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

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 814-00802

HORIZON TECHNOLOGY FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**27-2114934**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
312 Farmington Avenue **Farmington, CT**	**06032**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code (860) 676-8654

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

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

As of November 4, 2014, the Registrant had 9,626,175 shares of common stock, $0.001 par value, outstanding.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-Q
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Item 1. Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	September 30, 2014	December 31, 2013
Assets		
Non-affiliate investments at fair value (cost of $208,727 and $234,310, respectively) (Note 4)	$ 204,694	$ 221,284
Cash	15,194	25,341
Investments in money market funds	800	1,188
Restricted investments in money market funds	3,368	5,951
Interest receivable	4,905	4,240
Other assets	3,622	5,733
Total assets	$ 232,583	$ 263,737
Liabilities		
Borrowings (Note 6)	$ 87,902	$ 122,343
Distributions payable	3,321	3,315
Base management fee payable (Note 3)	355	439
Incentive fee payable (Note 3)	800	852
Other accrued expenses	1,778	953
Total liabilities	94,156	127,902
Commitments and Contingencies (Notes 7 and 8)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 9,625,274 and 9,608,949 shares outstanding as of September 30, 2014 and December 31, 2013, respectively	10	10
Paid-in capital in excess of par	155,202	154,975
Accumulated (distributions in excess of) undistributed net investment income	(975)	1,463
Net unrealized depreciation on investments	(4,033)	(13,026)
Net realized loss on investments	(11,777)	(7,587)
Total net assets	138,427	135,835
Total liabilities and net assets	$ 232,583	$ 263,737
Net asset value per common share	$ 14.38	$ 14.14

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Investment income				
Interest income on non-affiliate investments	$ 6,786	$ 8,225	$ 21,714	$ 23,979
Fee income on non-affiliate investments	953	487	2,257	889
Total investment income	7,739	8,712	23,971	24,868
Expenses				
Interest expense	1,495	2,189	7,326	5,886
Base management fee[1] (Note 3)	1,038	1,266	3,380	3,836
Performance based incentive fee[1] (Note 3)	800	872	1,207	2,465
Administrative fee (Note 3)	335	287	872	889
Professional fees	607	284	2,721	977
General and administrative	223	247	823	793
Total expenses	4,498	5,145	16,329	14,846
Net investment income before excise tax	3,241	3,567	7,642	10,022
Provision for excise tax	(40)	(80)	(120)	(160)
Net investment income	3,201	3,487	7,522	9,862
Net realized and unrealized gain (loss) on investments				
Net realized gain (loss) on investments	2,325	(5,566)	(4,190)	(5,839)
Net unrealized (depreciation) appreciation on investments	(766)	5,967	8,993	3,996
Net realized and unrealized gain (loss) on investments	1,559	401	4,803	(1,843)
Net increase in net assets resulting from operations	$ 4,760	$ 3,888	$ 12,325	$ 8,019
Net investment income per common share	$ 0.33	$ 0.36	$ 0.78	$ 1.03
Net increase in net assets per common share	$ 0.50	$ 0.41	$ 1.28	$ 0.84
Distributions declared per share	$ 0.345	$ 0.345	$ 1.035	$ 1.035
Weighted average shares outstanding	9,623,468	9,584,376	9,619,133	9,577,912

(1) During the three months ended September 30, 2013, the Advisor waived $144 of base management fee. During the nine months ended September 30, 2014 and 2013, the Advisor waived $238 and $144 of base management fee, respectively. During the nine months ended September 30, 2014, the Advisor waived $107 of performance based incentive fee. Had these expenses not been waived, the base management fee for the three months ended September 30, 2013 would have been $1,410. Had these expenses not been waived, the base management fee for the nine months ended September 30, 2014 and 2013 would have been $3,618 and $3,980, respectively, and performance based incentive fee for the nine months ended September 30, 2014 would have been $1,314.

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)

	Shares	Common Stock	Paid-In Capital in Excess of Par	Accumulated (Distribution in Excess of) Undistributed Net Investment Income	Net Unrealized Depreciation on Investments	Net Realized Loss on Investments	Total Net Assets
Balance at December 31, 2012	9,567,225	$ 10	$ 154,384	$ 1,428	$ (10,772)	$ (78)	$ 144,972
Net increase in net assets resulting from operations	—	—	—	9,862	3,996	(5,839)	8,019
Issuance of common stock under dividend reinvestment plan	21,768	—	312	—	—	—	312
Distributions declared	—	—	—	(9,919)	—	—	(9,919)
Balance at September 30, 2013	9,588,993	$ 10	$ 154,696	$ 1,371	$ (6,776)	$ (5,917)	$ 143,384
Balance at December 31, 2013	9,608,949	$ 10	$ 154,975	$ 1,463	$ (13,026)	$ (7,587)	$ 135,835
Net increase in net assets resulting from operations	—	—	—	7,522	8,993	(4,190)	12,325
Issuance of common stock under dividend reinvestment plan	16,325	—	227	—	—	—	227
Distributions declared	—	—	—	(9,960)	—	—	(9,960)
Balance at September 30, 2014	9,625,274	$ 10	$ 155,202	$ (975)	$ (4,033)	$ (11,777)	$ 138,427

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 12,325	$ 8,019
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Amortization of debt issuance costs	2,370	902
Net realized loss on investments	4,190	5,629
Net unrealized appreciation on investments	(8,993)	(3,996)
Purchase of investments	(66,836)	(69,143)
Principal payments received on investments	83,906	55,954
Proceeds from sale of investments	5,119	39
Changes in assets and liabilities:		
Decrease (increase) in investments in money market funds	388	(22,459)
Decrease (increase) in restricted investments in money market funds	2,583	(3,568)
Increase in interest receivable	(168)	(160)
Increase in end-of-term payments	(497)	(1,148)
Decrease in unearned loan income	(796)	(1,190)
(Increase) decrease in other assets	(259)	458
Increase (decrease) in other accrued expenses	825	(143)
Decrease in base management fee payable	(84)	(76)
(Decrease) increase in incentive fee payable	(52)	17
Net cash provided by (used in) operating activities	34,021	(30,865)
Cash flows from financing activities:		
Proceeds from issuance of Asset-Backed Notes	—	90,000
Repayment of Asset-Backed Notes	(34,441)	—
Distributions paid	(9,727)	(9,599)
Net decrease in credit facilities	—	(46,020)
Debt issuance costs	—	(2,125)
Net cash (used in) provided by financing activities	(44,168)	32,256
Net (decrease) increase in cash	(10,147)	1,391
Cash:		
Beginning of period	25,341	1,048
End of period	$ 15,194	$ 2,439
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,968	$ 4,982
Supplemental non-cash investing and financing activities:		
Warrant investments received & recorded as unearned loan income	$ 501	$ 626
Distributions payable	$ 3,321	$ 3,308

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2014
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments — 141.3% (9)					
Debt Investments — Life Science — 29.0% (9)					
Argos Therapeutics, Inc. (5)	Biotechnology	Term Loan (9.25% cash (Libor + 9.25%; Floor 9.25%; Ceiling 10.75%), 5% ETP, Due 10/1/18)	$ 5,000	$ 4,867	$ 4,867
Inotek Pharmaceuticals Corporation (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 10/1/16)	3,152	3,130	3,130
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	1,451	1,424	1,424
		Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	484	480	480
Sample6, Inc. (2)	Biotechnology	Term Loan (9.50% cash (Libor + 9.50%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	1,555	1,548	1,548
	Biotechnology	Term Loan (9.50% cash (Libor + 9.50%; Floor 9.50%; Ceiling 11.00%), 4.00% ETP, Due 4/1/18)	945	910	910
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 3.75% ETP, Due 10/1/15)	870	868	868
		Term Loan (9.00% cash, 3.75% ETP, Due 10/1/15)	1,306	1,293	1,293
Xcovery Holding Company, LLC (2)	Biotechnology	Term Loan (12.50% cash, Due 8/1/15)	488	487	487
		Term Loan (12.50% cash, Due 8/1/15)	767	766	766
		Term Loan (12.50% cash, Due 10/1/15)	153	153	153
Accuvein, Inc. (2)	Medical Device	Term Loan (10.40% cash (Libor + 9.90%; Floor 10.40%; Ceiling 11.90%), 5.00% ETP, Due 8/1/17)	4,000	3,952	3,952
IntegenX, Inc. (2)	Medical Device	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 3.50% ETP, Due 7/1/18)	3,750	3,680	3,680
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (10.50% cash (Libor + 10.00%; Floor 10.50%; Ceiling 12.00%), 3.00% ETP, Due 2/1/18)	3,500	3,420	3,420
Mederi Therapeutics, Inc. (2)	Medical Device	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 4.00% ETP, Due 7/1/17)	3,000	2,966	2,966
		Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 4.00% ETP, Due 7/1/17)	3,000	2,966	2,966
Mitralign, Inc. (2)	Medical Device	Term Loan (12.00% cash, 3.00% ETP, Due 12/31/14)	1,049	1,044	1,044
		Term Loan (10.88% cash, 3.00% ETP, Due 12/31/14)	743	739	739
		Term Loan (10.50% cash, 3.00% ETP, Due 12/31/14)	1,100	1,055	1,055
Tryton Medical, Inc.	Medical Device	Term Loan (10.41% cash (Prime + 7.16%), 2.50% ETP, Due 9/1/16)	3,000	2,973	2,973
ZetrOZ, Inc.	Medical Device	Term Loan (11.00% cash (Libor + 11.00%; Floor11.00%; Ceiling 12.50%), 3.00% ETP, Due 4/1/18)	1,500	1,425	1,425
Total Debt Investments — Life Science				40,146	40,146
Debt Investments — Technology — 81.5% (9)					
Ekahau, Inc. (2)	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	1,413	1,397	1,397
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	471	465	465
mBlox, Inc. (2)	Communications	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 2.5% ETP, Due 7/1/18)	5,000	4,965	4,965
		Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 2.5% ETP, Due 7/1/18)	5,000	4,965	4,965
Overture Networks, Inc. (2)	Communications	Term Loan (10.75% cash, 4.75% ETP, Due 12/1/16)	4,408	4,370	4,370
		Term Loan (10.75% cash, 4.75% ETP, Due 12/1/16)	2,204	2,181	2,181
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.0% ETP, Due 11/1/17)	2,000	1,963	1,963
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.0% ETP, Due 2/1/18)	1,000	971	971
		Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 2.0% ETP, Due 4/1/18)	1,000	979	979
Optaros, Inc. (2)	Internet and Media	Term Loan (11.95% cash, 3.00% ETP, Due 10/1/15)	1,031	1,027	1,027
		Term Loan (11.95% cash, 3.00% ETP, Due 3/1/16)	348	347	347
SimpleTuition, Inc. (2)	Internet and Media	Term Loan (11.75% cash, Due 3/1/16)	2,719	2,698	2,698
Nanocomp Technologies, Inc. (2)	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	1,000	985	985
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash, 2.00% ETP, Due 7/1/16)	2,174	2,162	2,162
		Term Loan (10.00% cash, 2.00% ETP, Due 1/1/18)	2,349	2,318	2,318
eASIC Corporation (2)	Semiconductors	Term Loan (11.00% cash, 2.50% ETP, Due 4/1/17)	2,000	1,978	1,978
		Term Loan (10.75% cash, 2.50% ETP, Due 4/1/18)	2,000	1,981	1,981
InVisage Technologies, Inc. (2)	Semiconductors	Term Loan (12.00% cash (Libor + 11.50%; Floor 12.00%; Ceiling 14.00%), 2.0% ETP, Due 4/1/18)	2,550	2,465	2,465
Kaminario, Inc. (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	2,644	2,618	2,618
		Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	2,644	2,618	2,618
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash, 8.00% ETP, Due 7/1/17)	2,632	2,583	2,583
		Term Loan (10.25% cash, 8.00% ETP, Due 7/1/17)	1,469	1,460	1,460
NexPlanar Corporation (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	2,644	2,623	2,623
		Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	1,763	1,743	1,743

