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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC
7.375% 2019 Notes due 2019	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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 ☑.

The aggregate market value of common stock held by non-affiliates of the Registrant on June 28, 2013 based on the closing price on that date of $13.74 on the Nasdaq Global Select Market was $130.6 million. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 9,615,246 shares of the Registrant's common stock outstanding as of March 6, 2014.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2014 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Annual Report on Form 10-K.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2013

TABLE OF CONTENTS

PART I

In this annual report on Form 10-K, except where the context suggests otherwise, the terms:

- "we," "us," "our" and "Horizon Technology Finance" refer to Horizon Technology Finance Corporation, a Delaware corporation, and its consolidated subsidiaries;
- The "Advisor" or the "Administrator" refer to Horizon Technology Finance Management LLC, a Delaware limited liability company;
- "Credit I" refers to Horizon Credit I LLC, a Delaware limited liability company, "Credit II" refers to Horizon Credit II LLC, a Delaware limited liability company, "Credit III" refers to Horizon Credit III LLC, a Delaware limited liability company, all of which are special purpose bankruptcy remote entities and our direct subsidiaries;
- "WestLB" refers to WestLB, AG, New York Branch and "WestLB Facility" refers to a revolving credit facility we entered into with WestLB on March 4, 2008 that was closed during the fourth quarter of 2012;
- "Wells" refers to Wells Fargo Capital Finance LLC and "Wells Facility" refers to a revolving credit facility we entered into with Wells on July 14, 2011 and with respect to which all rights and obligations of Wells were assigned to Key, effective November 4, 2013;
- "Key" refers to Key Equipment Finance and "Key Facility" refers to the Wells Facility after all rights and obligations of Wells under the Wells Facility were assigned to Key, effective November 4, 2013;
- "2019 Notes" refers to our $33 million aggregate principal amount of 7.375% senior unsecured notes due 2019 on March 23, 2012 and April 18, 2012;
- "Fortress" refers to Fortress Credit Co LLC and "Fortress Facility" refers to a term loan credit facility we entered into with Fortress on August 23, 2012;
- "Credit Facilities" refers collectively to the Key Facility and Fortress Facility;
- "2013-1 Securitization" refers to the $189.3 million securitization of secured loans we completed on June 28, 2013; and
- "Asset-Backed Notes" refers to our $90 million aggregate principal amount of fixed-rate asset-backed notes issued in conjunction with the 2013-1 Securitization.

Some of the statements in this annual report on Form 10-K constitute forward-looking statements which apply to both us and our consolidated subsidiaries and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties for both us and our consolidated subsidiaries and actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors described in "Item 1A.—Risk Factors" and elsewhere in this annual report on Form 10-K.

Item 1. *Business*

General

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries, which we refer to collectively as our "Target Industries." Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make secured loans, which we refer to as "Venture Loans," to companies backed by established venture capital and private equity firms in our Target Industries, which we refer to as "Venture Lending." We also selectively lend to publicly traded companies in our Target Industries. Venture Lending is typically characterized by (1) the making of a secured loan after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company's debt service obligations under the Venture Loan, (2) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (3) the relatively rapid amortization of the Venture Loan and (4) the lender's receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company, or 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 regulated investment company, or 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 only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or net short-term capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution, asset diversification and other requirements.

Compass Horizon Funding Company LLC, a Delaware limited liability company, 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. When we refer to our historical performance, we include the performance of Compass Horizon.

From our inception and through December 31, 2013, we funded 103 portfolio companies and invested $565.2 million in loans (including 54 loans, in the amount $226.9 million, that have been repaid). As of December 31, 2013, our total debt investment portfolio consisted of 49 loans which totaled $213.8 million, and our net assets were $135.8 million. All of our existing loans are secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The loans in our loan portfolio are generally not rated by any rating agency. If the individual loans in our portfolio were rated, they would be rated below "investment grade" because they are subject to many risks, including volatility, intense competition, short product life cycles and periodic downturns.

For the year ended December 31, 2013, our loan portfolio had a dollar-weighted average annualized yield of 14.4% (excluding any yield from warrants). As of December 31, 2013, our loan portfolio had a dollar-weighted average term of 42 months from inception and a dollar-weighted average remaining term of 29 months. In addition, we held warrants to purchase either common stock or preferred stock in 73 portfolio companies. As of December 31, 2013, substantially all of our loans had an original committed principal amount of between $2 million and $15 million, repayment terms of between 33 and 48 months and bore current pay interest at annual interest rates of between 9% and 13%.

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

Our common stock began trading October 29, 2010 and is currently traded on the NASDAQ Global Select Market under the symbol "HRZN".

Information Available

Our principal executive office is located at 312 Farmington Avenue, Farmington, Connecticut 06032, our telephone number is (860) 676-8654, and our internet address is *www.horizontechnologyfinancecorp.com*. We make available, free of charge, on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission, or the SEC. Information contained on our website is not incorporated by reference into this annual report on Form 10-K and you should not consider information contained on our website to be part of this annual report on Form 10-K or any other report we file with the SEC.

Our Advisor

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

Our Advisor is a Delaware limited liability company that is a registered investment advisor under the Investment Advisers Act of 1940, as amended, or the Advisers Act. The principal executive address of our Advisor is 312 Farmington Avenue, Farmington, Connecticut 06032.

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

Our Strategy

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

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

- *"Enterprise Value" Lending.* We and our Advisor take an enterprise value approach to the loan structuring and underwriting process. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the applicable portfolio company's particular technology, service or customer base. We secure our senior or subordinated lien position against the enterprise value of a portfolio company.

- *Creative Products with Attractive Risk-Adjusted Pricing.* Each of our existing and prospective portfolio companies has its own unique funding needs for the capital provided from the proceeds of our Venture Loans. These funding needs include funds for additional development "runways," funds to hire or retain sales staff or funds to invest in research and development in order to reach important technical milestones in advance of raising additional equity. Our loans include current-pay interest, commitment fees, end-of-term payments, or ETPs, pre-payment fees and non-utilization fees. We believe we have developed pricing tools, structuring techniques and valuation metrics that satisfy our portfolio companies' financing requirements while mitigating risk and maximizing returns on our investments.

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

- *Direct Origination.* We originate transactions directly with technology, life science, healthcare information and services and cleantech companies. These transactions are referred to our Advisor from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity firms, portfolio company management teams, legal firms, accounting firms, investment banks and other lenders that represent companies within our Target Industries. Our Advisor has been the sole or lead originator in substantially all transactions in which the funds it manages have invested.

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

- *Use of Leverage.* We currently use leverage to increase returns on equity through our Credit Facilities, our 2019 Notes and our 2013-1 Securitization. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for additional information about our use of leverage. In addition, we may issue additional debt securities or preferred stock in one or more series in the future.

Market Opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include, but are not limited to, communications, networking, wireless communications, data storage, software, cloud computing, semiconductor, internet and media, and consumer-related technologies. The life science sectors we focus on include, but are not limited to, biotechnology, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include, but are not limited to, diagnostics, medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include, but are not limited to, alternative energy, water purification, energy efficiency, green building materials and waste recycling.

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

- interest rates that typically exceed rates that would be available to portfolio companies if they could borrow in traditional commercial financing transactions;

- the loan support provided by cash proceeds from equity capital invested by venture capital and private equity firms;

- relatively rapid amortization of loans;

- senior ranking to equity and collateralization of loans to minimize potential loss of capital; and

- potential equity appreciation through warrants.

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

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

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

- allows portfolio companies to better match cash sources with uses.

Competitive Strengths

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

Consistently Execute Commitments and Close Transactions. Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed more than 165 Venture Loans with an aggregate original principal amount over $1.1 billion since operations commenced in 2004. In our experience, prospective portfolio companies prefer lenders that have a demonstrated ability to deliver on their commitments.

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

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

Relationships with Venture Capital and Private Equity Investors. Our Advisor has developed strong relationships with venture capital and private equity firms and their partners. The strength and breadth of our Advisor's venture capital and private equity relationships would take other firms considerable time and expense to develop and we believe this represents a significant barrier to entry.

Well-Known Brand Name. Our Advisor has originated Venture Loans to more than 165 companies in our Target Industries under the "Horizon Technology Finance" brand. We believe that the "Horizon Technology Finance" brand as a competent, knowledgeable and active participant in the Venture Lending marketplace will continue to result in a significant number of referrals and prospective investment opportunities in our Target Industries.

Competition

We compete to provide financing to development-stage companies in our Target Industries with a number of investment funds and other BDCs, as well as traditional financial services companies such as commercial banks and other financing sources. Some of our competitors are larger and have greater financial, technical, marketing and other resources than we have. We believe we compete effectively with these entities primarily on the basis of the experience, industry knowledge and contacts of our Advisor's investment professionals, its responsiveness and efficient investment analysis and decision-making processes, its creative financing products and highly customized investment terms. We do not intend to compete primarily on the interest rates we offer and believe that some competitors make loans with rates that are comparable to or lower than our rates. For additional information concerning our competitive position and competitive risks, see "Item 1A — Risk Factors — Risks Related to Our Business and Structure — We operate in a highly competitive market for investment opportunities, and if we are not able to compete effectively, our business, results of operations and financial condition may be adversely affected and the value of your investment in us could decline."

