accordance with the applicable Warrant Agreement, and (b) delivered to, and the agreed consideration therefore has been fully paid at the time of such delivery by, the purchasers thereof as anticipated by the Registration Statement, the Warrants will constitute valid and legally binding obligations of the Company.

4. Assuming (i) the Subscription Agreements relating to the Rights have been duly authorized, executed and delivered by the parties thereof, and that no terms included therein would affect the validity of the opinion expressed in this paragraph numbered (4), (ii) the issuance, offer and sale of Rights from time to time and the final terms and conditions of the Rights to be so issued, offered and sold, including those relating to price and amount of Rights to be issued, offered and sold (a) have been duly authorized and determined or otherwise established by proper action of the Board and the stockholders in accordance with the Certificate of Incorporation and the Bylaws, (b) are consistent with the terms thereof in the applicable Subscription Agreement, (c) do not violate any applicable law, (d) do not violate or result in a default under or breach of any agreement, instrument or other document binding upon the Company, and (e) comply with all requirements or restrictions imposed by any court or governmental body having jurisdiction over the Company and (iii) the Rights have been (a) duly executed and delivered by the Company and duly countersigned in accordance with the applicable Subscription Agreement, and (b) delivered to, and the agreed consideration therefore has been fully paid at the time of such delivery by, the purchasers thereof as anticipated by the Registration Statement, the Rights will constitute valid and legally binding obligations of the Company.

5. Assuming (i) the issuance, offer and sale of the Units from time to time and the final terms and conditions of such issuance, offer and sale, including those relating to the price and amount of the Units to be issued, offered and sold, have been duly authorized and determined or otherwise established by proper action of the Board and the stockholders in accordance with the Certificate of Incorporation and the Bylaws, (ii) the Units have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (iii) in the case of any shares of Common Stock and/or shares of Preferred Stock owned as part of the Units, the assumptions stated in paragraph number (1) are true and correct, (iv) in the case of any shares of Common Stock or shares of Preferred Stock issuable upon the exercise of the Warrants owned as part of the Units, the assumptions stated in paragraph number (3) are true and correct, (v) in the case of any shares of Common Stock issuable upon the exercise of the

---

Rights owned as part of the Units, the assumptions stated in paragraph number (4) are true and correct, (vi) in the case of any Debt Securities owned as part of the Units, the assumptions stated in paragraph number (2) are true and correct and (vii) in the case of any debt obligations of third parties owned as part of the Units, any laws applicable to such debt obligations are not violated, the Units will constitute valid and legally binding obligations of the Company.

6. The Selling Stockholder Shares have been duly authorized and validly issued, and are fully paid and nonassessable.

The opinions expressed herein are limited to the DGCL, and, as to the Debt Securities, the Warrants and the Rights constituting valid and legally binding obligations of the Company, the laws of the State of New York, in each case, as in effect on the date hereof, and we express no opinion as to the applicability or effect of the laws of any other jurisdiction, including the securities laws of any state, or the Investment Company Act. The opinion expressed herein as to enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law) and (iii) the effect of judicial decisions which may permit the introduction of parol evidence to modify the terms or the interpretations of agreements.

The opinion expressed herein is limited to the matters specifically set forth herein and no other opinion shall be inferred beyond the matters expressly stated. This opinion letter has been prepared for your use solely in connection with the Registration Statement. We assume no obligation to advise you of any changes in the foregoing subsequent to the date of this opinion.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus which forms a part of the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

Very truly yours,

**Consent of Independent Registered Public Accounting Firm**

We consent to the use in this Registration Statement on Form N-2 of Horizon Technology Finance Corporation of our report dated March 16, 2011, relating to our audits of the consolidated financial statements of Horizon Technology Finance Corporation and Subsidiaries, appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to our firm under the captions "Independent Registered Public Accounting Firm" and "Selected Consolidated Financial and Other Data" in such Prospectus.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut  
December 15, 2011