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2014
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Xtera Communications, Inc. (2)	Semiconductors	Term Loan (11.50% cash, 14.77% ETP, Due 7/1/15)	5,918	5,754	5,754
		Term Loan (11.50% cash, 13.65% ETP, Due 2/1/16)	1,645	1,596	1,596
Construction Software Technologies, Inc. (2)	Software	Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	3,825	3,808	3,808
		Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	3,825	3,808	3,808
Courion Corporation (2)	Software	Term Loan (11.45% cash, Due 10/1/15)	1,640	1,637	1,637
		Term Loan (11.45% cash, Due 10/1/15)	1,640	1,637	1,637
Decisyon, Inc. (2)	Software	Term Loan (11.65% cash, 5.00% ETP, Due 9/1/16)	3,290	3,263	3,263
		Term Loan (11.65% cash, 5.00% ETP, Due 11/1/17)	1,000	984	984
Lotame Solutions, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.50%; Floor 11.50%), 5.25% ETP, Due 9/1/17)	3,410	3,388	3,388
		Term Loan (11.50% cash (Libor + 11.50%; Floor 11.50%), 5.25% ETP, Due 9/1/17)	1,500	1,490	1,490
		Term Loan (11.50% cash (Libor + 11.50%; Floor 11.50%), 3.00% ETP, Due 4/1/18)	2,100	2,068	2,068
Netuitive, Inc. (2)	Software	Term Loan (12.75% cash, Due 7/1/16)	1,780	1,768	1,768
Raydiance, Inc. (2)	Software	Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	4,111	4,083	4,083
		Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	822	809	809
		Term Loan (11.50% cash, 2.75%, ETP, Due 2/1/18	3,000	2,952	2,952
Razorsight Corporation (2)	Software	Term Loan (11.75% cash, 3.00% ETP, Due 11/1/16)	1,324	1,312	1,312
		Term Loan (11.75% cash, 3.00% ETP, Due 8/1/16)	1,188	1,175	1,175
		Term Loan (11.75% cash, 3.00% ETP, Due 7/1/17)	1,000	986	986
Social Intelligence Corp. (2)	Software	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 13.00%), 3.50% ETP, Due 12/1/17)	1,500	1,475	1,475
SpringCM, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 11.00%; Floor 11.50%; Ceiling 13.00%), 2.00% ETP, Due 1/1/18)	4,500	4,406	4,406
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash, Due 6/1/16)	6,000	5,902	5,902
VBrick Systems, Inc. (2)	Software	Term Loan (11.50% cash (Libor + 10.00%; Floor 10.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)	3,000	2,977	2,977
Vidsys, Inc. (2)	Software	Term Loan (11.00% cash, 7.60% ETP, Due 4/1/15)	3,000	2,987	2,987
Visage Mobile, Inc. (2)	Software	Term Loan (12.00% cash, 3.50% ETP, Due 9/1/16)	731	724	724
Total Debt Investments — Technology				112,851	112,851
Debt Investments — Cleantech — 10.5% (9)					
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	1,377	1,371	1,371
		Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	1,377	1,371	1,371
		Term Loan (10.25% cash, Due 10/1/16)	3,915	3,891	3,891
Semprius, Inc. (2)(8)	Alternative Energy	Term Loan (10.25% cash, 2.50% ETP, Due 6/1/16)	2,588	2,587	2,282
Aurora Algae, Inc. (2)	Energy Efficiency	Term Loan (10.50% cash, 2.00% ETP, Due 5/1/15)	626	625	625
Rypos, Inc. (2)	Energy Efficiency	Term Loan (11.80% cash, Due 1/1/17)	2,850	2,818	2,818
		Term Loan (11.80% cash, Due 9/1/17)	1,000	984	984
Tigo Energy, Inc. (2)	Energy Efficiency	Term Loan (13.00% cash, 3.16% ETP, Due 6/1/15)	1,161	1,157	1,157
Total Debt Investments — Cleantech				14,804	14,499
Debt Investments — Healthcare information and services — 20.3% (9)					
LifePrint Group, Inc. (2)	Diagnostics	Term Loan (11.00% cash (Libor + 10.50%; Floor 11.00%; Ceiling 12.50%), 3.00% ETP, Due 1/1/18)	3,000	2,945	2,945
Radisphere National Radiology Group, Inc. (2)	Diagnostics	Revolver (11.25% cash (Prime + 8.00%), Due 10/1/15)	12,000	11,948	11,948
Watermark Medical, Inc. (2)	Other Healthcare	Term Loan (12.00% cash, 4.00% ETP, Due 4/1/17)	3,500	3,467	3,467
		Term Loan (12.00% cash, 4.00% ETP, Due 4/1/17)	3,500	3,467	3,467
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash, 4.14% ETP, Due 4/1/16)	1,384	1,369	1,369
		Term Loan (11.00% cash, 3.00% ETP, Due 1/1/17)	2,500	2,483	2,483
		Term Loan (10.50% cash, 2.50% ETP, Due 1/1/18)	2,500	2,476	2,476
Total Debt Investments — Healthcare information and services				28,155	28,155
Total Debt Investments				195,956	195,651
Warrant Investments — 4.1% (9)					
Warrants — Life Science — 1.0% (9)					
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants	—	83	—
Ambit Biosciences, Inc.(5)	Biotechnology	44,795 Common Stock Warrants	—	143	—
Argos Therapeutics, Inc.(5)	Biotechnology	16,556 Common Stock Warrants	—	33	33
Celsion Corporation (5)	Biotechnology	5,708 Common Stock Warrants	—	15	—
Inotek Pharmaceuticals Corporation	Biotechnology	114,387 Preferred Stock Warrants	—	17	16
N30 Pharmaceuticals, Inc.	Biotechnology	53,550 Common Stock Warrants	—	122	—
New Haven Pharmaceuticals, Inc.	Biotechnology	41,482 Preferred Stock Warrants	—	27	123
Revance Therapeutics, Inc. (5)	Biotechnology	34,377 Common Stock Warrants	—	68	189

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2014
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Sample6, Inc.	Biotechnology	351,018 Preferred Stock Warrants	—	45	40
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	116,203 Common Stock Warrants	—	83	582
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	42,083 Preferred Stock Warrants	—	93	181
Tranzyme, Inc. (5)	Biotechnology	6,460 Common Stock Warrants	—	6	—
Accuvein, Inc.	Medical Device	58,284 Preferred Stock Warrants	—	18	23
Direct Flow Medical, Inc.	Medical Device	176,922 Preferred Stock Warrants	—	144	113
EnteroMedics, Inc. (5)	Medical Device	141,026 Common Stock Warrants	—	347	—
IntegenX, Inc. (2)	Medical Device	158,006 Preferred Stock Warrants	—	33	33
Lantos Technologies, Inc. (2)	Medical Device	858,545 Preferred Stock Warrants	—	24	24
Mederi Therapeutics, Inc. (2)	Medical Device	248,736 Preferred Stock Warrants	—	26	42
Mitralign, Inc.	Medical Device	295,238 Preferred Stock Warrants	—	52	4
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	—	78	—
Tengion, Inc. (2)(5)	Medical Device	1,864,876 Common Stock Warrants	—	123	—
Tryton Medical, Inc.	Medical Device	122,362 Preferred Stock Warrants	—	15	14
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	—	13	—
Zetroz	Medical Device	475,561 Preferred Stock Warrants	—	25	25
Total Warrants — Life Science				1,633	1,442
Warrants — Technology — 2.5% (9)					
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	—	33	25
OpenPeak, Inc.	Communications	18,997 Common Stock Warrants	—	89	—
Overture Networks, Inc.	Communications	344,574 Preferred Stock Warrants	—	55	1
Everyday Health, Inc. (5)	Consumer-related Technologies	43,783 Common Stock Warrants	—	69	153
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	—	68	190
SnagAJob.com, Inc.	Consumer-related Technologies	365,396 Preferred Stock Warrants	—	23	305
Tagged, Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	—	26	71
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	—	21	19
Cartera Commerce, Inc.	Internet and media	90,909 Preferred Stock Warrants	—	16	159
Optaros, Inc.	Internet and media	477,403 Preferred Stock Warrants	—	21	—
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	—	63	31
IntelePeer, Inc.	Networking	141,549 Preferred Stock Warrants	—	39	35
Nanocomp Technologies, Inc. (2)	Networking	204,546 Preferred Stock Warrants	—	19	19
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	—	7	58
Avalanche Technology, Inc.	Semiconductors	244,649 Preferred Stock Warrants	—	56	56
eASIC Corporation	Semiconductors	40,445 Preferred Stock Warrants	—	25	24
InVisage Technologies, Inc. (2)	Semiconductors	165,147 Preferred Stock Warrants	—	43	43
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	—	59	56
Luxtera, Inc.	Semiconductors	2,087,766 Preferred Stock Warrants	—	42	114
NexPlanar Corporation	Semiconductors	216,001 Preferred Stock Warrants	—	36	57
Soraa, Inc. (2)	Semiconductors	180,000 Preferred Stock Warrants	—	80	81
Xtera Communications, Inc.	Semiconductors	983,607 Preferred Stock Warrants	—	206	—
Bolt Solutions, Inc.	Software	202,892 Preferred Stock Warrants	—	113	124
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	—	14	105
Construction Software Technologies, Inc.	Software	386,415 Preferred Stock Warrants	—	69	512
Courion Corporation	Software	772,543 Preferred Stock Warrants	—	107	91
Decisyon, Inc.	Software	457,876 Preferred Stock Warrants	—	46	11
DriveCam, Inc.	Software	71,639 Preferred Stock Warrants	—	20	121
Lotame Solutions, Inc.	Software	288,115 Preferred Stock Warrants	—	22	161
Netuitive, Inc.	Software	41,569 Preferred Stock Warrants	—	48	—
Raydiance, Inc.	Software	1,051,120 Preferred Stock Warrants	—	71	70
Razorsight Corporation (2)	Software	259,404 Preferred Stock Warrants	—	43	45
Riv Data Corp. (2)	Software	237,361 Preferred Stock Warrants	—	13	13
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants	—	55	56
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	—	242	582
Vidsys, Inc.	Software	37,346 Preferred Stock Warrants	—	23	—
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	—	19	18
Total Warrants — Technology				2,001	3,406
Warrants — Cleantech — 0.2% (9)					
Renmatix, Inc.	Alternative Energy	52,296 Preferred Stock Warrants	—	68	71
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	—	26	—
Rypos, Inc. (2)	Energy Efficiency	5,627 Preferred Stock Warrants	—	44	42
Solarbridge Technologies, Inc.	Energy Efficiency	7,381,412 Preferred Stock Warrants	—	235	168
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	—	100	34
Total Warrants — Cleantech				473	315

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
September 30, 2014
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Warrants — Healthcare information and services — 0.4% (9)					
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	—	107	63
BioScale, Inc. (2)	Diagnostics	315,618 Preferred Stock Warrants	—	54	—
LifePrint Group, Inc. (2)	Diagnostics	49,000 Preferred Stock Warrants	—	29	29
Precision Therapeutics, Inc.	Diagnostics	13,461 Preferred Stock Warrants	—	73	—
Radisphere National Radiology Group, Inc. (2)	Diagnostics	519,992 Preferred Stock Warrants	—	378	—
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	—	44	143
Talyst, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	—	101	54
Watermark Medical, Inc.	Other Healthcare	12,216 Preferred Stock Warrants	—	67	65
Recondo Technology, Inc. (2)	Software	436,088 Preferred Stock Warrants	—	73	177
Total Warrants — Healthcare information and services				926	531
Total Warrants				5,033	5,694
Other Investments — 0.2% (9)					
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	—	4,645	300
Total Other Investments				4,645	300
Equity — 2.2% (9)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	—	239	433
Revance Therapeutics, Inc.(5)	Biotechnology	4,861 Common Stock	—	72	94
Overture Networks Inc.	Communications	386,191 Common Stock	—	482	222
Solarbridge Technologies, Inc.	Energy Efficiency	11,716,760 Preferred Stock	—	2,300	2,300
Total Equity				3,093	3,049
Total Portfolio Investment Assets — 147.8% (9)				$ 208,727	$ 204,694
Short Term Investments — Money Market Funds — 0.6% (9)					
US Bank Money Market Deposit Account				$ 800	$ 800
Total Short Term Investments — Money Market Funds				$ 800	$ 800
Short Term Investments — Restricted Investments— 2.4% (9)					
US Bank Money Market Deposit Account (2)				$ 3,368	$ 3,368
Total Short Term Investments — Restricted Investments				$ 3,368	$ 3,368