Investment Criteria

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

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

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

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

Operating Plan and Cash Resources. We generally require that a prospective portfolio company, in addition to having sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. Our review of the operating plan will take into consideration existing cash, cash burn, cash runway and the milestones necessary for the company to achieve cash flow positive operations or to access additional equity from the investors.

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

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

Investment Process

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

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

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

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

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

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

Due Diligence. The due diligence process includes a formal visit to the prospective portfolio company's location and interviews with the prospective portfolio company's senior management team including its Chief Executive Officer, Chief Financial Officer, Chief Scientific or Technology Officer, principal marketing or sales professional and other key managers. The process includes obtaining and analyzing information from independent third parties that have knowledge of the prospective portfolio company's business, including, to the extent available, analysts that follow the technology market, thought leaders in our Target Industries and important customers or partners, if any. Outside sources of information are reviewed, including industry publications, scientific and market articles, Internet publications, publicly available information on competitors or competing technologies and information known to our Advisor's investment team from their experience in the technology markets.

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

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

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

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

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

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

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

Our Advisor closely monitors portfolio companies rated a 1 or 2 for adverse developments. In addition, our Advisor maintains regular contact with the management, board of directors and major equity holders of these portfolio companies in order to discuss strategic initiatives to correct the deterioration of the portfolio company.

The table below describes each rating level:

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

For a discussion of the ratings of our existing portfolio, see "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Loan Portfolio Asset Quality."

Managerial Assistance

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

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

Employees

We do not have any employees. Each of our executive officers is an employee of our Advisor. Our day-to-day investment operations are managed by our Advisor. We reimburse our Advisor for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, as our Administrator, including our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs.

Investment Management Agreement

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

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

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

Investment Advisory Fees

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

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

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

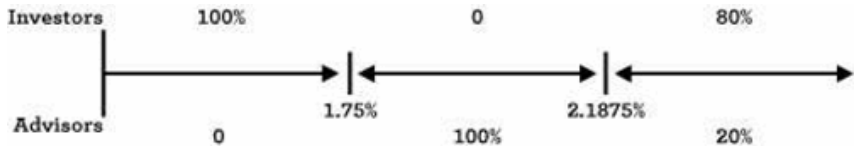
The first part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income" (including any other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

Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive Pre-Incentive Fee Net Investment Income in excess of the quarterly minimum hurdle rate, we pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses. Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2.00% base management fee. These calculations are appropriately pro-rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

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

Quarterly Incentive Fee Based on Net Investment Income

Pre-Incentive Fee Net Investment Income **(expressed as a percentage of the value of net assets)**



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

The second part of the incentive fee will be 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 will equal 20% of our realized capital gains, if any, on a cumulative basis from the date of our election to be a BDC, through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less all previous amounts paid in respect of the capital gain incentive fee.

Examples of Incentive Fee Calculation

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

Alternative 1

Assumptions:

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

Hurdle rate[1] = 1.75%

Management fee[2] = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)[3] = 0.20%

Pre-Incentive Fee Net Investment Income

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

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

Alternative 2

Assumptions:

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

Hurdle rate[1] = 1.75%

Management fee[2] = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)[3] = 0.20%

Pre-Incentive Fee Net Investment Income

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

Incentive fee = 100.00% × Pre-Incentive Fee Net Investment Income (subject to "catch-up")[4]

= 100.00% × (2.10% - 1.75%)

= 0.35%

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

Alternative 3

Assumptions:

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

Hurdle rate[1] = 1.75%

Management fee[2] = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)[3] = 0.20%

Pre-Incentive Fee Net Investment Income

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

Incentive fee = 100.00% × Pre-Incentive Fee Net Investment Income (subject to "catch-up")[4]

Incentive fee = 100.00% × "catch-up" + (20.00% × (Pre-Incentive Fee Net Investment Income -

2.1875%))

Catch up = 2.1875% - 1.75%

= 0.4375%

Incentive fee = (100.00% × 0.4375%) + (20.00% × (2.30% - 2.1875%))

= 0.4375% + (20.00% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

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

(1) Represents 7.00% annualized hurdle rate.

(2) Represents 2.00% annualized base management fee.

(3) Excludes organizational and offering expenses.

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

Example 2: Capital Gains Portion of Incentive Fee

Alternative 1

Assumptions:

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

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

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

Year 4: Investment B sold for $31 million

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

Year 1: None (No sales transaction)

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

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

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

Alternative 2

Assumptions:

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

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

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

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

Year 5: Investment B sold for $20 million

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

Year 1: None (no sales transaction)

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

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

Year 4: None (no sales transaction)

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

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

(1) As illustrated in Year 3 of Alternative 1 above, if we were to be wound up on a date other than its fiscal year end of any year, we may have paid aggregate capital gains incentive fees that are more than the amount of such fees that would be payable if we had been wound up on its fiscal year end of such year.

(2) As noted above, it is possible that the cumulative aggregate capital gains fee received by the Investment Manager ($6.4 million) is effectively greater than $5 million (20.00% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation ($25 million)).

Payment of Our Expenses

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

- our organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firms);
- expenses, including travel expense, incurred by our Advisor or payable to third parties performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of all future offerings of our common stock and other securities, if any;
- the base management fee and any incentive management fee;
- distributions on our shares;
- administration fees payable under the Administration Agreement;
- the allocated costs incurred by Advisor as our Administrator in providing managerial assistance to those portfolio companies that request it;
- amounts payable to third parties relating to, or associated with, making investments;
- transfer agent and custodial fees;
- registration fees;

- listing fees;
- fees and expenses associated with marketing efforts;
- taxes;
- independent director fees and expenses;
- brokerage commissions;
- costs of preparing and filing reports or other documents with the SEC;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- our allocable portion of the fidelity bond;
- directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- indemnification payments;
- direct costs and expenses of administration, including audit and legal costs; and
- all other expenses incurred by us or the Administrator in connection with administering our business, such as the allocable portion of overhead under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer and our Chief Financial Officer and their respective staffs.

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

Limitation of Liability and Indemnification

The Investment Management Agreement provides that our Advisor and its officers, managers, partners, agents, employees, controlling persons and any other person or entity affiliated with our Advisor are not liable to us for any act or omission by it in the supervision or management of our investment activities or for any loss sustained by us except for acts or omissions constituting willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations under the Investment Management Agreement. The Investment Management Agreement also provides for indemnification by us of our Advisor and its officers, managers, partners, agents, employees, controlling persons and any other person or entity affiliated with our Advisor for liabilities incurred by them in connection with their services to us (including any liabilities associated with an action or suit by or in the right of us or our stockholders), but excluding liabilities for acts or omissions constituting willful misfeasance, bad faith or gross negligence or reckless disregard of their duties under the Investment Management Agreement subject to certain conditions.

Board Approval of the Investment Management Agreement

Our Board held an in-person meeting on August 2, 2013, in order to consider and approve our Investment Management Agreement for another twelve-month period. In its consideration of the Investment Management Agreement, the Board focused on information it had received relating to: (a) the nature, quality and extent of the advisory and other services to be provided to us by our Advisor; (b) comparative data with respect to advisory fees or similar expenses paid by other BDCs with similar investment objectives; (c) our projected operating expenses and expense ratio compared to BDCs with similar investment objectives; (d) any existing and potential sources of indirect income to our Advisor or the Administrator from their relationships with us and the profitability of those relationships; (e) information about the services to be performed and the personnel performing such services under the Investment Management Agreement; (f) the organizational capability and financial condition of our Advisor and its affiliates; (g) our Advisor's practices regarding the selection and compensation of brokers that may execute our portfolio transactions and the brokers' provision of brokerage and research services to our Advisor; and (h) the possibility of obtaining similar services from other third party service providers or through an internally managed structure.

Based on the information reviewed and its discussions, the Board, including a majority of our directors who are not interested persons, concluded that the investment management fee rates were reasonable in relation to the services to be provided.

Duration and Termination

The Investment Management Agreement was approved by our Board on October 25, 2010 and was most recently renewed on August 2, 2013. Following its initial two-year term, unless terminated, the Investment Management Agreement will remain in effect from year to year if approved annually by either (1) our Board, including approval by a majority of our directors who are not interested persons, or (2) the affirmative vote of the holders of a majority of our outstanding voting securities. The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty by delivering notice of termination upon not more than 60 days' written notice to the other. See "Item 1A — Risk Factors — Risks Related to our Business and Structure — Our Advisor can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, results of operations or financial condition." We are dependent upon senior management personnel of our Advisor for our success, and if our Advisor is unable to hire and retain qualified personnel or if our Advisor loses any member of its senior management team, our ability to achieve our investment objective could be significantly harmed.

Administration Agreement

The Administration Agreement was approved by our Board on October 25, 2010 and was most recently renewed on August 2, 2013. The Administrator provides administrative services to us. For providing these services, facilities and personnel, we reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer and our Chief Financial Officer and their respective staffs.

License Agreement

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

Regulation

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

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933, as amended, or the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations to the extent that we are permitted to engage in such hedging transactions under the 1940 Act and applicable commodities laws. We may also purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances.

We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds, we generally cannot acquire more than 3% of the voting stock of any investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. None of our investment policies is fundamental and any may be changed without stockholder approval.