(1) All of the Company's investments are in entities which are organized under the laws of the United States and have a principal place of business in the United States.
(2) Has been pledged as collateral under the Key Facility or 2013-1 Securitization.
(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. Interest rate is the annual interest rate on the debt investment and does not include ETP and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment, the current interest rate in effect as of September 30, 2014 is provided.
(5) Portfolio company is a public company.
(6) For debt investments, represents principal balance less unearned income.
(7) Preferred and common stock warrants, equity interests and other investments are non-income producing.
(8) Debt is on non-accrual status at September 30, 2014 and is, therefore, considered non-income producing.
(9) Value as a percent of net assets.
(10) The Company did not have any non-qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.
(11) ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable loan, including upon any prepayment, and are a fixed percentage of the original principal balance of the loan unless otherwise noted. Interest will accrue during the life of the loan on each end-of-term payment and will be recognized as non-cash income until it is actually paid. Therefore, a portion of the incentive fee will be based on income that the Company has not yet received in cash.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
December 31, 2013
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments — 157.5% (9)					
Debt Investments — Life Science — 22.9% (9)					
Inotek Pharmaceuticals Corporation (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 10/1/16)	$ 3,500	$ 3,460	$ 3,460
N30 Pharmaceuticals, Inc. (2)	Biotechnology	Term Loan (11.25% cash, 3.00% ETP, Due 9/1/14)	760	756	756
		Term Loan (11.25% cash, 3.00% ETP, Due 10/1/15)	2,230	2,209	2,209
New Haven Pharmaceuticals, Inc. (2)	Biotechnology	Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	1,500	1,476	1,476
		Term Loan (11.50% cash, 3.00% ETP, Due 5/1/16)	500	492	492
Sample6, Inc. (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 1/1/16)	2,252	2,229	2,229
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 3.75% ETP, Due 10/1/15)	1,425	1,418	1,418
		Term Loan (9.00% cash, 3.75% ETP, Due 10/1/15)	2,138	2,100	2,100
Xcovery Holding Company, LLC (2)	Biotechnology	Term Loan (12.50% cash, Due 8/1/15)	781	779	779
		Term Loan (12.50% cash, Due 8/1/15)	1,228	1,226	1,226
		Term Loan (12.50% cash, Due 10/1/15)	231	231	231
Mederi Therapeutics, Inc.	Medical Device	Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 4.00% ETP, Due 7/1/17)	3,000	2,957	2,957
		Term Loan (10.75% cash (Libor + 10.25%; Floor 10.75%; Ceiling 12.75%), 4.00% ETP, Due 7/1/17)	3,000	2,917	2,917
Mitralign, Inc. (2)	Medical Device	Term Loan (12.00% cash, 3.00% ETP, Due 10/1/15)	1,587	1,571	1,571
		Term Loan (10.88% cash, 3.00% ETP, Due 11/1/15)	1,100	1,089	1,089
		Term Loan (10.50% cash, 3.00% ETP, Due 7/1/16)	1,143	1,115	1,115
PixelOptics, Inc. (8)	Medical Device	Term Loan (10.75% cash, 3.00% ETP, Due 11/1/14)	5,000	4,985	562
		Term Loan (10.00% cash, Due 1/31/14)	219	219	219
Tengion, Inc. (2)(5)	Medical Device	Term Loan (13.00% cash, Due 5/1/14)	1,382	1,373	1,373
Tryton Medical, Inc. (2)	Medical Device	Term Loan (10.41% cash (Prime + 7.16%), 2.50% ETP, Due 9/1/16)	3,000	2,962	2,962
Total Debt Investments — Life Science				35,564	31,141
Debt Investments — Technology — 98.3% (9)					
Ekahau, Inc.	Communications	Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	1,500	1,474	1,474
		Term Loan (11.75% cash, 2.50% ETP, Due 2/1/17)	500	490	490
Overture Networks, Inc. (2)	Communications	Term Loan (10.75% cash, 4.75% ETP, Due 12/1/16)	5,000	4,935	4,935
		Term Loan (10.75% cash, 4.75% ETP, Due 12/1/16)	2,500	2,460	2,460
Optaros, Inc. (2)	Internet and Media	Term Loan (11.95% cash, 3.00% ETP, Due 10/1/15)	1,670	1,660	1,660
		Term Loan (11.95% cash, 3.00% ETP, Due 3/1/16)	500	497	497
SimpleTuition, Inc. (2)	Internet and Media	Term Loan (11.75% cash, Due 3/1/16)	3,909	3,862	3,862
Nanocomp Technologies, Inc.	Networking	Term Loan (11.50% cash, 3.00% ETP, Due 11/1/17)	1,000	963	963
Aquion Energy, Inc. (2)	Power Management	Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)	2,704	2,693	2,693
		Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)	2,704	2,693	2,693
		Term Loan (10.25% cash, 4.00% ETP, Due 6/1/16)	2,978	2,966	2,966
Xtreme Power, Inc. (2)(8)	Power Management	Term Loan (10.75% cash, 9.00% ETP, Due 5/1/16)	6,000	5,947	4,692
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash, 2.00% ETP, Due 7/1/16)	2,996	2,973	2,973
		Term Loan (10.00% cash, 2.00% ETP, Due 1/1/18)	2,500	2,455	2,455
eASIC Corporation (2)	Semiconductors	Term Loan (11.00% cash, 2.50% ETP, Due 4/1/17)	2,000	1,968	1,968
Kaminario, Inc. (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	3,000	2,954	2,954
		Term Loan (10.50% cash, 2.50% ETP, Due 11/1/16)	3,000	2,954	2,954
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash, 8.00% ETP, Due 12/1/15)	2,734	2,714	2,714
		Term Loan (10.25% cash, 8.00% ETP, Due 3/1/16)	1,519	1,506	1,506
Newport Media, Inc. (2)	Semiconductors	Term Loan (11.00% cash, 2.86% ETP, Due 10/1/16)	3,500	3,418	3,418
		Term Loan (11.00% cash, 2.86% ETP, Due 10/1/16)	3,500	3,418	3,418
NexPlanar Corporation (2)	Semiconductors	Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	3,000	2,964	2,964
		Term Loan (10.50% cash, 2.50% ETP, Due 12/1/16)	2,000	1,967	1,967
Xtera Communications, Inc. (2)	Semiconductors	Term Loan (11.50% cash, 14.77% ETP, Due 7/1/15)	6,468	6,441	6,441
		Term Loan (11.50% cash, 13.65% ETP, Due 2/1/16)	1,731	1,718	1,718
Bolt Solutions, Inc. (2)	Software	Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	4,856	4,819	4,819
		Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	4,856	4,819	4,819
Construction Software Technologies, Inc. (2)	Software	Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,200	4,172	4,172
		Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,200	4,172	4,172
Courion Corporation (2)	Software	Term Loan (11.45% cash, Due 10/1/15)	2,662	2,654	2,654
		Term Loan (11.45% cash, Due 10/1/15)	2,662	2,654	2,654
Decisyon, Inc. (2)	Software	Term Loan (11.65% cash, 5.00% ETP, Due 9/1/16)	4,000	3,932	3,932
Kontera Technologies, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,000	3,949	3,949
		Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,000	3,949	3,949

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
December 31, 2013
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Lotame Solutions, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,000	3,971	3,971
		Term Loan (11.50% cash, 3.00% ETP, Due 9/1/16)	1,500	1,486	1,486
Netuitive, Inc. (2)	Software	Term Loan (11.75% cash, Due 1/1/16)	2,359	2,330	2,330
Raydiance, Inc. (2)	Software	Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	5,000	4,948	4,948
		Term Loan (11.50% cash, 2.75% ETP, Due 9/1/16)	1,000	975	975
Razorsight Corporation (2)	Software	Term Loan (11.75% cash, 3.00% ETP, Due 11/1/16)	1,500	1,477	1,477
		Term Loan (11.75% cash, 3.00% ETP, Due 8/1/16)	1,500	1,475	1,475
	Software	Term Loan (11.75% cash, 3.00% ETP, Due 7/1/17)	1,000	980	980
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash, Due 6/1/16)	7,100	6,919	6,919
VBrick Systems, Inc.	Software	Term Loan (11.50% cash (Libor + 10.00%; Floor 10.50%; Ceiling 13.50%), 5.00% ETP, Due 7/1/17)	3,000	2,970	2,970
Vidsys, Inc. (2)	Software	Term Loan (11.00% cash, 6.50% ETP, Due 6/1/16)	3,000	2,970	2,970
Visage Mobile, Inc. (2)	Software	Term Loan (12.00% cash, 3.50% ETP, Due 9/1/16)	974	962	962
Total Debt Investments — Technology				134,673	133,418
Debt Investments — Cleantech — 17.6% (9)					
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 9.00% ETP, Due 2/1/16)	2,028	2,015	2,015
		Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	2,028	2,015	2,015
		Term Loan (10.25% cash, Due 10/1/16)	5,000	4,956	4,956
Semprius, Inc. (2)(8)	Alternative Energy	Term Loan (10.25% cash, 2.50% ETP, Due 6/1/16)	3,203	3,183	2,785
Aurora Algae, Inc. (2)	Energy Efficiency	Term Loan (10.50% cash, 2.00% ETP, Due 5/1/15)	1,280	1,276	1,276
Rypos, Inc.	Energy Efficiency	Term Loan (11.80% cash, Due 1/1/17)	3,000	2,928	2,928
Solarbridge Technologies, Inc. (2)(8)	Energy Efficiency	Term Loan (12.15% cash, 3.21% ETP, Due 12/1/16)	7,000	6,785	5,000
Tigo Energy, Inc. (2)	Energy Efficiency	Term Loan (13.00% cash, 3.16% ETP, Due 6/1/15)	2,214	2,199	2,199
Cereplast, Inc. (5)(8)	Waste Recycling	Term Loan (12.00% cash, Due 8/1/14)	1,081	978	328
		Term Loan (12.00% cash, Due 8/1/14)	1,160	1,141	352
Total Debt Investments — Cleantech				27,476	23,854
Debt Investments — Healthcare information and services — 18.7% (9)					
BioScale, Inc. (2)	Diagnostics	Term Loan (11.51% cash, Due 1/1/14)	232	232	232
Radisphere National Radiology Group, Inc. (2)	Diagnostics	Revolver (11.25% cash (Prime + 8.00%), Due 10/1/15)	12,000	11,908	11,908
Watermark Medical, Inc. (2)	Other Healthcare	Term Loan (12.00% cash, 4.00% ETP, Due 4/1/17)	3,500	3,452	3,452
		Term Loan (12.00% cash, 4.00% ETP, Due 4/1/17)	3,500	3,452	3,452
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash, 4.14% ETP, Due 4/1/16)	1,384	1,356	1,356
		Term Loan (11.00% cash, 3.00% ETP, Due 1/1/17)	2,500	2,473	2,473
	Other Healthcare	Term Loan (10.50% cash, 2.50% ETP, Due 1/1/18)	2,500	2,468	2,468
Total Debt Investments — Healthcare information and services				25,341	25,341
Total Debt Investments				223,054	213,754
Warrant Investments — 4.5% (9)					
Warrants — Life Science — 2.1% (9)					
ACT Biotech Corporation	Biotechnology	1,521,820 Preferred Stock Warrants	—	83	—
Ambit Biosciences, Inc.(5)	Biotechnology	44,795 Common Stock Warrants	—	143	9
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	84,583 Common Stock Warrants	—	93	882
Celsion Corporation (5)	Biotechnology	5,708 Common Stock Warrants	—	15	—
Inotek Pharmaceuticals Corporation	Biotechnology	114,387 Preferred Stock Warrants	—	17	15
N30 Pharmaceuticals, Inc.	Biotechnology	214,200 Preferred Stock Warrants	—	122	247
New Haven Pharmaceuticals, Inc.	Biotechnology	34,729 Preferred Stock Warrants	—	22	20
Revance Therapeutics, Inc.	Biotechnology	687,091 Preferred Stock Warrants	—	223	945
Sample6, Inc.	Biotechnology	200,582 Preferred Stock Warrants	—	27	23
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	116,203 Common Stock Warrants	—	83	308
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	42,083 Preferred Stock Warrants	—	94	132
Tranzyme, Inc. (5)	Biotechnology	77,902 Common Stock Warrants	—	6	—
Direct Flow Medical, Inc.	Medical Device	176,922 Preferred Stock Warrants	—	144	132
EnteroMedics, Inc. (5)	Medical Device	141,026 Common Stock Warrants	—	347	—
Mederi Therapeutics, Inc.	Medical Device	248,736 Preferred Stock Warrants	—	26	26
Mitralign, Inc.	Medical Device	295,238 Common Stock Warrants	—	49	35
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	—	78	—
PixelOptics, Inc.	Medical Device	381,612 Preferred Stock Warrants	—	96	—
Tengion, Inc. (2)(5)	Medical Device	1,864,876 Common Stock Warrants	—	124	—
Tryton Medical, Inc. (2)	Medical Device	47,977 Preferred Stock Warrants	—	14	14
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	—	13	—
Total Warrants — Life Science				1,819	2,788