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

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

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

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

Qualifying Assets

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

- Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
  - is organized under the laws of, and has its principal place of business in, the United States;
  - is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
  - satisfies any of the following:
    - has a market capitalization of less than $250 million or does not have any class of securities listed on a national securities exchange;
    - is controlled by a BDC or a group of companies including a BDC, the BDC actually exercises a controlling influence over the management or policies of the eligible portfolio company, and, as a result thereof, the BDC has an affiliated person who is a director of the eligible portfolio company; or

- is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million.

- Securities of any eligible portfolio company which we control.

- Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

- Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

- Securities received in exchange for or distributed on or with respect to securities described above, or pursuant to the exercise of warrants or rights relating to such securities.

- Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

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

Managerial Assistance to Portfolio Companies

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

Issuance of Additional Shares

We are not generally able to issue and sell our common stock at a price below net asset value, or NAV. We may, however, issue and sell our common stock, at a price below the current NAV of the common stock, or issue and sell warrants, options or rights to acquire such common stock, at a price below the current NAV of the common stock if our Board determines that such sale is in our best interest and in the best interests of our stockholders, and our stockholders have approved our policy and practice of making such sales within the preceding 12 months. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our Board, closely approximates the market value of such securities.

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

Temporary Investments

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

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities are outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Item 1A — Risk Factors — Risks Related to Our Business and Structure — We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us."

Code of Ethics

We and our Advisor have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and Rule 204A-1 under the Advisers Act, respectively, that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Each code of ethics is attached as an exhibit to this annual report on Form 10-K, and is available on the SEC's Internet site at *http://www.sec.gov*. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 942-8090.

Proxy Voting Policies and Procedures

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

Introduction

Our Advisor is registered with the SEC as an investment adviser under the Advisers Act. As an investment adviser registered under the Advisers Act, our Advisor has fiduciary duties to us. As part of this duty, our Advisor recognizes that it must vote client securities in a timely manner free of conflicts of interest and in our best interests and the best interests of our stockholders. Our Advisor's proxy voting policies and procedures have been formulated to ensure decision-making is consistent with these fiduciary duties. These policies and procedures for voting proxies are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy policies

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

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

Proxy Voting Records

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, our principal executive officer and principal financial officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 under Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 under the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting, which must be audited by our independent registered public accounting firm; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

NASDAQ Global Select Market Corporate Governance Regulations

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

Privacy Principles

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

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

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

Election to be Taxed as a RIC

We have elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends of an amount generally at least equal to the sum of our 90% of ordinary income and realized net short-term capital gains (i.e. net short-term capital gains in excess of net long term losses), if any, out of the assets legally available for distribution, which we refer to as the "Annual Distribution Requirement." Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years, or the Excise Tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually out of the assets legally available for such distributions, we may decide to retain such net capital gains or ordinary income to provide us with additional liquidity. In order to qualify as a RIC for federal income tax purposes under Section 851(a) of the Code, we must:

- maintain an election to be treated as a BDC under the 1940 Act at all times during each taxable year;
- meet any applicable securities law requirements, including capital structure requirements;
- derive in each taxable year at least 90% of our gross income from distributions, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships or other income derived with respect to our business of investing in such stock or securities; and
- diversify our holdings so that at the end of each quarter of the taxable year:
    - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer neither represent more than 5% of the value of our assets nor more than 10% of the outstanding voting securities of the issuer; and
    - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships, or the Diversification Tests.

Taxation as a RIC

If we qualify as a RIC under Section 851(a) of the Code, and satisfy the Annual Distribution Requirement, then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) we distribute to stockholders. We may retain for investment all or a portion of our net capital gain. However, if we retain any ordinary income and net short-term capital gains, or investment company taxable income, and satisfy the Annual Distribution Requirement, we will be subject to tax at regular corporate rates on any amounts retained. If fail to qualify as a RIC, for a period greater than two consecutive taxable years, to qualify as a RIC in a subsequent taxable year we may be subject to regular corporate rates on any net built-in gains with respect to certain of our assets (that is, the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had sold the property at fair market value at the end of the taxable year) that we elect to recognize on requalification or when recognized over the next ten taxable years.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with pay in kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Failure to Qualify as a RIC

If we fail to satisfy the Annual Distribution Requirement or fail to qualify as a RIC in any taxable year, assuming we do not qualify for or take advantage of certain remedial provisions, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax liability should be substantially reduced or eliminated. See "Election to be Taxed as a RIC" above.

If we are unable to maintain our status as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary distribution income eligible for the 15% or 20% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, dividends paid by us to corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis in our common stock, and any remaining distributions would be treated as a capital gain.

Item 1A. ***Risk Factors***

Investing in our securities involves a high degree of risk. In addition to the other information contained in this annual report on Form 10-K, you should consider carefully the following information before making an investment in our securities. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our NAV and the trading price of our common stock could decline, and you may lose part or all of your investment.

Risks Related to Our Business and Structure

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

We depend on the members of our Advisor's senior management, particularly Mr. Pomeroy, our Chairman and Chief Executive Officer, and Mr. Michaud, our President, as well as other key personnel for the identification, evaluation, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships that we rely on to implement our business plan to originate Venture Loans in our Target Industries. Our future success depends on the continued service of Mr. Pomeroy and Mr. Michaud as well as the other senior members of our Advisor's management team. If our Advisor were to lose the services of either Mr. Pomeroy or Mr. Michaud or any of the other senior members of our Advisor's management team, we may not be able to operate our business as we expect, and our ability to compete could be harmed, either of which could cause our business, results of operations or financial condition to suffer. In addition, if more than one of Mr. Pomeroy, Mr. Michaud or Mr. Mathieu, our Chief Financial Officer, cease to be actively involved with us or our Advisor, and are not replaced by individuals satisfactory to Key within ninety days, Key could, absent a waiver or cure, demand repayment of any outstanding obligations under the Key Facility. If both Mr. Pomeroy and Mr. Michaud cease to be employed by us, and they are not replaced by individuals satisfactory to Fortress within 90 days, then Fortress could, absent a waiver or cure, demand repayment of any outstanding obligations under the Fortress Facility. Our future success also depends, in part, on our Advisor's ability to identify, attract and retain sufficient numbers of highly skilled employees. Absent exemptive or other relief granted by the SEC and for so long as we remain externally managed, the 1940 Act prevents us from granting options to our employees and adopting a profit sharing plan, which may make it more difficult for us to attract and retain highly skilled employees. If we are not successful in identifying, attracting and retaining these employees, we may not be able to operate our business as we expect. In addition, our Advisor may in the future manage investment funds with investment objectives similar to ours thereby diverting the time and attention of its investment professionals that we rely on to implement our business plan.

Our Advisor may change or be restructured.

We cannot assure you that the Advisor will remain our investment advisor or that we will continue to have access to our Advisor's investment professionals or its relationships. We would be required to obtain shareholder approval for a new investment management agreement in the event that (1) the Advisor resigns as our investment advisor or (2) a change of control or deemed change of control of the Advisor occurs. We cannot provide assurance that a new investment management agreement or new advisor would provide the same or equivalent services on the same or on as favorable of terms as the Investment Management Agreement or the Advisor.

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

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

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

Leverage is generally considered a speculative investment technique, and we intend to continue to borrow money as part of our business plan. The use of leverage magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in us. We borrow from and issue senior debt securities to banks and other lenders. Such senior debt securities include those under the Credit Facilities. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources." Lenders of senior debt securities have fixed dollar claims on our assets that are superior to the claims of our common stockholders. If the value of our assets increases, then leveraging would cause the NAV attributable to our common stock to increase more sharply than it would have had we not leveraged. However, any decrease in our income would cause net income to decline more sharply than it would have had we not leveraged. This decline could adversely affect our ability to make common stock dividend payments. In addition, because our investments may be illiquid, we may be unable to dispose of them or unable to do so at a favorable price in the event we need to do so, if we are unable to refinance any indebtedness upon maturity, and, as a result, we may suffer losses.

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

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

	Assumed Return on Our Portfolio (Net of Expenses)				
	-10%	**-5%**	**0%**	**5%**	**10%**
Corresponding return to stockholder(1)	-24.4%	-14.7%	-5.0%	4.7%	14.4%

(1) Assumes $264 million in total assets, $122 million in outstanding debt, $136 million in net assets, and an average cost of borrowed funds of 5.58% at December 31, 2013. Actual interest payments may be different.

Based on our outstanding indebtedness of $122 million as of December 31, 2013 and the average cost of borrowed funds of 5.58% as of that date, our investment portfolio would have been required to experience an annual return of at least 3.02% to cover annual interest payments on the outstanding debt.

If we are unable to comply with the covenants or restrictions in our Credit Facilities, make payments when due thereunder or make payments pursuant to our 2019 Notes and 2013-1 Securitization, our business could be materially adversely affected.

Our Credit Facilities are secured by a lien on the assets of our wholly owned subsidiaries, Credit II and Credit III, which hold substantially all of our assets. The breach of certain of the covenants or restrictions or our failure to make payments when due under the Credit Facilities, unless cured within the applicable grace period, would result in a default under the Credit Facilities that would permit the lenders thereunder to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness and the lenders may exercise rights available to them, including, without limitation, to the extent permitted under applicable law, the seizure of such assets without adjudication.