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
December 31, 2013
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Warrants — Technology — 1.8% (9)					
Ekahau, Inc.	Communications	978,261 Preferred Stock Warrants	—	34	26
OpenPeak, Inc.	Communications	18,997 Preferred Stock Warrants	—	89	—
Overture Networks, Inc.	Communications	344,574 Preferred Stock Warrants	—	55	42
Everyday Health, Inc.	Consumer-related Technologies	65,674 Preferred Stock Warrants	—	69	94
SnagAJob.com, Inc.	Consumer-related Technologies	365,396 Preferred Stock Warrants	—	23	269
Tagged, Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	—	26	72
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	—	22	19
Cartera Commerce, Inc.	Internet and media	90,909 Preferred Stock Warrants	—	16	160
Optaros, Inc.	Internet and media	477,403 Preferred Stock Warrants	—	21	13
SimpleTuition, Inc.	Internet and media	189,573 Preferred Stock Warrants	—	63	9
IntelePeer, Inc.	Networking	141,549 Preferred Stock Warrants	—	39	34
Motion Computing, Inc.	Networking	104,283 Preferred Stock Warrants	—	4	18
Nanocomp Technologies, Inc.	Networking	204,546 Preferred Stock Warrants	—	19	19
Aquion Energy, Inc.	Power Management	115,051 Preferred Stock Warrants	—	8	57
Xtreme Power, Inc.	Power Management	2,466,821 Preferred Stock Warrants	—	76	—
Avalanche Technology, Inc.	Semiconductors	244,649 Preferred Stock Warrants	—	56	66
eASIC Corporation`	Semiconductors	1,877,799 Preferred Stock Warrants	—	16	15
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	—	59	54
Luxtera, Inc.	Semiconductors	1,827,485 Preferred Stock Warrants	—	34	105
Newport Media, Inc.	Semiconductors	188,764 Preferred Stock Warrants	—	40	47
NexPlanar Corporation	Semiconductors	216,001 Preferred Stock Warrants	—	36	56
Xtera Communications, Inc.	Semiconductors	983,607 Preferred Stock Warrants	—	206	—
Bolt Solutions, Inc.	Software	202,892 Preferred Stock Warrants	—	113	124
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	—	14	104
Construction Software Technologies, Inc. (2)	Software	386,415 Preferred Stock Warrants	—	69	335
Courion Corporation	Software	772,543 Preferred Stock Warrants	—	106	89
Decisyon, Inc.	Software	314,686 Preferred Stock Warrants	—	44	39
DriveCam, Inc.	Software	71,639 Preferred Stock Warrants	—	20	120
Kontera Technologies, Inc. (2)	Software	99,476 Preferred Stock Warrants	—	102	82
Lotame Solutions, Inc.	Software	216,810 Preferred Stock Warrants	—	4	3
Netuitive, Inc.	Software	748,453 Preferred Stock Warrants	—	75	45
Raydiance, Inc.	Software	735,784 Preferred Stock Warrants	—	51	48
Razorsight Corporation	Software	259,404 Preferred Stock Warrants	—	44	40
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants	—	242	239
Vidsys, Inc.	Software	37,346 Preferred Stock Warrants	—	23	—
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants	—	20	18
Total Warrants — Technology				1,938	2,461
Warrants — Cleantech — 0.2% (9)					
Renmatix, Inc.	Alternative Energy	52,296 Preferred Stock Warrants	—	68	69
Semprius, Inc.	Alternative Energy	519,981 Preferred Stock Warrants	—	26	—
Enphase Energy, Inc. (5)	Energy Efficiency	161,959 Common Stock Warrants	—	175	126
Rypos, Inc.	Energy Efficiency	5,627 Preferred Stock Warrants	—	44	41
Solarbridge Technologies, Inc. (2)	Energy Efficiency	3,645,302 Preferred Stock Warrants	—	236	—
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	—	100	26
Cereplast, Inc. (5)	Waste Recycling	365,000 Common Stock Warrants	—	175	—
Total Warrants — Cleantech				824	262
Warrants — Healthcare information and services — 0.4% (9)					
Accumetrics, Inc.	Diagnostics	100,928 Preferred Stock Warrants	—	107	63
BioScale, Inc. (2)	Diagnostics	315,618 Preferred Stock Warrants	—	54	—
Precision Therapeutics, Inc.	Diagnostics	13,461 Preferred Stock Warrants	—	73	—
Radisphere National Radiology Group, Inc. (2)	Diagnostics	519,992 Preferred Stock Warrants	—	378	—
Patientkeeper, Inc.	Other Healthcare	396,410 Preferred Stock Warrants	—	269	29
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	—	44	140
Talyst, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	—	100	53
Watermark Medical, Inc.	Other Healthcare	12,216 Preferred Stock Warrants	—	66	64
Recondo Technology, Inc.	Software	436,088 Preferred Stock Warrants	—	73	176
Total Warrants — Healthcare information and services				1,164	525
Total Warrants				5,745	6,036

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)
December 31, 2013
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)(10)(11)	Principal Amount	Cost of Investments (6)	Fair Value
Other Investments — 0.3% (9)					
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	—	4,729	400
Total Other Investments				4,729	400
Equity — 0.8% (9)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	—	227	565
Revance Therapeutics, Inc.	Biotechnology	72,925 Preferred Stock	—	73	109
Overture Networks Inc.	Communications	386,191 Common Stock	—	482	420
Cereplast, Inc. (5)	Waste Recycling	200,000 Common Stock	—	—	—
Total Equity				782	1,094
Total Portfolio Investment Assets — 163.1% (9)				$ 234,310	$ 221,284
Short Term Investments — Money Market Funds — 0.9% (9)					
US Bank Money Market Deposit Account				$ 1,188	$ 1,188
Total Short Term Investments — Money Market Funds				$ 1,188	$ 1,188
Short Term Investments — Restricted Investments— 4.4% (9)					
US Bank Money Market Deposit Account (2)				$ 5,951	$ 5,951
Total Short Term Investments — Restricted Investments				$ 5,951	$ 5,951

(1) All of the Company's investments are in entities which are organized under the laws of the United States and have a principal place of business in the United States.
(2) Has been pledged as collateral under the Credit Facilities or 2013-1 Securitization.
(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. Interest rate is the annual interest rate on the debt investment and does not include ETP and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. All debt investments are at fixed rates for the term of the loan, unless otherwise indicated. For each debt investment, the current interest rate in effect as of December 31, 2013 is provided.
(5) Portfolio company is a public company.
(6) For debt investments, represents principal balance less unearned income.
(7) Preferred and common stock warrants, equity interests and other investments are non-income producing.
(8) Debt is on non-accrual status at December 31, 2013 and is, therefore, considered non-income producing.
(9) Value as a percent of net assets.
(10) The Company did not have any non-qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.
(11) ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable loan, including upon any prepayment, and are a fixed percentage of the original principal balance of the loan unless otherwise noted. Interest will accrue during the life of the loan on each end-of-term payment and will be recognized as non-cash income until it is actually paid. Therefore, a portion of the incentive fee will be based on income that the Company has not yet received in cash.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

Note 1. Organization

Horizon Technology Finance Corporation (the "Company") was organized as a Delaware corporation on March 16, 2010 and is an externally managed, non-diversified, closed-end investment company. The Company has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for tax purposes, the Company has elected to be treated as a regulated investment company ("RIC") as defined under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). As a RIC, the Company generally is not subject to corporate-level federal income tax on the portion of its taxable income and capital gains the Company distributes to its stockholders. The Company primarily makes secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. All of the Company's debt investments consist of loans secured by all of, or a portion of, the applicable debtor company's tangible and intangible assets.

On October 28, 2010, the Company completed an initial public offering ("IPO") and its common stock trades on the NASDAQ Global Select Market under the symbol "HRZN." The Company was formed to continue and expand the business of Compass Horizon Funding Company LLC ("CHF"), a Delaware limited liability company, which commenced operations in March 2008 and became the Company's wholly owned subsidiary upon 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 its sole equity member. Credit I is a separate legal entity from the Company and CHF. There has been no activity at Credit I during the nine months ended September 30, 2014.

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

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

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

The Company formed Horizon Funding 2013-1 LLC ("2013-1 LLC") as a Delaware limited liability company on June 7, 2013 and Horizon Funding Trust 2013-1 ("2013-1 Trust" and, together with 2013-1 LLC, the "2013-1 Entities") as a Delaware trust on June 18, 2013. The 2013-1 Entities are special purpose bankruptcy remote entities and are separate legal entities from the Company. The Company formed the 2013-1 Entities for purposes of securitizing $189.3 million of secured loans and issuing fixed-rate asset-backed notes in an aggregate principal amount of $90 million (the "Asset-Backed Notes").

The Company has also established wholly owned subsidiaries, each of which is structured as a Delaware limited liability company, to hold portfolio companies assets acquired in connection with foreclosure or bankruptcy. Each is a separate legal entity from the Company.

The Company's investment strategy is to maximize the investment portfolio's return by generating current income from the debt investments the Company makes and capital appreciation from the warrants the Company receives when making such debt investments. The Company has entered into an amended and restated investment management agreement (the "Investment Management Agreement") with Horizon Technology Finance Management LLC ("HTFM" or the "Advisor"), under which the Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company.

Note 2. Basis of Presentation and Significant Accounting Policies

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 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. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013.

Principles of Consolidation

As required under GAAP and Regulation S-X, the Company will generally consolidate its investment in a company that is an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company’s subsidiaries in its consolidated financial statements.

Use of Estimates

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

Fair Value

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

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

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.

Investments

Investments are recorded at fair value. The Company's board of directors ("Board") determines the fair value of its portfolio investments. The Company has the intent to hold its debt investments for the foreseeable future or until maturity or payoff.

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the debt investments is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on debt investments that are on non-accrual status are treated as reductions of principal until the principal is repaid or until principal and interest payments are determined to be fully collectible. As of September 30, 2014, there was one debt investment on non-accrual status with a cost basis of $2.6 million and a fair value of $2.3 million. As of December 31, 2013, there were five debt investments on non-accrual status with an aggregate cost of $23.2 million and an aggregate fair value of $13.9 million.

The Company receives a variety of fees from borrowers in the ordinary course of conducting its business, including advisory fees, commitment fees, amendment fees, non-utilization fees, success 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 debt investments. All other income is recognized when earned. Fees for counterparty debt investment commitments with multiple debt investments are allocated to each debt investment based upon each debt investment's relative fair value. When a debt investment is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the debt investment is returned to accrual status.

Certain loan agreements also require the borrower to make an end-of-term payment ("ETP") that is accrued into interest income over the life of the debt investments 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 debt investment in accordance with the Company's income recognition policy. Subsequent to debt investment origination, the fair value of the warrants is determined using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized gain or loss on investments. Gains and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

Realized gains or losses on the sale of investments, or upon the determination that an investment balance or portion thereof is not recoverable, are calculated using the specific identification method. The Company measures realized gains or losses by calculating the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Net change in unrealized appreciation or depreciation reflects the change in the fair values of the Company's portfolio investments during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Debt Issuance Costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and issuing debt securities. Debt issuance costs are recognized as assets and are amortized as interest expense over the term of the related debt financing. The unamortized balance of debt issuance costs as of September 30, 2014 and December 31, 2013, included in other assets, was $2.7 million and $5.1 million, respectively. The accumulated amortization balances as of September 30, 2014 and December 31, 2013 were $2.7 million and $2.0 million, respectively. The amortization expense for the nine months ended September 30, 2014 and 2013 was $2.4 million and $0.9 million, respectively.

Income Taxes

As a BDC, the Company has 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 to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each tax 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 corporate-level 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 both the nine months ended September 30, 2014 and 2013, $0.1 million 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. The Company had no material uncertain tax positions at September 30, 2014 and December 31, 2013. The 2013, 2012 and 2011 tax years remain subject to examination by U.S. federal and state tax authorities.

Distributions

Distributions to common stockholders are recorded on the declaration date. The amount to be paid out is determined by the Board. Net realized long-term capital gains, if any, are distributed at least annually, although the Company may decide to retain such capital gains for investment.

The Company has adopted a dividend reinvestment plan that provides for reinvestment of cash distributions and other distributions on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board authorizes, and the Company declares, a cash distribution, then stockholders who have not "opted out" of the dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of the Company's common stock, rather than receiving the cash distribution. 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 to fulfill its obligations under the plan.

Transfers of Financial Assets

Assets related to transactions that do not meet Accounting Standards Codification ("ASC") Topic 860 — Transfers and Servicing requirements for accounting sale treatment are reflected in the Company's consolidated statements of financial condition as investments. Those assets are owned by special purpose entities that are consolidated in the Company's financial statements. The creditors of the special purpose entities have received security interests in such assets and such assets are not intended to be available to the creditors of the Company (or any affiliate of the Company).

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

New Accounting Pronouncement

In June 2013, FASB issued Accounting Standards Update 2013-08, *Financial Services — Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements*, or ASU 2013-08, containing new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interest in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance is effective for annual and interim periods beginning on or after December 15, 2013. ASU 2013-08 did not have a material impact on the Company's consolidated financial position or disclosures.

Note 3. Related Party Transactions

Investment Management Agreement

On October 28, 2010, the Company entered into the Investment Management Agreement with the Advisor, which was amended and restated effective July 1, 2014, under which the Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the amended and restated Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee under the Investment Management Agreement through and including June 30, 2014 was calculated at an annual rate of 2.00% of the Company's gross assets, payable monthly in arrears. As a result of an amendment and restatement of the Investment Management Agreement, the base management fee on and after July 1, 2014 is calculated at an annual rate of 2.00% of (i) the Company's gross assets, less (ii) assets consisting of cash and cash equivalents, and is 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. During the first six months of the period ended September 30, 2014, the Advisor waived base management fees of $0.2 million, which the Advisor would have otherwise earned on cash held by the Company at the time of calculation. The base management fee payable at both September 30, 2014 and December 31, 2013 was $0.4 million. The base management fee expense was $1.0 million and $1.3 million for the three months ended September 30, 2014 and 2013, respectively. After giving effect of the waiver, the base management fee expense was $3.4 million and $3.8 million for the nine months ended September 30, 2014 and 2013, respectively.

The incentive fee has two parts, as follows:

The first part which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that the Company has not yet received in cash. The incentive fee with respect to the pre-incentive fee net 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 pre-incentive fee 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 the 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 up to the Incentive Fee Cap, defined below, 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.