The Credit Facilities also require Credit II, Credit III and our Advisor to comply with various financial covenants, including, among other covenants, maintenance by our Advisor of a minimum tangible net worth and limitations on the value of, and modifications to, the loan collateral that secures the Credit Facilities. Complying with these restrictions may prevent us from taking actions that we believe would help us to grow our business or are otherwise consistent with our investment objective. These restrictions could also limit our ability to plan for or react to market conditions, meet extraordinary capital needs or otherwise restrict corporate activities, and could result in our failing to qualify as a RIC resulting in our becoming subject to corporate-level income tax. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for additional information regarding our credit arrangements.

An event of default or acceleration under the Credit Facilities could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to the Credit Facilities, 2019 Notes or 2013-1 Securitization if for any reason we are unable to comply with the terms of the Credit Facilities and we may not be able to refinance the Credit Facilities on terms acceptable to us, or at all.

Our 2019 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

Our 2019 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2019 Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the 2019 Notes.

Our 2019 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

Our 2019 Notes are obligations exclusively of Horizon Technology Finance Corporation, and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the 2019 Notes and the 2019 Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2019 Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including trade creditors) and holders of preferred stock, if any, of our subsidiaries have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2019 Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims are effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 2019 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. As of December 31, 2013, we had $79.3 million of outstanding borrowings under our 2013-1 Securitization, and $10.0 million of outstanding borrowings under our Fortress Facility.

In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2019 Notes.

The indenture under which our 2019 Notes are issued contains limited protection for holders of our 2019 Notes.

The indenture under which the 2019 Notes are issued offers limited protection to holders of the 2019 Notes. The terms of the indenture and the 2019 Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on investments in the 2019 Notes. In particular, the terms of the indenture and the 2019 Notes do not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the 2019 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2019 Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the 2019 Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the 2019 Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(l)(A) as modified by Section 61(a)(l) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings);

- pay dividends on, or purchase or redeem or make any payments in respect of capital stock or other securities ranking junior in right of payment to the 2019 Notes, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(l)(13) as modified by Section 61(a)(l) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock unless our asset coverage, as defined in the 1940 Act, equals at least 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

- enter into transactions with affiliates;

- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

- make investments; or

- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture does not require us to offer to purchase the 2019 Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2019 Notes do not protect holders of the 2019 Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2019 Notes may have important consequences for holders of the 2019 Notes, including making it more difficult for us to satisfy our obligations with respect to the 2019 Notes or negatively affecting the trading value of the 2019 Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the 2019 Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2019 Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the 2019 Notes.

An active trading market for our 2019 Notes may not exist, which could limit holders' ability to sell our 2019 Notes or affect the market price of the Senior Note.

The 2019 Notes are listed on the New York Stock Exchange, or NYSE, under the symbol "HTF". However, we cannot provide any assurances that an active trading market for the 2019 Notes will exist in the future or that you will be able to sell your 2019 Notes. Even if an active trading market does exist, the 2019 Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market does not exist, the liquidity and trading price for the 2019 Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the 2019 Notes for an indefinite period of time.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on our 2019 Notes.

Any default under the agreements governing our indebtedness, including a default under the Credit Facilities or the 2013-1 Securitization, or other indebtedness to which we may be a party that is not waived by the required lenders or holders thereunder, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2019 Notes and substantially decrease the market value of the 2019 Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facilities and our 2013-1 Securitization or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Credit Facilities and our 2013-1 Securitization or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Credit Facilities and our 2013-1 Securitization or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Credit Facilities and our 2013-1 Securitization, could proceed against the collateral securing the debt. Because the Credit Facilities and our 2013-1 Securitization have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

We are subject to certain risks as a result of our interests in connection with the 2013-1 Securitization and our equity interest in the 2013-1 Trust.

On June 28, 2013, in connection with the 2013-1 Securitization and the offering of the Asset-Backed Notes by Horizon Funding Trust 2013-1, or 2013-1 Trust, a wholly owned subsidiary of ours, we sold and/or contributed to Horizon Funding 2013-1 LLC, also referred to as Trust Depositor, certain loans made to certain of our portfolio companies, or Loans, which the Trust Depositor in turn sold and/or contributed to the 2013-1 Trust in exchange for 100% of the equity interest in the 2013-1 Trust, cash proceeds and other consideration. Following these transfers, the 2013-1 Trust, and not the Trust Depositor or us, held all of the ownership interest in the Loans.

As a result of the 2013-1 Securitization, we hold, indirectly through the Trust Depositor, 100% of the equity interest of the 2013-1 Trust. As a result, we consolidate the financial statements of the Trust Depositor and the 2013-1 Trust, as well as our other subsidiaries, in our consolidated financial statements. Because each of the Trust Depositor and the 2013-1 Trust is disregarded as an entity separate from its owner for U.S. federal income tax purposes, the sale or contribution by us to the Trust Depositor, and by the Trust Depositor to the 2013-1 Trust, did not constitute a taxable event for U.S. federal income tax purposes. If the U.S. Internal Revenue Service were to take a contrary position, there could be a material adverse effect on our business, financial condition, results of operations or cash flows. Further, a failure of the 2013-1 Trust to be treated as a disregarded entity for U.S. federal income tax purposes would constitute an event of default pursuant to the indenture under the 2013-1 Securitization, upon which the trustee under the 2013-1 Securitization, or the Trustee, may and will at the direction of a supermajority of the holders of the Asset-Backed Notes, or the Noteholders, declare the Asset-Backed Notes to be immediately due and payable and exercise remedies under the indenture, including (i) to institute proceedings for the collection of all amounts then payable on the Asset-Backed Notes or under the indenture, enforce any judgment obtained, and collect from the 2013-1 Trust and any other obligor upon the Asset-Backed Notes monies adjudged due; (ii) institute proceedings from time to time for the complete or partial foreclosure of the indenture with respect to the property of the 2013-1 Trust; (iii) exercise any remedies as a secured party under the relevant provisions of the applicable jurisdiction's UCC and take other appropriate action under applicable law to protect and enforce the rights and remedies of the Trustee and the Noteholders; or (iv) sell the property of the 2013-1 Trust or any portion thereof or rights or interest therein at one or more public or private sales called and conducted in any matter permitted by law. Any such exercise of remedies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

An event of default in connection with the 2013-1 Securitization could give rise to a cross-default under our other material indebtedness.

The documents governing our other material indebtedness contain customary cross-default provisions that could be triggered if an event of default occurs in connection with the 2013-1 Securitization. An event of default with respect to our other indebtedness could lead to the acceleration of such indebtedness and the exercise of other remedies as provided in the documents governing such other indebtedness. This could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

We may not receive cash distributions in respect of our indirect ownership interest in the 2013-1 Trust.

Apart from fees payable to us in connection with our role as servicer of the Loans and the reimbursement of related amounts under the 2013-1 Securitization documents, we receive cash in connection with the 2013-1 Securitization only to the extent that the Trust Depositor receives payments in respect of its equity interest in the 2013-1 Trust. The holder of the equity interest in the 2013-1 Trust is the residual claimant on distributions, if any, made by the 2013-1 Trust after the Noteholders and other claimants have been paid in full on each payment date or upon maturity of the Asset-Backed Notes, subject to the priority of payment provisions under the 2013-1 Securitization documents. To the extent that the value of the 2013-1 Trust's portfolio of Loans is reduced as a result of conditions in the credit markets (relevant in the event of a liquidation event), other macroeconomic factors, distressed or defaulted Loans or the failure of individual portfolio companies to otherwise meet their obligations in respect of the Loans, or for any other reason, the ability of the 2013-1 Trust to make cash distributions in respect of the Trust Depositor's equity interest would be negatively affected and consequently, the value of the equity interest in the 2013-1 Trust would also be reduced. In the event that we fail to receive cash indirectly from the 2013-1 Trust, we could be unable to make distributions, if at all, in amounts sufficient to maintain our status as a RIC.

The interests of the Noteholders may not be aligned with our interests.

The Asset-Backed Notes are debt obligations ranking senior in right of payment to the rights of the holder of the equity interest in the 2013-1 Trust, as residual claimant in respect of distributions, if any, made by the 2013-1 Trust. As such, there are circumstances in which the interests of the Noteholders may not be aligned with the interests of the holder of the equity interest in the 2013-1 Trust. For example, under the terms of the documents governing the 2013-1 Securitization, the Noteholders have the right to receive payments of principal and interest prior to the holder of the equity interest in the 2013-1 Trust.

For as long as the Asset-Backed Notes remain outstanding, the Noteholders have the right to act in certain circumstances with respect to the Loans in ways that may benefit their interests but not the interests of holder of the equity interest in the 2013-1 Trust, including by exercising remedies under the documents governing the 2013-1 Securitization.

If an event of default occurs, the Noteholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the 2013-1 Securitization. For example, upon the occurrence of an event of default with respect to the Asset-Backed Notes, the Trustee may and will at the direction of the holders of a supermajority of the Asset-Backed Notes declare the principal, together with any accrued interest, of the Asset-Backed Note to be immediately due and payable. This would have the effect of accelerating the principal on such Asset-Backed Note, triggering a repayment obligation on the part of the 2013-1 Trust. The Asset-Backed Notes then outstanding will be paid in full before any further payment or distribution is made to the holder of the equity interest in 2013-1 Trust. There can be no assurance that there will be sufficient funds through collections on the Loans or through the proceeds of the sale of the Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the Asset-Backed Notes, or to make any payment distribution to holder of the equity interest in the 2013-1 Trust.

Remedies pursued by the Noteholders could be adverse to our interests as the indirect holder of the equity interest in the 2013-1 Trust. The Noteholders have no obligation to consider any possible adverse effect on such other interests. Thus, there can be no assurance that any remedies pursued by the Noteholders will be consistent with the best interests of the Trust Depositor or that we will receive, indirectly through the Trust Depositor, any payments or distributions upon an acceleration of the Asset-Backed Notes. Any failure of the 2013-1 Trust to make distributions in respect of the equity interest that we indirectly hold, whether as a result of an event of default and the acceleration of payments on the Asset-Backed Notes or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

Certain events related to the performance of Loans could lead to the acceleration of principal payments on the Asset-Backed Notes.

The following constitute rapid amortization events, or Rapid Amortization Events, under the documents governing the 2013-1 Securitization: (i) the aggregate outstanding principal balance of all delinquent Loans, and restructured Loans that would constitute delinquent Loans had such Loans not become restructured Loans, exceeds ten percent (10%) of the aggregate outstanding Loan balance for a period of three consecutive months; (ii) the aggregate outstanding principal balance of defaulted Loans exceeds five percent (5%) of the initial aggregate outstanding Loan balance determined as of June 28, 2013 for a period of three consecutive months; (iii) the aggregate outstanding principal balance of the Asset-Backed Notes exceeds the borrowing base for a period of three consecutive months; (iv) the 2013-1 Trust's pool of Loans contains Loans to ten or fewer obligors; and (v) the occurrence of an event of default under the documents governing the 2013-1 Securitization. After a Rapid Amortization Event has occurred, subject to the priority of payment provisions under the documents governing the 2013-1 Securitization, principal collections on the Loans will be used to make accelerated payments of principal on the Asset-Backed Notes until the payment of principal balance of the Asset-Backed Loans is reduced to zero. Such an event could delay, reduce or eliminate the ability of the 2013-1 Trust to make payments or distributions in respect of the equity interest that we indirectly hold, which could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our status as a RIC.

We have certain repurchase obligations with respect to the Loans transferred in connection with the 2013-1 Securitization.

As part of the 2013-1 Securitization, we entered into a sale and contribution agreement and a sale and servicing agreement under which we would be required to repurchase any Loan (or participation interest therein) which was sold to the 2013-1 Trust in breach of certain customary representations and warranties made by us or by the Trust Depositor with respect to such Loan or the legal structure of the 2013-1 Securitization. To the extent that there is such a breach of such representations and warranties and we fail to satisfy any such repurchase obligation, the Trustee may, on behalf of the 2013-1 Trust, bring an action against us to enforce these repurchase obligations.

Because we distribute all or substantially all of our investment company taxable income to our stockholders, we will need additional capital to finance our growth, if any. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

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

As a BDC, we generally are not able to issue our common stock at a price below NAV without first obtaining the approval of our stockholders and our independent directors. If our common stock trades below NAV and we do not receive such approval, our business could be materially adversely affected.

As a BDC, we generally are not able to issue our common stock at a price below NAV without first obtaining the approval of our stockholders and our independent directors, and we may seek such approval to sell our common stock below NAV in the future. If our common stock trades at a price below NAV and we do not receive approval from our stockholders and our independent directors to issue common stock at a price below NAV, our ability to raise capital through the issuance of equity securities would be curtailed. This could limit our ability: to grow and make new investments; to attract and retain top investment professionals; to maintain deal flow and relations with top companies in our Target Industries and related entities such as venture capital and private equity sponsors; and to sustain a minimum efficient scale for a public company.

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

We may want to obtain additional debt financing, or need to do so upon maturity of the Credit Facilities, Asset-Back Notes or 2019 Notes, in order to obtain funds which may be made available for investments. We may borrow under the Key Facility until November 4, 2016, and, after such date, we must repay the outstanding advances under the Key Facility in accordance with its terms and conditions. All outstanding advances under the Key Facility are due and payable on November 4, 2018, unless such date is extended in accordance with its terms. We may borrow under the Fortress Facility until August 23, 2016, and, after such date, we must repay the outstanding advances under the Fortress Facility in accordance with its terms and conditions. All outstanding advances under the Fortress Facility are due and payable on August 23, 2017 unless such date is extended in accordance with its terms. All outstanding amounts on our 2019 Notes are due and payable on March 15, 2019 unless redeemed prior to that date. The Asset-Backed Notes have a stated maturity of May 15, 2018. If we are unable to increase, renew or replace any such facility and enter into a new debt financing facility on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such facilities and are declared in default or are unable to renew or refinance these facilities, we may not be able to make new investments or operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as lack of access to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we have withdrawn our application to the Small Business Administration, or SBA, for a license to operate as a small business investment company, or SBIC, which was originally filed on December 6, 2010, and, though we may in the future submit a new application, we have no present intention to do so and, therefore, do not expect to be able to borrow money by issuing SBA-guaranteed debentures.

We are subject to risks associated with the current interest rate environment that may affect our cost of capital and net investment income.

Since the economic downturn that began in mid-2007, interest rates have remained low. Because longer-term inflationary pressure is likely to result from the U.S. government's fiscal policies and challenges during this time, we will likely experience rising interest rates, rather than falling rates, over our investment horizon.

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

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

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

Global capital markets could enter a period of severe disruption and instability. These conditions have historically affected and could again materially and adversely affect debt and equity capital markets in the United States and around the world and our business.

The U.S. and global capital markets experienced extreme volatility and disruption during the economic downturn that began in mid-2007, and the U.S. economy was in a recession for several consecutive calendar quarters during the same period. This economic decline materially and adversely affected the broader financial and credit markets and has reduced the availability of debt and equity capital for the market as a whole and to financial firms, in particular. At various times, these disruptions resulted in a lack of liquidity in parts of the debt capital markets, significant write-offs in the financial services sector relating to subprime mortgages and the repricing of credit risk in the broadly syndicated market. These disruptions in the capital markets also increased the spread between the yields realized on risk-free and higher risk securities and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. These conditions may reoccur for a prolonged period of time again or materially worsen in the future, including as a result of the U.S. government spending cuts that took effect March 1, 2013, the government shutdown in October 2013, or any further spending cuts or shutdowns. Unfavorable economic conditions, including future recessions, also could affect our investment valuations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us or our portfolio companies. We may in the future have difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may cause us to reduce the volume of loans we originate and/or fund, adversely affect the value of our portfolio investments or otherwise have a material adverse effect on our business, financial condition, results of operations and cash flows

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

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

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

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

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

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

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

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (1) dispose of certain investments quickly; (2) raise additional capital to prevent the loss of RIC status; or (3) engage in certain remedial actions that may entail the disposition of certain investments at disadvantageous prices that could result in substantial losses, and the payment of penalties, if we qualify to take such actions. Because most of our investments are and will be in development-stage companies within our Target Industries, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we raise additional capital to satisfy the asset diversification requirements, it could take a longer time to invest such capital. During this period, we will invest in temporary investments, such as money market funds, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of our investments in secured and amortizing loans.

The Annual Distribution Requirement for a RIC is satisfied if we distribute to our stockholders on an annual basis an amount equal to at least 90% of our investment company taxable income. If we borrow money, we may be subject to certain asset coverage ratio requirements under the 1940 Act and loan covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify to the federal income tax benefits allowable to a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may be subject to corporate-level income tax.

If we were to fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level federal income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders, and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the NAV of our common stock and the total return, if any, obtainable from your investment in our common stock. In addition, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC. See "Item 1. Business—Regulation."

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

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

Accordingly, we may need to sell some of our assets at times that we would not consider advantageous, raise additional debt or equity capital or forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take actions that we believe are necessary or advantageous to our business) in order to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources to satisfy the Annual Distribution Requirement, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level federal income tax on all our income. The proportion of our income, consisting of interest and fee income that resulted from the portion of original issue discount classified as such in accordance with GAAP not received in cash for the years ended December 31, 2013, 2012 and 2011 was 11.5%, 10.3% and 9.5%, respectively.

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

As a BDC, we are prohibited from acquiring any assets other than qualifying assets unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Substantially all of our assets are qualifying assets and we expect that substantially all of our assets that we may acquire in the future will be qualifying assets, although we may decide to make other investments that are not qualifying assets to the extent permitted by the 1940 Act. If we acquire debt or equity securities from an issuer that has outstanding marginable securities at the time we make an investment, these acquired assets may not be treated as qualifying assets. This result is dictated by the definition of "eligible portfolio company" under the 1940 Act, which in part looks to whether a company has outstanding marginable securities. See Item 1 above, "Regulation — Qualifying Assets." If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC. If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

New or modified laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the U.S. federal, state and local levels. These laws and regulations, as well as their interpretation, may change from time to time, and new laws, regulations and interpretations may also come into effect. Any such new or changed laws or regulations could have a material adverse effect on our business. In particular, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank, became law. The scope of Dodd-Frank impacts many aspects of the financial services industry, and it requires the development and adoption of many implementing regulations over the next several months and years. The effects of Dodd-Frank on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them and the approaches taken in implementing regulations. The likely impact of Dodd-Frank cannot be ascertained with any degree of certainty.