Fee Cap and Deferral Mechanism. Commencing with the calendar quarter beginning July 1, 2014, the incentive fee on pre-incentive fee net investment income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and will be expensed when incurred. For this purpose, the look-back period for the incentive fee based on pre-incentive fee net investment income (the "Incentive Fee Look-back Period") commenced on July 1, 2014 and will increase by one quarter in length at the end of each of the 12 succeeding calendar quarters, after which time, the Incentive Fee Look-back period will include the relevant calendar quarter and the 11 full preceding calendar quarters. Each quarterly Incentive Fee payable on pre-incentive fee net investment income is subject to a cap (the "Incentive Fee Cap") and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees (collectively, the "Incentive Fee Cap and Deferral Mechanism"). The "Incentive Fee Cap" is equal to (a) 20.0% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on pre-incentive fee net investment income to the Advisor in that quarter. To the extent that the payment of incentive fees on pre-incentive fee net investment income is limited by the Incentive Fee Cap, the payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. The Company only pays incentive fees on pre-incentive fee net investment income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. "Cumulative Pre-Incentive Fee Net Return" during any Incentive Fee Look-back Period means the sum of (a) pre-incentive fee net investment income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

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 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 on a cumulative basis through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee.

(In thousands, except shares and per share data)

The performance based incentive fee expense was $0.8 million and $0.9 million for the three months ended September 30, 2014 and September 30, 2013, respectively. The performance based incentive fee expense was $1.2 million and $2.5 million for the nine months ended September 30, 2014 and 2013, respectively. The incentive fees payable as of September 30, 2014 and December 31, 2013 were $0.8 million and $0.9 million, respectively. The entire incentive fees payable as of September 30, 2014 and December 31, 2013 represented part one of the incentive fee.

Administration Agreement

The Company entered into an administration agreement (the "Administration Agreement") with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses the Advisor for the Company's allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief compliance officer and chief financial officer and their respective staffs. The administrative fee expense was $0.3 million for both the three months ended September 30, 2014 and 2013. The administrative fee expense was $0.9 million for both the nine months ended September 30, 2014 and 2013.

Note 4. Investments

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

	September 30, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 800	$ 800	$ 1,188	$ 1,188
Restricted investments in money market funds	$ 3,368	$ 3,368	$ 5,951	$ 5,951
Non-affiliate investments				
Debt	$ 195,956	$ 195,651	$ 223,054	$ 213,754
Warrants	5,033	5,694	5,745	6,036
Other Investments	4,645	300	4,729	400
Equity	3,093	3,049	782	1,094
Total non-affiliate investments	$ 208,727	$ 204,694	$ 234,310	$ 221,284

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

	September 30, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Life Science				
Biotechnology	$ 16,972	$ 17,617	$ 17,604	$ 19,631
Medical Device	25,118	24,498	20,079	14,972
Technology				
Communications	19,002	18,591	10,019	9,847
Consumer-Related Technologies	4,099	4,632	118	435
Data Storage	4,666	319	4,751	419
Internet and Media	4,172	4,262	6,119	6,201
Networking	1,043	1,039	1,025	1,034
Power Management	7	58	14,382	13,101
Semiconductors	32,446	32,330	37,897	37,793
Software	54,544	55,548	67,510	67,869
Cleantech				
Alternative Energy	9,314	8,986	12,263	11,840
Energy Efficiency	8,263	8,128	13,743	11,596
Waste Recycling	—	—	2,294	680
Healthcare Information and Services				
Diagnostics	15,534	14,985	12,752	12,203
Other Healthcare Related Services	7,146	7,196	7,384	7,190
Software	6,401	6,505	6,370	6,473
Total non-affiliate investments	$ 208,727	$ 204,694	$ 234,310	$ 221,284

Note 5. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

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

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

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

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

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

Investments are valued at fair value as determined in good faith by the Board, based on input of management, the audit committee and independent valuation firms, which are engaged at the direction of the Board to assist in the valuation of each portfolio investment lacking a readily available market quotation at least once during a trailing twelve-month period, under a valuation policy and a consistently applied valuation process. This valuation process is conducted at the end of each fiscal quarter, with 25% (based on fair value) of the Company's valuation of portfolio companies lacking readily available market quotations subject to review by an independent valuation firm.

Because there is not a readily available market value for most of the investments in its portfolio, the Company values substantially all of its portfolio investments at fair value as determined in good faith by the Board, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, the Company could realize significantly less than the value at which the Company has recorded such portfolio investment.

Cash and interest receivable: The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis and are categorized as Level 1 within the fair value hierarchy described above.

Money Market Funds: The carrying amounts are valued at their net asset value as of the close of business on the day of valuation. These financial instruments are recorded at fair value on a recurring basis and are categorized as Level 2 within the fair value hierarchy described above as these funds can be redeemed daily.

Debt Investments: For variable rate debt investments which re-price frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values. The fair value of fixed rate debt investments is estimated by discounting the expected future cash flows using the period end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At September 30, 2014 and December 31, 2013, the hypothetical market yield used ranged from 9% to 18% and from 9% to 25%, respectively. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement. These assets are recorded at fair value on a recurring basis and are categorized as Level 3 within the fair value hierarchy described above.

Under certain circumstances, the Company may use an alternative technique to value debt investments that better reflects its fair value such as the use of multiple probability weighted cash flow models when the expected future cash flows contain elements of variability.

Warrant Investments: The Company values its warrants using the Black-Scholes valuation model incorporating the following material assumptions:

- Underlying asset value of the issuer is estimated based on information available, including any information regarding the most recent rounds of borrower funding. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement.

- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, is based on indices of publicly traded companies similar in nature to the underlying company issuing the warrant. A total of seven such indices are used. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value investment.

- The risk-free interest rates are derived from the U.S. Treasury yield curve. The risk-free interest rates are calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.

- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement.

- Historical portfolio experience on cancellations and exercises of the Company's warrants are utilized as the basis for determining the estimated time to exit of the warrants in each financial reporting period. Warrants may be exercised in the event of acquisitions, mergers or IPOs, and cancelled due to events such as bankruptcies, restructuring activities or additional financings. These events cause the expected remaining life assumption to be shorter than the contractual term of the warrants. Significant increases (decreases) in this unobservable input would result in significantly higher (lower) fair value measurement.

Under certain circumstances the Company may use an alternative technique to value warrants that better reflects the warrants' fair value, such as an expected settlement of a warrant in the near term or a model that incorporates a put feature associated with the warrant. The fair value may be determined based on the expected proceeds to be received from such settlement or based on the net present value of the expected proceeds from the put option.

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

(In thousands, except shares and per share data)

Equity Investments: The fair value of an equity investment in a privately held company is initially the face value of the amount invested. The Company adjusts the fair value of equity investments in private companies upon the completion of a new third-party round of equity financing. The Company may make adjustments to fair value, absent a new equity financing event, based upon positive or negative changes in a portfolio company's financial or operational performance. Significant increases (decreases) in this unobservable input would result in a significantly higher (lower) fair value measurement. The Company has categorized these equity investments as Level 3 with the fair value hierarchy described above. The fair value of an equity investment in a publicly traded company is based upon the closing public share price on the date of measurement. Therefore, the Company has categorized these equity investments as Level 1 within the fair value hierarchy described above. These assets are recorded at fair value on a recurring basis.

Other Investments: Other investments will be valued based on the facts and circumstances of the underlying agreement. The Company currently values one contractual agreement using a multiple probability weighted cash flow model as the contractual future cash flows contain elements of variability. Significant changes in the estimated cash flows and probability weightings would result in a significantly higher or lower fair value measurement. The Company has categorized this other investment as Level 3 within the fair value hierarchy described above. This asset is recorded at fair value on a recurring basis.

The following tables provide a summary of quantitative information about the Company's Level 3 fair value measurements of its investments as of September 30, 2014 and December 31, 2013. In addition to the techniques and inputs noted in the table below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of September 30, 2014:

	September 30, 2014				
Investment Type	**Fair Value**	**Valuation Techniques/ Methodologies**	**Unobservable Input**	**Range**	**Weighted Average**
Debt investments	$ 193,369	Discounted Expected Future Cash Flows	Hypothetical Market Yield	9% – 18%	11%
	2,282	Multiple Probability Weighted Cash Flow Model	Probability Weighting	30% – 40%	33%
Warrant investments	4,044	Black-Scholes Valuation Model	Price per share	$0.04 – $63.98	$ 3.70
			Average Industry Volatility	19%	19%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
	512	Expected Settlement	Per Share Merger Consideration	$ 2.65	$ 2.65
Other investments	300	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25%
			Probability Weighting	100%	100%
Equity investments	2,300	Most Recent Equity Investment	Price Per Share	$ 0.20	$ 0.20
	222	Market Comparable Companies	Price Per Share	$ 0.57	$ 0.57
Total Level 3 investments	$ 203,029				

(In thousands, except shares and per share data)

The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of December 31, 2013:

December 31, 2013					
Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
Debt investments	$ 199,815	Discounted Expected Future Cash Flows	Hypothetical Market Yield	9% – 25%	11%
	13,939	Multiple Probability Weighted Cash Flow Model	Probability Weighting	10% – 100%	67%
Warrant investments	4,579	Black-Scholes Valuation Model	Price per share	$0.0 – $63.98	$ 3.48
			Average Industry Volatility	19%	19%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 10 years	3 years
Other investments	400	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%	25%
			Probability Weighting	100%	100%
Equity investments	529	Most Recent Equity Investment	Price Per Share	$1.09 – $1.50	$ 1.17
Total Level 3 investments	$ 219,262				

Borrowings: The carrying amount of borrowings under the Credit Facilities (as defined in Note 6) approximates fair value due to the variable interest rate of the Credit Facilities and is categorized as Level 2 within the fair value hierarchy described above. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. The fair value of the fixed rate 2019 Notes (as defined in Note 6) is based on the closing public share price on the date of measurement. At September 30, 2014, the 2019 Notes were trading on the New York Stock Exchange for $25.60 per note, or an aggregate of $33.8 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above. Based on market quotations on September 30, 2014, the Asset-Backed Notes (as described in Note 6) were trading at par value, or $44.9 million, and are categorized as Level 3 within the fair value hierarchy described above. These liabilities are not recorded at fair value on a recurring basis.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. Therefore, the Company has categorized these instruments as Level 3 within the fair value hierarchy described above.

The following tables detail the assets and liabilities that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	September 30, 2014			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 800	$ —	$ 800	$ —
Restricted investments in money market funds	$ 3,368	$ —	$ 3,368	$ —
Debt investments	$ 195,651	$ —	$ —	$ 195,651
Warrant investments	$ 5,694	$ —	$ 1,138	$ 4,556
Other investments	$ 300	$ —	$ —	$ 300
Equity investments	$ 3,049	$ 527	$ —	$ 2,522

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 1,188	$ —	$ 1,188	$ —
Restricted investments in money market funds	$ 5,951	$ —	$ 5,951	$ —
Debt investments	$ 213,754	$ —	$ —	$ 213,754
Warrant investments	$ 6,036	$ —	$ 1,457	$ 4,579
Other investments	$ 400	$ —	$ —	$ 400
Equity investments	$ 1,094	$ 565	$ —	$ 529

(In thousands, except shares and per share data)

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2014:

	Three Months Ended September 30, 2014				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
Level 3 assets, beginning of period	$ 209,197	$ 3,612	$ 2,522	$ 400	$ 215,731
Purchase of investments	22,845	—	—	—	22,845
Warrants and equity received and classified as Level 3	—	208	—	—	208
Principal payments received on investments	(36,393)	—	—	(24)	(36,417)
Net realized loss on investments	—	(341)	—	—	(341)
Unrealized appreciation (depreciation) included in earnings	4	1,077	—	(76)	1,005
Other	(2)	—	—	—	(2)
Level 3 assets, end of period	$ 195,651	$ 4,556	$ 2,522	$ 300	$ 203,029

The Company's transfers between levels are recognized at the end of each reporting period. During the three months ended September 30, 2014, there were no transfers between levels.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2013:

	Three Months Ended September 30, 2013				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
Level 3 assets, beginning of period	$ 237,871	$ 5,150	$ 529	$ 2,100	$ 245,650
Purchase of investments	11,500	—	—	—	11,500
Warrants and equity received and classified as Level 3	—	200	—	—	200
Principal payments received on investments	(17,986)	—	—	(33)	(18,019)
Unrealized depreciation included in earnings	4,844	216	—	(67)	4,993
Realized loss included in earnings	(5,010)	(270)	—	—	(5,280)
Other	422	—	—	—	422
Level 3 assets, end of period	$ 231,661	$ 5,296	$ 529	$ 2,000	$ 239,486

The Company's transfers between levels are recognized at the end of each reporting period. During the three months ended September 30, 2013, there were no transfers between levels.