Additionally, changes to the laws and regulations governing our operations, including those associated with RICs, may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities or result in the imposition of corporate-level taxes on us. Such changes could result in material differences to our strategies and plans and may shift our investment focus from the areas of expertise of the Advisor to other types of investments in which the Advisor may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

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

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

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

We have entered into a license agreement with HTF, pursuant to which it has agreed to grant us a non-exclusive, royalty-free right and license to use the service mark "Horizon Technology Finance." Under this agreement, we have a right to use the "Horizon Technology Finance" service mark for so long as the Investment Management Agreement is in effect between us and our Advisor. In addition, we pay our Advisor, our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. Any potential conflict of interest arising as a result of our arrangements with our Advisor could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

While we have no current intention to enter into any principal transactions or joint arrangements with any affiliates, we have considered and evaluated, and will continue to consider and evaluate, the potential advantages and disadvantages of doing so. If we decide to enter into any such transactions in the future we will not do so until we have requested and received the requisite exemptive relief under Section 57 of the 1940 Act, the filing of which our Board has previously authorized.

The valuation process for certain of our portfolio holdings creates a conflict of interest.

The majority of our portfolio investments are expected to be made in the form of securities that are not publicly traded. As a result, the Board will determine the fair value of these securities in good faith as described above in "—Because many of our investments typically are not and will not be in publicly traded securities, the value of our investments may not be readily determinable, which could adversely affect the determination of our NAV." In connection with that determination, investment professionals from the Advisor may provide the Board with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of the Advisor's investment professionals in our valuation process could result in a conflict of interest as the Advisor's management fee is based, in part, on our average gross assets (including assets acquired with the proceeds of leverage) and our incentive fees will be based, in part, on unrealized gains and losses.

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

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

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

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

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

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

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

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

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

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

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

Under our Investment Management Agreement and our Administration Agreement, our Advisor has the right to resign at any time, including during the first two years following the Investment Management Agreement's effective date, upon not more than 60 days' written notice, whether we have found a replacement or not. If our Advisor resigns, we may not be able to find a new investment advisor or administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so, our operations are likely to be disrupted, our business, results of operations and financial condition and our ability to pay distributions may be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Advisor and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of new management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, results of operations or financial condition.

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

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

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

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

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

We commenced operations in March 2008 and became a public company on October 28, 2010. As a result of our limited operating history, we are subject to certain business risks and uncertainties associated with any recently formed business enterprise, including the risk that we will not achieve our investment objective and that the value of your investment in us could decline substantially.

As a public company, we are subject to the regulatory requirements of the SEC, in addition to the specific regulatory requirements applicable to BDCs under the 1940 Act and RICs under the Code. Our management and our Advisor have limited experience operating under this regulatory framework, and we may incur substantial additional costs, and expend significant time or other resources, to do so. From time to time our Advisor may pursue investment opportunities, like equity investments, in which our Advisor has more limited experience. In addition, we may be unable to generate sufficient revenue from our operations to make or sustain distributions to our stockholders.

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

Prior to becoming a public company in October 2010, we did not operate as a BDC or manage an investment company under the 1940 Act. As a result, we have limited operating results under this regulatory framework that can demonstrate to you either its effect on our business or our ability to manage our business within this framework. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily securities of "eligible portfolio companies" (as defined in the 1940 Act), cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. See "Regulation—Qualifying Assets" in Item 1 above. Our Advisor's ability to manage a portfolio of assets under these constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, could impair our ability to achieve our investment objective. Furthermore, if we are unable to comply with the requirements imposed on BDCs by the 1940 Act, the SEC could bring an enforcement action against us and/or we could be exposed to claims of private litigants. In addition, we could be regulated as a closed-end management investment company under the 1940 Act, which could further decrease our operating flexibility and may prevent us from operating our business, either of which could have a material adverse effect on our business, results of operations or financial condition.

Risks Related to Our Investments

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

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

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

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

Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.

Our portfolio may be concentrated in a limited number of portfolio companies and industries. As a result, the aggregate returns we realize may be significantly and adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, our investments will be concentrated in relatively few industries. As a result, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize. Our Target Industries are susceptible to changes in government policy and economic assistance, which could adversely affect the returns we receive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings.

Leveraged companies may experience bankruptcy or similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs of a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial

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

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. For example, most of our debt investments have historically been repaid prior to maturity by our portfolio companies. At the time of a liquidity event, such as a sale of the business, refinancing or public offering, many of our portfolio companies have availed themselves of the opportunity to repay our loans prior to maturity. Our investments generally allow for repayment at any time subject to certain penalties. When this occurs, we generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments have substantially lower yields than the debt being prepaid, and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

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

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

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

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

Our investments in the clean technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gas. A change in prices in these energy products could reduce demand for alternative energy. Cleantech companies face potential litigation, including significant warranty and product liability claims, as well as class action and government claims. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies. There is also uncertainty about whether agreements or government programs providing incentives for reductions in greenhouse gas emissions will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which some investments in clean technology dependent portfolio companies may not be economical, and financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the clean technology companies in our portfolio.

Cleantech companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.

As part of our investment strategy we invest in portfolio companies in cleantech sectors that may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns. Furthermore, if any of our portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Our portfolio companies may be subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace.

In addition, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for cleantech companies. Without such regulatory policies, investments in cleantech companies may not be economical and financing for cleantech companies may become unavailable, which could materially adversely affect the ability of our portfolio companies to repay the debt they owe to us. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay the debt they owe to us.

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

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

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

Our future success and competitive position depends in part upon the ability of our portfolio companies to obtain, maintain and protect proprietary technology used in their products and services. The intellectual property held by our portfolio companies often represents a substantial portion of the collateral securing our investments and/or constitutes a significant portion of the portfolio companies' value that may be available in a downside scenario to repay our loans. Our portfolio companies rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation to enforce their patents, copyrights or other intellectual property rights, protect their trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement.

Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe or misappropriate a third party's patent or other proprietary rights, it could be required to pay damages to the third party, alter its products or processes, obtain a license from the third party and/or cease activities utilizing the proprietary rights, including making or selling products utilizing the proprietary rights. Any of the foregoing events could negatively affect both the portfolio company's ability to service our debt investment and the value of any related debt and equity securities that we own, as well as the value of any collateral securing our investment.

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

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

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

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

Risks Related to Our Common Stock

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and, a portion of distributions paid to you may be a return of capital.

We intend to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay dividends might be adversely affected by, among other things, the impact of one or more risk factors described in this report. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. All distributions will be paid at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with BDC regulation and such other factors as our Board may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, the amount available for distribution could be reduced.

On an annual basis, we must determine the extent to which any distributions we made were paid out of current or accumulated earnings, recognized capital gains or capital. To the extent there is a return of capital, investors will be required to reduce their basis in our stock for U.S. federal income tax purposes, which will result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value. In addition, any return of capital will be net of any sales load and offering expenses associated with sales of shares of our common stock. In the future, our distributions may include a return of capital.

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

Our common stock is listed for trading on the NASDAQ Global Select Market. We cannot predict the prices at which our common stock will trade. Shares of closed-end management investment companies have in the past frequently traded at discounts to their NAVs, and our common stock has been and may continue to be discounted in the market. This characteristic of closed-end management investment companies is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV. If our common stock trades below its NAV, we will generally not be able to sell additional shares of our common stock without first obtaining the approval of our stockholders (including our unaffiliated stockholders) and our independent directors.

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

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

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

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

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

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

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

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

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

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

Anti-takeover provisions in our charter documents and other agreements and certain provisions of the Delaware General Corporation Law, or DGCL, could deter takeover attempts and have an adverse impact on the price of our common stock.

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

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

These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. It is a default under our Credit Facilities if (i) a person or group of persons (within the meaning of the Exchange Act) acquires beneficial ownership of 20% or more of our issued and outstanding common stock or (ii) during any twelve-month period individuals who at the beginning of such period constituted our Board cease for any reason, other than death or disability, to constitute a majority of the directors in office. If either event were to occur, Key or Fortress could accelerate our repayment obligations under, and/or terminate, our Credit Facilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rate of interest higher or lower than rate borne by the debt securities.

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

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

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

Credit ratings provided by third party credit rating agencies may not reflect all risks of an investment in debt securities that we may issue.

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

Subsequent sales in the public market of substantial amounts of our common stock by the selling stockholders may have an adverse effect on the market price of our common stock, and the registration of a substantial amount of insider shares, whether or not actually sold, may have a negative impact on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale, whether or not actually sold, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so. In addition, because shares owned by HTF-CHF Holdings LLC, an entity that is primarily owned by certain of our officers, are registered for resale, a negative perception could be created in the market about our prospects by such registration.

Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

As of December 31, 2013, we did not own any real estate or other physical properties materially important to our operation. Our executive offices are located at 312 Farmington Avenue, Farmington, Connecticut 06032 and are provided by our Administrator in accordance with the terms of the Administration Agreement. We believe that the office facilities of our Administrator are suitable and adequate for our business as it is conducted.

Item 3. ***Legal Proceedings***

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

Item 4. ***Mine Safety Disclosures***

Not applicable

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

Our common stock is traded on the NASDAQ Global Select Market, under the symbol "HRZN." The following table sets forth, for each fiscal quarter since our Initial Public Offering, or IPO, the range of high and low sales prices of our common stock as reported on the NASDAQ Global Select Market, the sale price as a percentage of our NAV and the distributions declared by us for each quarter.

	NAV(1)	Closing Sales Price		Premium/ Discount of High Sales Price to NAV(2)	Premium/ Discount of Low Sales Price to NAV(2)	Distributions Declared Per Share(3)
		High	Low			
Year ended December 31, 2014						
First quarter (4)	N/A	$ 14.61	$ 14.14	N/A	N/A	$ 0.345(5)
Year ended December 31, 2013						
Fourth quarter	$ 14.14	$ 14.34	$ 12.95	101%	92%	$ 0.345
Third quarter	$ 14.95	$ 14.47	$ 13.26	97%	89%	$ 0.345
Second quarter	$ 14.89	$ 14.69	$ 12.93	99%	87%	$ 0.345
First quarter	$ 15.12	$ 15.93	$ 14.38	105%	95%	$ 0.345
Year ended December 31, 2012						
Fourth quarter	$ 15.15	$ 16.58	$ 13.56	109%	90%	$ 0.795
Third quarter	$ 16.41	$ 16.84	$ 15.93	103%	97%	$ 0.45
Second quarter	$ 16.73	$ 17.12	$ 15.03	102%	90%	$ 0.45
First quarter	$ 16.89	$ 17.05	$ 16.05	101%	95%	$ 0.45
Year ended December 31, 2011						
Fourth quarter	$ 17.01	$ 16.32	$ 14.40	96%	85%	$ 0.45
Third quarter	$ 17.36	$ 16.25	$ 13.88	94%	80%	$ 0.40
Second quarter	$ 17.40	$ 16.17	$ 15.21	93%	87%	$ 0.33
First quarter	$ 17.23	$ 16.25	$ 14.90	94%	86%	—
Year ended December 31, 2010						
Fourth quarter(6)	$ 16.75	$ 15.59	$ 13.83	93%	83%	$ 0.22

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

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

(3) We have adopted an "opt out" DRIP for our common stockholders. As a result, if we declare a distribution, then stockholders' cash distributions are automatically reinvested in additional shares of our common stock, unless they specifically opt out of the DRIP so as to receive cash distributions.

(4) Through March 6, 2014.

(5) $0.115 payable on each of April 15, 2014, May 15, 2014 and June 16, 2014.

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

The last reported price for our common stock on March 6, 2014 was $14.18 per share. As of March 6, 2014 we had five stockholders of record, which did not include stockholders for whom shares are held in nominee or "street" name.

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

Sales of Unregistered Securities

We did not engage in any sales of unregistered securities during the years ended December 31, 2013, 2012 and 2011.

Distributions

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

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required under the Code to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. We refer to such amount as the Annual Distribution Requirement in this annual report on Form 10-K. Additionally, we must distribute at least 98% of our ordinary income and 98.2% of our capital gain net income on an annual basis and any net ordinary income and net capital gains for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax to avoid a U.S. federal excise tax. 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.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such undistributed income. Distributions of any such carryover taxable income must be made through a dividend declared the latter of the filing date of the final tax return related to the year in which such taxable income was generated or the 15th day of the ninth month following the taxable year, in order to count towards the satisfaction of the Annual Distribution Requirement in the year in which such income was generated. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See "Item 1. Business — Regulation — Taxation as a RIC."

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

The following table reflects the cash distributions, including dividends and returns of capital per share that our Board has declared, including shares issued under our DRIP, on our common stock since our inception:

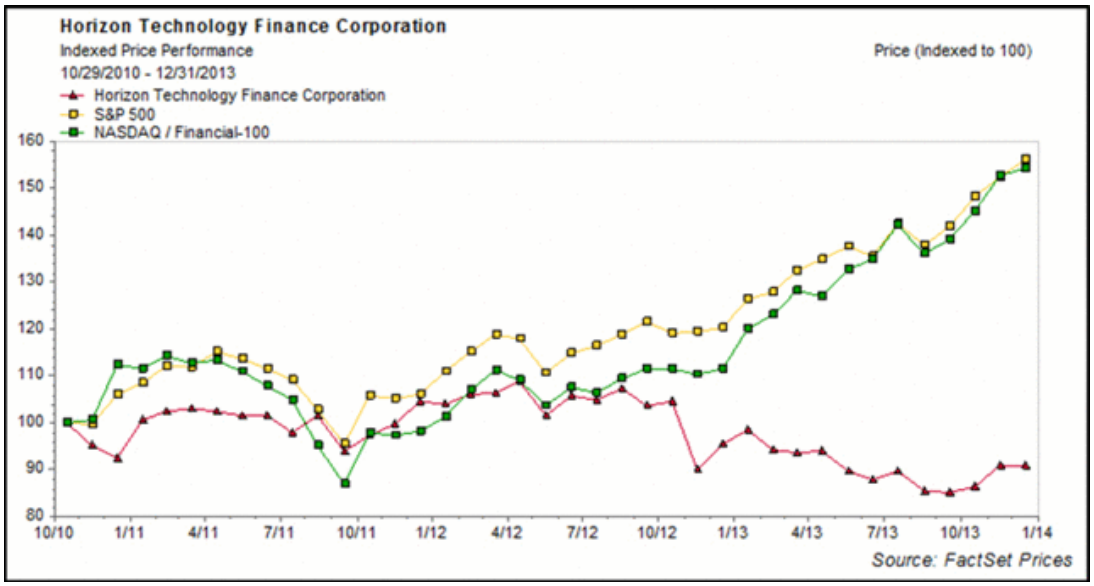
Record Dates	Payment Date	Dividends Declared
Year ended December 31, 2013		
February 17, 2014	March 17, 2014	$ 0.115
January 20, 2014	February 14, 2014	$ 0.115
December 16, 2013	January 15, 2014	$ 0.115
November 19, 2013	December 16, 2013	$ 0.115
October 17, 2013	November 15, 2013	$ 0.115
September 18, 2013	October 15, 2013	$ 0.115
August 19, 2013	September 16, 2013	$ 0.115
July 17, 2013	August 15, 2013	$ 0.115
June 20, 2013	July 15, 2013	$ 0.115
May 20, 2013	June 17, 2013	$ 0.115
April 18, 2013	May 15, 2013	$ 0.115
March 20, 2013	April 15, 2013	$ 0.115
Total		$ 1.380
Year ended December 31, 2012		
February 21, 2013	March 15, 2013	$ 0.115
January 18, 2013	February 15, 2013	$ 0.115
December 20, 2012	January 15, 2013	$ 0.115
November 16, 2012	November 30, 2012	$ 0.450
August 17, 2012	August 31, 2012	$ 0.450
May 17, 2012	May 31, 2012	$ 0.450
March 23, 2012	March 30, 2012	$ 0.450
Total		$ 2.145
Year ended December 31, 2011		
November 23, 2011	November 30, 2011	$ 0.450
August 23, 2011	August 30, 2011	$ 0.400
May 19, 2011	May 26, 2011	$ 0.330
Total		$ 1.180
Year ended December 31, 2010		
December 28, 2010	December 31, 2010	$ 0.220
Total		$ 0.220

On March 6, 2014, our Board declared a monthly dividend of $0.115 per share payable as set forth in the table below.

Record Dates	Payment Date	Dividends Declared
May 20, 2014	June 16, 2014	$ 0.115
April 17, 2014	May 15, 2014	$ 0.115
March 19, 2014	April 15, 2014	$ 0.115

Stock Performance Graph

The following graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the NASDAQ Financial-100 Index, for the period from October 29, 2010 (the date that our common stock was first listed on NASDAQ) through December 31, 2013. The graph assumes that, on October 29, 2010, a person invested $100 in each of our common stock, the S&P 500 Index, and the NASDAQ Financial-100 Index. The graph measures total stockholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are invested in like securities. The graph and other information furnished under this Part II Item 5 of Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act. The stock price performance included in this graph is not necessarily indicative of future stock price performance.