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

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2014:

	Nine Months Ended September 30, 2014				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
Level 3 assets, beginning of period	$ 213,754	$ 4,579	$ 529	$ 400	$ 219,262
Purchase of investments	66,823	—	—	—	66,823
Warrants and equity received and classified as Level 3	—	468	—	—	468
Principal payments received on investments	(83,821)	—	—	(85)	(83,906)
Proceeds from sale of investments	—	(929)	—	—	(929)
Net realized (loss) gain on investments	(8,096)	160	—	—	(7,936)
Unrealized appreciation (depreciation) included in earnings	8,994	598	(198)	(15)	9,379
Transfer out of Level 3	—	(320)	(109)	—	(429)
Transfer from debt to equity investments	(2,300)	—	2,300	—	—
Other	297	—	—	—	297
Level 3 assets, end of period	$ 195,651	$ 4,556	$ 2,522	$ 300	$ 203,029

The Company's transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30, 2014, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in two portfolio companies and equity held in one portfolio company, with an aggregate fair value of $0.4 million, that were transferred into Level 2 upon the portfolio companies becoming public companies during the period. Because the fair value of warrants and equity 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, the Company has categorized the warrants and equity as Level 2 within the fair value hierarchy described above as of September 30, 2014. During the nine months ended September 30, 2014, there was one transfer between debt investments and equity investments. The transfer out of debt investments relates to the settlement of one of the Company's debt investments for a cash payment of $2.7 million and $2.3 million in newly issued preferred stock of the applicable portfolio company.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at September 30, 2014 includes $0.1 million in unrealized appreciation for debt investments, $0.7 million in unrealized appreciation on warrants and $0.2 million in unrealized depreciation on equity.

Horizon Technology Finance Corporation and Subsidiaries

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

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2013:

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

The Company's transfers between levels are recognized at the end of each reporting period. During the nine months ended September 30, 2013, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in one portfolio company, with a fair value of $0.1 million, that were transferred into Level 2 due to the portfolio company becoming a public company during the nine months ended September 30, 2013. Because the fair value of 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, the Company has categorized the warrants as Level 2 within the fair value hierarchy described above as of September 30, 2013.

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

The fair value amounts have been measured as of the reporting date, and have not been reevaluated or updated for purposes of these financial statements subsequent to that date. As such, the fair values of these financial instruments subsequent to the reporting date may be different than amounts reported.

As of September 30, 2014 and December 31, 2013, the recorded balances equaled fair values of all the Company's financial instruments, except for the Company's 2019 Notes, as previously described.

Off-balance-sheet instruments

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the 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.

(In thousands, except shares and per share data)

Note 6. Borrowings

A summary of the Company's borrowings as of September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014			December 31, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	$ 44,902	$ 44,902	$ —	$ 79,343	$ 79,343	$ —
Fortress Facility	—	—	—	75,000	10,000	65,000
Key Facility	50,000	10,000	40,000	50,000	—	50,000
2019 Notes	33,000	33,000	—	33,000	33,000	—
Total	$ 127,902	$ 87,902	$ 40,000	$ 237,343	$ 122,343	$ 115,000

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of September 30, 2014, the asset coverage for borrowed amounts was 257%.

On November 4, 2013, the Company renewed and amended its revolving credit facility (referred to herein as the "Key Facility") which it originally entered into with Wells Fargo Capital Finance, LLC, and facilitated the assignment of all rights and obligations thereunder to Key Equipment Finance ("Key"). The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the current $50 million commitment provided by Key. The Key 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 Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the loans securing the Key Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility has a three-year revolving period followed by a two-year amortization period and matures on November 4, 2018. The interest rate is based upon the one-month London Interbank Offered Rate ("LIBOR") plus a spread of 3.25%, with a LIBOR floor of 0.75%. The rate at September 30, 2014 and December 31, 2013 was 4.00%. As of September 30, 2014, the Company had borrowing capacity of $40.0 million, of which $28.4 million was available, subject to existing terms and advance rates.

On March 23, 2012, the Company issued and sold an aggregate principal amount of $30 million of 7.375% senior unsecured notes due in 2019, and, on April 18, 2012, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional $3 million of such notes (collectively, the "2019 Notes"). The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after March 15, 2015 at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are the Company's direct unsecured obligations and (i) rank equally in right of payment with the Company's future senior unsecured indebtedness; (ii) are senior in right of payment to any of the Company's future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) are effectively subordinated to all of the Company's existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, and (iv) are structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. As of September 30, 2014, the Company was in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol "HTF."

The Company entered into its Fortress Facility (together with the Key Facility, the "Credit Facilities") with Fortress Credit Co LLC ("Fortress") effective August 23, 2012. The Fortress Facility was collateralized by all loans and warrants held by Credit III. The Fortress Facility contained covenants that, among other things, required the Company to maintain a minimum net worth and restricted the loans securing the Fortress Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The Fortress Facility, among other things, had a three-year term subject to two one-year extensions with a draw period of up to four years. The Fortress Facility required the payment of an unused line fee in an amount equal to 1.00% of unborrowed amounts available under the facility annually and had an effective advance rate of 66% against eligible loans. The Fortress Facility bore interest based upon the one-month LIBOR plus a spread of 6.00%, with a LIBOR floor of 1.00%. The rate at December 31, 2013 was 7.00%, and the average rate for the three and nine months ended September 30, 2013 was 7.00%.

Effective June 17, 2014, the Company terminated the Fortress Facility. In connection therewith, a loan and security agreement and other related documents governing the Fortress Facility were also terminated. As such, the Company had no borrowing capacity under the Fortress Facility as of September 30, 2014. Upon termination of the Fortress Facility, the Company accelerated $1.1 million of unamortized debt issuance costs and paid a $0.8 million prepayment fee, which were recorded as interest expense. The Company expects to incur no ongoing obligations or expenses in connection with the termination and prepayment of the Fortress Facility.

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

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

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

Under the terms of the Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which may be used to make monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as restricted investments in money market funds on the Consolidated Statement of Assets and Liabilities. The balance of restricted investments in money market funds was $3.4 million and $6.0 million as of September 30, 2014 and December 31, 2013, respectively.

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

Note 7. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statement of assets and liabilities. The Company attempts to limit its credit risk by conducting extensive due diligence and obtaining collateral where appropriate.

The balance of unfunded commitments to extend credit was $19.7 million and $9.0 million as of September 30, 2014 and December 31, 2013, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Note 8. Concentrations of Credit Risk

The Company's debt investments consist primarily of loans to development-stage companies at various stages of development in the technology, life science, healthcare information and services and cleantech industries. Many of these companies may have relatively limited operating histories and also may experience variation in operating results. Many of these companies conduct business in regulated industries and could be affected by changes in government regulations. Most of the Company's borrowers will need additional capital to satisfy their continuing working capital needs and other requirements, and in many instances, to service the interest and principal payments on the loans.

The largest loans may vary from period to period as loans are recorded and repaid. The Company's five largest loans represented 23% and 22% of total loans outstanding as of September 30, 2014 and December 31, 2013, respectively. No single loan represented more than 10% of the total loans as of September 30, 2014 and December 31, 2013. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for 24% and 21% of total interest income on investments for the three months ended September 30, 2014 and 2013, respectively. Interest income from the five largest loans accounted for 19% and 22% of total interest income on investments for the nine months ended September 30, 2014 and 2013, respectively.

(In thousands, except shares and per share data)

Note 9. Distributions

The Company's distributions are recorded on the record date. The following table summarizes the Company's distribution activity for the period ended September 30, 2014 and for the years ended December 31, 2013 and 2012:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
Nine Months Ended September 30, 2014						
8/1/14	11/19/14	12/15/14	$ 0.115	$ —	—	$ —
8/1/14	10/20/14	11/17/14	0.115	—	—	—
8/1/14	9/18/14	10/15/14	0.115	1,095	901	12
5/1/14	8/19/14	9/15/14	0.115	1,095	812	12
5/1/14	7/21/14	8/15/14	0.115	1,079	2,042	29
5/1/14	6/18/14	7/17/14	0.115	1,093	784	11
3/6/14	5/20/14	6/16/14	0.115	1,090	1,128	15
3/6/14	4/17/14	5/15/14	0.115	1,090	1,174	16
3/6/14	3/19/14	4/15/14	0.115	1,097	644	8
			$ 1.035	$ 7,639	7,485	$ 103
Year Ended December 31, 2013						
11/1/13	2/17/14	3/17/14	$ 0.115	$ 1,062	3,444	$ 44
11/1/13	1/20/14	2/14/14	0.115	1,058	3,249	47
11/1/13	12/16/13	1/15/14	0.115	1,061	3,048	44
8/2/13	11/19/13	12/16/13	0.115	1,045	4,225	59
8/2/13	10/17/13	11/15/13	0.115	937	11,851	167
8/2/13	9/18/13	10/15/13	0.115	1,051	3,882	52
5/3/13	8/19/13	9/16/13	0.115	1,057	3,376	46
5/3/13	7/17/13	8/15/13	0.115	1,060	2,980	42
5/3/13	6/20/13	7/15/13	0.115	1,070	2,191	31
3/8/13	5/20/13	6/17/13	0.115	1,086	1,099	15
3/8/13	4/18/13	5/15/13	0.115	1,087	1,035	15
3/8/13	3/20/13	4/15/13	0.115	1,046	3,867	55
			$ 1.380	$ 12,620	44,247	$ 617
Year Ended December 31, 2012						
11/27/12	2/21/13	3/15/13	$ 0.115	$ 1,050	3,392	$ 50
11/27/12	1/18/13	2/15/13	0.115	1,087	898	14
11/27/12	12/20/12	1/15/13	0.115	1,056	2,930	44
11/2/12	11/16/12	11/30/12	0.450	4,243	4,269	61
8/7/12	8/17/12	8/31/12	0.450	4,105	11,608	193
5/3/12	5/17/12	5/31/12	0.450	3,402	2,299	37
3/12/12	3/23/12	3/30/12	0.450	3,378	3,517	58
			$ 2.145	$ 18,321	28,913	$ 457

On October 31, 2014, the Board declared monthly distributions per share, payable as set forth in the table below.

Record Dates	Payment Dates	Distributions Declared
February 19, 2015	March 16, 2015	$ 0.115
January 20, 2015	February 13, 2015	$ 0.115
December 17, 2014	January 15, 2015	$ 0.115

After paying third quarter distributions of $0.345 per share and earning $0.33 per share for the third quarter, the Company's undistributed spillover income carried over from 2013 was $0.41 per share. Spillover income includes any ordinary income and net capital gains from the preceding years that were not distributed during such years.

Horizon Technology Finance Corporation and Subsidiaries

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

Note 10. Financial Highlights

The financial highlights for the Company are as follows:

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Per share data:		
Net asset value at beginning of period	$ 14.14	$ 15.15
Net investment income	0.78	1.03
Realized loss on investments	(0.43)	(0.61)
Unrealized appreciation on investments	0.93	0.42
Net increase in net assets resulting from operations	1.28	0.84
Distributions declared(1)	(1.04)	(1.04)
Net asset value at end of period	$ 14.38	$ 14.95
Per share market value, end of period	$ 13.46	$ 13.32
Total return based on market value(2)	2.0%	(3.8)%
Shares outstanding at end of period	9,625,274	9,588,993
Ratios to average net assets:		
Expenses without incentive fees(4)	14.7%(3)	11.5%(3)
Incentive fees	1.2%(3)	2.3%(3)
Total expenses(4)	15.9%(3)	13.8%(3)
Net investment income with incentive fees(4)	7.3%(3)	9.1%(3)
Net assets at the end of the period	$ 138,427	$ 143,384
Average net assets value	$ 137,244	$ 143,951
Average borrowings per share	$ 11.34	$ 11.56
Portfolio turnover ratio	32.0%	29.3%

(1) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP due to (i) changes in unrealized appreciation and depreciation, (ii) temporary and permanent differences in income and expense recognition, and (iii) the amount of spillover income carried over from a given year for distribution in the following year. The final determination of taxable income for each tax year, as well as the tax attributes for distributions in such tax year, will be made after the close of the tax year.

(2) The total return for the nine months ended September 30, 2014 and 2013 equals the change in the ending market value over the beginning of period price per share plus distributions paid per share during the period, divided by the beginning price.

(3) Annualized.

(4) During the nine months ended September 30, 2014, the Advisor waived $0.2 million of base management fee and $0.1 million of incentive fee. Had these expenses not been waived, the ratio of expenses without incentive fee to average net assets, the ratio of total expenses to average net assets and the ratio of net investment income with incentive fee to average net assets would have been 14.9%, 16.2% and 7.0%, respectively.

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

In this quarterly report on Form 10-Q, except where the context suggests otherwise, the terms "we," "us," "our" and "Horizon Technology Finance" refer to Horizon Technology Finance Corporation and its consolidated subsidiaries. The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this quarterly report on Form 10-Q. Amounts are stated in thousands, except shares and per share data and where otherwise noted.

Forward-Looking Statements

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

- our future operating results, including the performance of our existing loans and warrants;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our investment advisor, Horizon Technology Management LLC, or the Advisor;
- the ability of our Advisor to attract and retain highly talented professionals and to operate effectively at existing staffing levels;
- the impact of increased competition;
- the impact of investments we intend to make and future acquisitions and divestitures;
- the unfavorable resolution of legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- our regulatory structure and tax status;
- our ability to qualify and maintain qualification as a regulated investment company, or RIC, and as a business development company, or BDC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly if we use leverage as part of our investment strategy;
- the ability of our portfolio companies to achieve their objective;
- our ability to cause a subsidiary to become a licensed Small Business Investment Company;
- the impact of legislative and regulatory actions and reforms and regulatory supervisory or enforcement actions of government agencies relating to us or our Advisor;
- our contractual arrangements and relationships with third parties;
- our ability to access capital and any future financings by us; and
- the impact of changes to tax legislation and, generally, our tax position.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in “Risk Factors” and elsewhere in our annual report on Form 10-K for the year ended December 31, 2013, and elsewhere in this quarterly report on Form 10-Q.

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

Overview

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

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are generally only 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. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and net capital gain that we distribute to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

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

Our investment activities, and our day-to-day operations, are managed by the Advisor and supervised by our board of directors, or the Board, of which a majority of the members are independent of us. Under an amended and restated investment management agreement, or the Investment Management Agreement, we have agreed to pay the Advisor a base management fee and an incentive fee for its advisory services to us. We have also entered into an administration agreement, or the Administration Agreement, with the Advisor under which we have agreed to reimburse the Advisor for our allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement.

Recent Developments

On October 30, 2014, the Company received a "green light" letter from the U.S. Small Business Administration, or SBA, inviting the Company to continue its application process to obtain a license to form and operate a Small Business Investment Company subsidiary. On November 3, 2014, the Company completed and submitted its application to the SBA.

Portfolio Composition and Investment Activity

The following table shows our portfolio by asset class as of September 30, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013		
	# of Investments	Fair Value	Percentage of Total Portfolio	# of Investments	Fair Value	Percentage of Total Portfolio
Term loans	48	$ 183,703	89.8%	48	$ 201,846	91.2%
Revolving loans	1	11,948	5.8	1	11,908	5.4
Total loans	49	195,651	95.6	49	213,754	96.6
Warrants	75	5,694	2.8	73	6,036	2.7
Other investments	1	300	0.1	1	400	0.2
Equity	4	3,049	1.5	3	1,094	0.5
Total		$ 204,694	100.0%		$ 221,284	100.0%

Total portfolio investment activity for the three and nine months ended September 30, 2014 and 2013 was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Beginning portfolio	$ 219,295	$ 246,861	$ 221,284	$ 228,613
New loan funding	22,845	11,500	66,824	69,143
Less refinanced balances	—	—	—	—
Net new loan funding	22,845	11,500	66,824	69,143
Principal payments received on investments	(9,773)	(10,536)	(31,407)	(29,193)
Early pay-offs and recoveries	(26,643)	(7,483)	(52,499)	(26,761)
Accretion of loan fees	623	694	1,686	1,995
New loan fees	(385)	(118)	(890)	(806)
New equity	—	—	12	73
Sale of investments	(1,306)	—	(2,636)	(39)
Net realized gain (loss) on investments	872	(5,566)	(6,673)	(5,629)
Net unrealized (depreciation) appreciation on investments	(834)	5,967	8,993	3,996
Other	—	—	—	(73)
Ending Portfolio	$ 204,694	$ 241,319	$ 204,694	$ 241,319

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

The following table shows our loan portfolio by industry sector as of September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
Life Science				
Biotechnology	$ 15,926	8.1%	$ 16,376	7.7%
Medical Device	24,220	12.4	14,765	6.9
Technology				
Communications	18,343	9.4	9,359	4.4
Consumer-Related Technologies	3,913	2.0	—	—
Internet and Media	4,072	2.1	6,019	2.8
Networking	985	0.5	963	0.5
Power Management	—	—	13,044	6.1
Semiconductors	31,899	16.3	37,450	17.5
Software	53,639	27.4	66,583	31.1
Cleantech				
Alternative Energy	8,915	4.6	11,771	5.5
Energy Efficiency	5,584	2.9	11,403	5.3
Waste Recycling	—	—	680	0.3
Healthcare Information and Services				
Diagnostics	14,893	7.6	12,140	5.7
Other Healthcare Related Services	6,934	3.5	6,904	3.2
Software	6,328	3.2	6,297	3.0
Total	$ 195,651	100.0%	$ 213,754	100.0%

The largest loans may vary from year to year as new loans are originated and existing loans are repaid. Our five largest loans represented 23% and 22% of total loans outstanding as of September 30, 2014 and December 31, 2013, respectively. No single loan represented more than 10% of our total loans as of September 30, 2014 and December 31, 2013.

Loan Portfolio Asset Quality

We use an internal credit rating system which rates each loan on a scale of 4 to 1, with 4 being the highest credit quality rating and 3 being the rating for a standard level of risk. A rating of 2 represents an increased level of risk and, while no loss is currently anticipated for a 2-rated loan, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and increased risk. Our internal credit rating system is not a national credit rating system. The following table shows the classification of our loan portfolio by credit rating as of September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio
Credit Rating				
4	$ 34,656	17.7%	$ 30,385	14.2%
3	146,608	74.9	167,231	78.3
2	12,105	6.2	2,199	1.0
1	2,282	1.2	13,939	6.5
Total	$ 195,651	100.0%	$ 213,754	100.0%

As of September 30, 2014 and December 31, 2013, our loan portfolio had a weighted average credit rating of 3.1 and 3.0, respectively. As of September 30, 2014, there was one investment with an internal credit rating of 1, with a cost of $2.6 million and a fair value of $2.3 million. As of December 31, 2013, there were five investments with an internal credit rating of 1, with an aggregate cost of $23.2 million and an aggregate fair value of $13.9 million.

Consolidated Results of Operations

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

Comparison of the three months ended September 30, 2014 and 2013

Consolidated results of operations for the three months ended September 30, 2014 and 2013 were as follows:

	For the Three Months Ended September 30,	
	2014	2013
Total investment income	$ 7,739	$ 8,712
Total expenses	4,498	5,145
Net investment income before excise tax	3,241	3,567
Provision for excise tax	(40)	(80)
Net investment income	3,201	3,487
Net realized gain (loss) on investments	2,325	(5,566)
Net unrealized (depreciation) appreciation on investments	(766)	5,967
Net increase in net assets resulting from operations	$ 4,760	$ 3,888
Average debt investments, at fair value	$ 196,223	$ 238,167
Average borrowings outstanding	$ 94,556	$ 133,000

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

Investment Income

Total investment income decreased by $1.0 million, or 11.2%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. For the three months ended September 30, 2014, total investment income consisted primarily of $6.8 million in interest income from investments, which included $1.4 million in income from the accretion of origination fees and end-of-term payments, or ETPs, and $1.0 million in fee income. Total investment income decreased due to a lower average size of the loan portfolio which was partially offset by higher fee income. Fee income was primarily comprised of loan prepayment fees collected from our portfolio companies and increased primarily due to a higher number of prepayments for the three months ended September 30, 2014. For the three months ended September 30, 2013, total investment income consisted primarily of $8.2 million in interest income from investments, which included $1.6 million in income from the accretion of origination fees and ETPs, and $0.5 million in fee income.

For the three months ended September 30, 2014 and 2013, our dollar-weighted average annualized yield on average loans was 15.8% and 14.6%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted average annualized yield represents the portfolio yield and may be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

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 24% and 21% of investment income for the three months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014 and December 31, 2013, interest receivable was $4.9 million and $4.2 million, respectively, which represents accreted ETPs and one month of accrued interest income on substantially all of our loans.

Expenses

Total expenses decreased by $0.6 million, or 12.6%, to $4.5 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Total operating expenses for each period consisted principally of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense for the three months ended September 30, 2014 and 2013 was $1.5 million and $2.2 million, respectively. Interest expense for the three months ended September 30, 2014, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in our average debt outstanding and a decrease in the effective interest rate on borrowings.

Base management fee expense for the three months ended September 30, 2014 and 2013 was $1.0 million and $1.3 million, respectively. Base management fee expense for the three months ended September 30, 2014 decreased compared to the three months ended September 30, 2013, primarily due to a decrease in average total assets.

The performance based incentive fees for the three months ended September 30, 2014 and 2013 were $0.8 million and $0.9 million, respectively, and consisted entirely of incentive fee payable on pre-incentive fee net investment income. The performance based incentive fee for the three months ended September 30, 2014 decreased compared to the three months ended September 30, 2013, due to lower pre-incentive fee net investment income in the three months ended September 30, 2014.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses for the three months ended September 30, 2014 increased compared to the three months ended September 30, 2013 due to increased legal fees and other costs associated with certain non-accrual investments and other assets.

Net Realized Losses and Net Unrealized Appreciation and Depreciation

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

During the three months ended September 30, 2014, we realized net gains totaling $2.3 million primarily due to the sale of warrants and the sale of other assets acquired through bankruptcy. During the three months ended September 30, 2013, we realized losses totaling $5.6 million primarily due to the determination that our non-accrual debt investment and warrant investments in one portfolio company were not recoverable, which resulted in a realized loss totaling $5.3 million.

During the three months ended September 30, 2014, net unrealized depreciation on investments totaled $0.8 million which was primarily due to the reversal of previously recorded unrealized appreciation on warrants sold in one portfolio company during the period, as described above. During the three months ended September 30, 2013, net unrealized appreciation on investments totaled $6.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on our non-accrual debt investment and warrant investments in one portfolio company totaling $5.3 million, and the remainder related to the change in fair values of our investment portfolio during the period.

Comparison of the nine months ended September 30, 2014 and 2013

Consolidated results of operations for the nine months ended September 30, 2014 and 2013 were as follows:

	For the Nine Months Ended September 30,	
	2014	2013
Total investment income	$ 23,971	$ 24,868
Total expenses	16,329	14,846
Net investment income before excise tax	7,642	10,022
Provision for excise tax	(120)	(160)
Net investment income	7,522	9,862
Net realized loss on investments	(4,190)	(5,839)
Net unrealized appreciation on investments	8,993	3,996
Net increase in net assets resulting from operations	$ 12,325	$ 8,019
Average debt investments, at fair value	$ 208,675	$ 235,745
Average borrowings outstanding	$ 109,087	$ 110,692

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

Investment Income

Total investment income decreased by $0.9 million, or 3.6%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. For the nine months ended September 30, 2014, total investment income consisted primarily of $21.7 million in interest income from investments, which included $4.6 million in income from the accretion of origination fees and ETPs, and $2.3 million of fee income. Total investment income decreased due to a lower average size of the loan portfolio which was partially offset by higher fee income. Fee income was primarily comprised of loan prepayment fees collected from our portfolio companies and increased primarily due to a higher number of prepayments for the nine months ended September 30, 2014. For the nine months ended September 30, 2013, total investment income consisted primarily of $24.0 million in interest income from investments, which included $4.6 million in income from the accretion of origination fees and ETPs.

For the nine months ended September 30, 2014 and 2013, our dollar-weighted average annualized yield on average loans was 15.3% and 14.1%, respectively. We calculate the yield on dollar-weighted average debt investments for any period measured as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted average annualized yield represents the portfolio yield and may be higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

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 19% and 22% of investment income for the nine months ended September 30, 2014 and 2013, respectively.

Expenses

Total expenses increased by $1.5 million, or 10.0%, to $16.3 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Total operating expenses for each period consisted principally of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense for the nine months ended September 30, 2014 and 2013 was $7.3 million and $5.9 million, respectively. Interest expense for the nine months ended September 30, 2014, which includes the amortization of debt issuance costs, increased primarily due to the acceleration of $1.1 million of unamortized debt issuance costs and a $0.8 million prepayment fee related to the termination of our term loan facility. We do not anticipate any ongoing obligations or expenses associated with the termination and prepayment of our term loan facility.

Base management fee expense for the nine months ended September 30, 2014 and 2013 was $3.4 million and $3.8 million, respectively. Base management fee expense for the nine months ended September 30, 2014 decreased compared to the nine months ended September 30, 2013, primarily due to a decrease in average total assets and excluding cash from the base management fee calculation for the nine months ended September 30, 2014. For the first six months of the period ended September 30, 2014, our Advisor waived base management fees of $0.2 million, which our Advisor would have otherwise earned during that period. Our Advisor waived such fees on cash held at the time of calculation. As of July 1, 2014 the Investment Management Agreement was amended and restated and on and after July 1, 2014, the base management fee is calculated on gross assets less cash and cash equivalents.

The performance based incentive fee for the nine months ended September 30, 2014 and 2013 was $1.2 million and $2.5 million, respectively, and consisted entirely of incentive fee payable on pre-incentive fee net investment income. The performance based incentive fee for the nine months ended September 30, 2014 decreased compared to the nine months ended September 30, 2013, primarily due to lower pre-incentive fee net investment income as a result of the one-time costs associated with the termination of our term loan facility, described below.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses for the nine months ended September 30, 2014 increased compared to the nine months ended September 30, 2013, due to increased legal fees and other costs associated with certain non-accrual investments and other assets.

Net Realized Losses and Net Unrealized Appreciation and Depreciation

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

During the nine months ended September 30, 2014, we realized net losses totaling $4.2 million primarily due to the resolution of three debt investments that were previously on non-accrual status which was partially offset by realized gains on the sale of warrants. As a result of the resolution of the debt investments that were previously on non-accrual, we recognized $7.1 million of realized losses and $7.6 million of unrealized appreciation. During the nine months ended September 30, 2013, we realized losses totaling $5.8 million primarily due to the determination that our non-accrual debt investment and warrant in one portfolio company were not recoverable, which resulted in a realized loss totaling $5.3 million.

During the nine months ended September 30, 2014, net unrealized appreciation on investments totaled $9.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on three debt investments that were settled in the period and one debt investment that returned to accrual status. During the nine months ended September 30, 2013, net unrealized appreciation on investments totaled $4.0 million which was primarily due to the reversal of previously recorded unrealized depreciation on our non-accrual debt investment and warrant investments in one portfolio company totaling $5.3 million, and the remainder relates to change in fair values of our investment portfolio during the period.

Liquidity and Capital Resources

As of September 30, 2014 and December 31, 2013, we had cash and investments in money market funds of $16.0 million and $26.5 million, respectively. Cash and investments in money market funds are available to fund new investments, reduce borrowings, pay operating expenses and pay distributions. In addition, as of September 30, 2014 and December 31, 2013, we had $3.4 million and $6.0 million, respectively, of restricted investments in money market funds. Restricted investments in money market funds may be used to make monthly interest and principal payments on our asset-backed notes, or the Asset-Backed Notes. Our primary sources of capital have been from our private and public equity offerings, use of our revolving credit facilities, issuance of our 7.375% notes due 2019, or the 2019 Notes, and our Asset-Backed Notes.

As of September 30, 2014, the outstanding principal balance under our revolving credit facility with Key Equipment Finance, or the Key Facility, was $10.0 million. As of September 30, 2014, we had borrowing capacity of $40.0 million of which $28.4 million was available, subject to existing terms and advance rates.

Our operating activities provided cash of $34.0 million for the nine months ended September 30, 2014, and our financing activities used cash of $10.1 million for the same period. Our operating activities provided cash primarily from regular principal payments and early pay-offs received, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay down our borrowings and pay our monthly distributions.

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

Our primary use of available funds is to make investments in portfolio companies and for general corporate purposes. We expect to raise additional equity and debt capital opportunistically as needed, and subject to market conditions, to support our future growth 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 investment company taxable income. In addition, as a BDC, we are required to maintain asset coverage of at least 200%. This requirement limits the amount that we may borrow.

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

Current Borrowings

A summary of our borrowings as of September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014			December 31, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	$ 44,902	$ 44,902	$ —	$ 79,343	$ 79,343	$ —
Fortress Facility	—	—	—	75,000	10,000	65,000
Key Facility	50,000	10,000	40,000	50,000	—	50,000
2019 Notes	33,000	33,000	—	33,000	33,000	—
Total	$ 127,902	$ 87,902	$ 40,000	$ 237,343	$ 122,343	$ 115,000

On November 4, 2013, through our wholly owned subsidiary, Horizon Credit II LLC, or Credit II, we renewed and amended our revolving credit facility which, among other things, assigned all rights and obligations to Key Equipment Finance. The interest rate on the Key Facility is based upon the one-month London Interbank Offered Rate, or LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The interest rate was 4.00% as of September 30, 2014 and December 31, 2013.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the current $50 million commitment provided by Key Equipment Finance. The Key Facility is collateralized by loans held by Credit II and permits an advance rate of up to fifty percent (50%) of eligible loans held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the loans securing the Key Facility to certain criteria for qualified loans and to comply with portfolio company concentration limits as defined in the related loan agreement. We may request advances under the Key Facility through November 4, 2016, or the Revolving Period. After the Revolving Period, we may not request new advances, and we must repay the outstanding advances under the Key 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 Key Facility, particularly the condition that the principal balance of the Key Facility not exceed fifty percent (50%) of the aggregate principal balance of our eligible loans to our portfolio companies. All outstanding advances under the Key Facility are due and payable on November 4, 2018.

On March 23, 2012, we issued and sold aggregate principal amount of $30 million 2019 Notes, and on April 18, 2012, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional $3 million of the 2019 Notes. The 2019 Notes will mature on March 15, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after March 15, 2015 at a redemption price of $25 per security plus accrued and unpaid interest. The 2019 Notes bear interest at a rate of 7.375% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2019 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our future senior unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of September 30, 2014, we were in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the New York Stock Exchange under the symbol "HTF".

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

The Fortress Facility permitted advances through August 23, 2016, or the Draw Period. After the Draw Period, we would have been required to repay the outstanding advances under the Fortress Facility as of such date, at such times and in such amounts as were necessary to maintain compliance with the terms and conditions of the Fortress Facility, particularly the condition that the principal balance of the Fortress Facility not exceed sixty-six percent (66%) of the aggregate principal balance of our eligible loans to our portfolio companies. The unused line fee equaled 1.00% of any unborrowed amount available under the Fortress Facility annually. All outstanding advances under the Fortress Facility were due and payable on August 23, 2017.

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

Effective June 17, 2014, we terminated the Fortress Facility. In connection therewith, a loan and security agreement and other related documents governing the Fortress Facility were also terminated. As such, we have no borrowing capacity under the Fortress Facility as of September 30, 2014. Upon termination of the Fortress Facility, we accelerated $1.1 million of unamortized debt issuance cost and paid a $0.8 million prepayment fee. We believe there will be no ongoing obligations or expenses associated with the termination and prepayment of the Fortress Facility.

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

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

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

Under the terms of the Asset-Backed Notes, we are required to maintain a reserve cash balance, funded through principal collections from the underlying securitized debt portfolio, which may be used to make monthly interest and principal payments on the Asset-Backed Notes.

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

As of September 30, 2014 and December 31, 2013, other assets were $3.6 million and $5.7 million, respectively, which were primarily comprised of debt issuance costs.

Contractual Obligations and Off-Balance Sheet Arrangements

A summary of our significant contractual payment obligations and off-balance sheet arrangements as of September 30, 2014 is as follows:

	Payments due by period				
	Total	**Less than 1 year**	**1 – 3 Years**	**3-5 Years**	**After 5 years**
Borrowings	$ 87,902	$ 18,922	$ 29,926	$ 39,054	$ —
Unfunded commitments	19,700	19,700	—	—	—
Total	$ 107,602	$ 38,622	$ 29,926	$ 39,054	$ —

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, 2014, we had unfunded commitments of $19.7 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the financial instruments that we hold on our balance sheet. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

In addition to the Key Facility, we have certain commitments pursuant to our Investment Management Agreement entered into with our Advisor. We have agreed to pay a fee for investment advisory and management services consisting of two components (1) a base management fee equal to a percentage of the value of our gross assets less cash or cash equivalents, 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 obligations under the agreement, including rent, fees and other expenses inclusive of our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. See Note 3 to our Consolidated Financial Statements for additional information regarding our Investment Management Agreement and our Administration Agreement.

Distributions

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute as dividends an amount generally at least equal to 90% of our investment company taxable income to our stockholders on an annual basis. Additionally, we must generally distribute or be deemed to have distributed by December 31 of each calendar year an amount at least equal to the sum of 98% of our ordinary income (taking into account certain deferrals and elections) for such calendar year, 98.2% of the excess of our capital gains over our capital losses (generally computed on the basis of the one-year period ending on October 31 of such calendar year) and 100% of any ordinary income and the excess of capital gains over capital losses 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 make monthly distributions 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 distribution 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, or DRIP, 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 DRIP. 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, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading at or below net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of cash that they would have received if they had elected to receive the distribution in cash. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional common stock will be treated as receiving a distribution in the amount of the fair market value of our common stock. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

Related Party Transactions

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

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

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

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

Our Advisor may manage other investment vehicles, which we refer to as Advisor Funds, with the same investment strategy as us. Our Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates may be precluded from co-investing in such investments. Accordingly, we may apply for exemptive relief which would permit us to co-invest subject to certain conditions, including, 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.

Critical Accounting Policies

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

We have identified the following items as critical accounting policies.

Valuation of Investments

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

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

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

Our Board determines the fair value of investments in good faith, based on the input of management, the audit committee and independent valuation firms that have been engaged at the direction of our Board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing twelve-month period under our valuation policy and a consistently applied valuation process. The Board conducts this valuation process at the end of each fiscal quarter, with 25% (based on fair value) of our valuation of portfolio companies that do not have a readily available market quotations subject to review by an independent valuation firm.

Income Recognition

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a loan becomes 90 days or more past due, or if 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, success 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. All other income is recorded into income when earned. Fees for counterparty loan commitments with multiple loans are allocated to each loan based upon each loan's relative fair value. When a loan is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the loan is returned to accrual status.

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

In connection with substantially all lending arrangements, we receive warrants to purchase shares of stock from the borrower. We record the warrants as assets at estimated fair value on the grant date using the Black-Scholes valuation model. We consider the warrants loan fees and record them 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 investments. Gains from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains on investments.

Realized gains or losses on the sale of investments, or upon the determination that an investment balance, or portion thereof, is not recoverable, are calculated using the specific identification method. We measure realized gains or losses by calculating the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Income taxes

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

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

We evaluate tax positions taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority in accordance with Topic 740, as modified by Topic 946, of the Financial Accounting Standards Board's, or FASB's, Accounting Standards Codification, as amended. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, are recorded as a tax expense in the current year. It is our policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. We had no material uncertain tax positions at September 30, 2014 and December 31, 2013.

Recently Issued Accounting Standards

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements, or ASU 2013-08, containing new guidance on assessing whether an entity is an investment company, requiring non-controlling ownership interests in investment companies to be measured at fair value and requiring certain additional disclosures. This guidance is effective for annual and interim periods beginning on or after December 15, 2013. ASU 2013-08 did not have a material impact on our consolidated financial position or disclosures.

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

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the loans within our portfolio were mostly at fixed rates, and we expect that our loans in the future will primarily have floating interest rates with a floor and ceiling. As of September 30, 2014, 42% of the outstanding principal amount of our loan portfolio bore interest at floating rates and 58% of the outstanding principal amount of our loan portfolio bore interest at fixed rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index.

Assuming that the consolidated statement of assets and liabilities as of September 30, 2014 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the consolidated statement of assets and liabilities and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

While our 2019 Notes and Asset-Backed Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision based on a LIBOR index which resets daily, and 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.

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

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2014, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting.

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

PART II

Item 1: Legal Proceedings.

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

Item 1A: Risk Factors.

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our annual report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results. There have been no material changes during the nine months ended September 30, 2014 to the risk factors set forth in “Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2013.

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

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Mine Safety Disclosures.

Not applicable

Item 5: Other Information.

None.

Item 6: Exhibits.

EXHIBIT INDEX

Exhibit No.	Description
10.1	Amended and Restated Investment Management Agreement, dated as of October 28, 2010 and amended effective July 1, 2014 (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K, filed on August 5, 2014)
31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

SIGNATURES

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

	Horizon Technology Finance Corporation
Date: November 4, 2014	By: /s/ Robert D. Pomeroy, Jr. Name: Robert D. Pomeroy, Jr. Title: Chief Executive Officer and Chairman of the Board
Date: November 4, 2014	By: /s/ Christopher M. Mathieu Name: Christopher M. Mathieu Title: Chief Financial Officer

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO EXCHANGE ACT
RULES 13a-14 AND 15d-14, AS ADOPTED PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Robert D. Pomeroy, Jr., as Chief Executive Officer and Chairman of the Board of Horizon Technology Finance Corporation and Subsidiaries, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Horizon Technology Finance Corporation and Subsidiaries;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2014

By: /s/ Robert D. Pomeroy, Jr.
Chief Executive Officer and
Chairman of the Board

EXHIBIT 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14 AND 15d-14, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Christopher M. Mathieu, Chief Financial Officer of Horizon Technology Finance Corporation and Subsidiaries, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Horizon Technology Finance Corporation and Subsidiaries;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2014

By: /s/ Christopher M. Mathieu
Christopher M. Mathieu
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

In connection with the Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation and Subsidiaries (the “Company”) for the quarterly period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert D. Pomeroy, Jr., as Chief Executive Officer and Chairman of the Board, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Robert D. Pomeroy, Jr.

Name:	**Robert D. Pomeroy, Jr.**
Title:	**Chief Executive Officer and Chairman of the Board**

Date: November 4, 2014

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

In connection with the Quarterly Report on Form 10-Q of Horizon Technology Finance Corporation and Subsidiaries (the “Company”) for the quarterly period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher M. Mathieu, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company as of the dates and for the periods expressed in the Report.

/s/ Christopher M. Mathieu
Name: **Christopher M. Mathieu**
Title: **Chief Financial Officer**

Date: November 4, 2014