Item 6. ***Selected Financial Data***

The following selected consolidated financial data of Horizon Technology Finance Corporation as of December 31, 2013, 2012, 2011, 2010 and 2009, and for the years ended December 31, 2013, 2012 and 2011, the period from October 29, 2010 to December 31, 2010, the period from January 1, 2010 to October 28, 2010 and the year ended December 31, 2009 are derived from the consolidated financial statements that have been audited by McGladrey LLP, an independent registered public accounting firm. For the period prior to October 29, 2010, the financial data refer to Compass Horizon, our predecessor company. These selected financial data should be read in conjunction with our financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Post-IPO as a Business Development Company				Pre-IPO Prior to becoming a Business Development Company	
(In thousands, except per share data)	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	October 29, 2010 to December 31, 2010	January 1, 2010 to October 28, 2010	Year Ended December 31, 2009
Statement of Operations Data:						
Total investment income	$ 33,643	$ 26,664	$ 24,054	$ 3,251	$ 14,956	$ 15,326
Base management fee	5,209	4,208	4,192	668	2,019	2,202
Performance based incentive fee	3,318	2,847	3,013	414	—	—
All other expenses	11,605	7,382	6,127	810	3,912	4,567
Net investment income before excise tax	13,511	12,227	10,722	1,359	9,025	8,557
Provision for excise tax	(240)	(231)	(211)	—	—	—
Net investment income	13,271	11,996	10,511	1,359	9,025	8,557
Net realized (loss) gain on investments	(7,509)	108	6,316	611	69	138
Provision for excise tax	—	—	(129)	—	—	—
Net unrealized (depreciation) appreciation on investments	(2,254)	(8,113)	(5,702)	1,449	1,481	892
Credit (provision) for loan losses	—	—	—	—	739	(274)
Net increase in net assets resulting from operations	$ 3,508	$ 3,991	$ 10,996	$ 3,419	$ 11,314	$ 9,313
Per Share Data:						
Net asset value	$ 14.14	$ 15.15	17.01	16.75	N/A	N/A
Net investment income	1.38	1.41	1.38	0.18	N/A	N/A
Net realized (loss) gain on investments	(0.78)	0.01	0.81	0.08	N/A	N/A
Net change in unrealized (depreciation) appreciation on investments	(0.23)	(0.95)	(0.75)	0.19	N/A	N/A
Net increase in net assets resulting from operations	0.37	0.47	1.44	0.45	N/A	N/A
Per share dividends declared	1.38	2.15	1.18	0.22	N/A	N/A
Dollar amount of dividends declared	$ 13,236	$ 18,777	$ 8,983	$ 1,662	N/A	N/A
Statement of Assets and Liabilities Data at Period End:						
Investments, at fair value/book value	$ 221,284	$ 228,613	$ 178,013	$ 136,810	N/A	$ 111,954
Other assets	42,453	11,045	19,798	79,395	N/A	12,914
Total assets	263,737	239,658	197,811	216,205	N/A	124,868
Long-term obligations	122,343	89,020	64,571	87,425	N/A	64,166
Total liabilities	127,902	94,686	67,927	89,010	N/A	65,375
Total net assets/members' capital	$ 135,835	$ 144,972	$ 129,884	$ 127,195	N/A	$ 59,493
Other data:						
Weighted average annualized yield on income producing investments at fair value	14.4%	14.2%	14.6%	14.6%	N/A	13.9%
Number of portfolio companies at period end	49	45	38	32	32	32

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The information contained in this section should be read in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this annual report on Form 10-K. Amounts are stated in thousands, except shares and per share data and where otherwise noted.

Forward-Looking Statements

This annual report on Form 10-K, including 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 annual report on Form 10-K involve risks and uncertainties, including statements as to:

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

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

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 annual report on Form 10-K, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including, reports on Form 10-Q and current reports on Form 8-K.

You should understand that under Sections 27A(b)(2)(B) and (D) of the Securities Act and Sections 21E(b)(2)(B) and (D) of the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with this annual report on Form 10-K or any periodic reports we file under the Exchange Act.

Overview

We are a specialty finance company that lends to and invests in development-stage companies in our Target Industries. Our investment objective is to generate current income from the loans we make and capital appreciation from the warrants we receive when making such loans. We make our Venture Loans to companies backed by established venture capital and private equity firms in our Target Industries. We also selectively lend to publicly traded companies in our Target Industries.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of 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 only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally will not have to pay corporate-level federal income taxes on any investment company taxable income that we distribute to our stockholders if we meet certain source-of-income, distribution, asset diversification and other requirements.

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 which a majority of the members are independent of us. Under 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 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.

Portfolio Composition and Investment Activity

The following table shows our portfolio by asset class as of December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
	# of Investments	Fair Value	% of Total Portfolio	# of Investments	Fair Value	% of Total Portfolio
Term loans	48	$ 201,846	91.2%	41	$ 200,685	87.8%
Revolving loans	1	11,908	5.4%	4	19,612	8.6%
Total loans	49	213,754	96.6%	45	220,297	96.4%
Warrants	73	6,036	2.7%	62	5,468	2.4%
Other investments	1	400	0.2%	1	2,100	0.9%
Equity	3	1,094	0.5%	2	748	0.3%
Total		$ 221,284	100.0%		$ 228,613	100.0%

Total portfolio investment activity as of and for the years ended December 31, 2013 and 2012 was as follows:

	December 31,	
	2013	2012
Beginning portfolio	$ 228,613	$ 178,013
New loan funding	88,362	184,202
Less refinanced balances and participation	—	(45,295)
Net new loan funding	88,362	138,907
Principal received on investments	(41,166)	(39,092)
Early pay-offs	(46,331)	(42,291)
Accretion of loan fees	2,635	2,531
New loan fees	(1,076)	(1,676)
New equity	73	—
Sales of investments	(200)	(306)
Net realized (loss) gain on investments	(7,299)	108
Net depreciation on investments	(2,254)	(8,113)
Other	(73)	532
Ending Portfolio	$ 221,284	$ 228,613

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

The following table shows our loan portfolio by industry sector as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Loans at Fair Value	Percentage of Total Portfolio	Loans at Fair Value	Percentage of Total Portfolio
Life Science				
Biotechnology	$ 16,376	7.7%	$ 38,018	17.3%
Medical Device	14,765	6.9%	23,446	10.6%
Technology				
Networking	963	0.5%	—	—
Software	66,583	31.1%	54,358	24.7%
Internet and Media	6,019	2.8%	9,763	4.4%
Communications	9,359	4.4%	—	—
Semiconductors	37,450	17.5%	25,795	11.7%
Power Management	13,044	6.1%	15,792	7.2%
Cleantech				
Energy Efficiency	11,403	5.3%	12,950	5.9%
Waste Recycling	680	0.3%	2,197	1.0%
Alternative Energy	11,771	5.5%	8,586	3.9%
Healthcare Information and Services				
Diagnostics	12,140	5.7%	21,340	9.7%
Other Healthcare Related Services	6,904	3.2%	2,655	1.2%
Software	6,297	3.0%	5,397	2.4%
Total	$ 213,754	100.0%	$ 220,297	100.0%

The largest loans may vary from year to year as new loans are recorded and repaid. Our five largest loans represented 22% and 23% of total loans outstanding as of December 31, 2013 and 2012, respectively. No single loan represented more than 10% of our total loans as of December 31, 2013 or 2012.

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. See "Item 1 – Business" for a more detailed description of the internal credit rating system. The following table shows the classification of our loan portfolio by credit rating as of December 31, 2013 and December 31, 2012:

	December 31, 2013		December 31, 2012	
	Loans at Fair Value	Percentage of Loan Portfolio	Loans at Fair Value	Percentage of Loan Portfolio
Credit Rating				
4	$ 30,385	14.2%	$ 30,818	14.0%
3	167,231	78.3%	181,019	82.2%
2	2,199	1.0%	3,560	1.6%
1	13,939	6.5%	4,900	2.2%
Total	$ 213,754	100.0%	$ 220,297	100.0%

As of December 31, 2013 and 2012, our loan portfolio had a weighted average credit rating of 3.0 and 3.2, respectively. As of December 31, 2013, there were five investments with an internal credit rating of 1, and with a cost of $23.2 million and a fair value of $13.9 million. As of December 31, 2012, there were three investments with an internal credit rating of 1, with a cost of $12.9 million and a fair value of $4.9 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.

Consolidated results of operations for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Total investment income	$ 33,643	$ 26,664	$ 24,054
Total expenses	20,132	14,437	13,332
Net investment income before excise tax	13,511	12,227	10,722
Provision for excise tax	(240)	(231)	(211)
Net investment income	13,271	11,996	10,511
Net realized (loss) gains	(7,509)	108	6,316
Provision for excise tax	—	—	(129)
Net unrealized depreciation	(2,254)	(8,113)	(5,702)
Net income	$ 3,508	$ 3,991	$ 10,996
Average investments, at fair value	$ 233,045	$ 187,760	$ 164,437
Average debt outstanding	$ 115,562	$ 62,973	$ 78,106

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

Investment Income

Investment income increased by $7.0 million, or 26.2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. For the year ended December 31, 2013, total investment income consisted primarily of $31.9 million in interest income from investments, which included $6.4 million in income from the accretion of origination fees and ETPs. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Fee income on investments was primarily comprised of prepayment fees collected from our portfolio companies and a one-time success fee received upon the completion of an acquisition of one of our portfolio companies.

Investment income increased by $2.6 million, or 10.9%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011. For the year ended December 31, 2012, total investment income consisted primarily of $25.3 million in interest income from investments, which included $5.0 million in income from the accretion of origination fees and ETPs. Interest income on investments and other investment income increased primarily due to the increased average size of the loan portfolio. Fee income on investments was primarily comprised of prepayment fees collected from our portfolio companies.

For the years ended December 31, 2013, 2012 and 2011, our dollar-weighted average annualized yield on average loans was 14.4%, 14.2% 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.

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 23%, 22% and 21% of investment income for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013 and 2012, interest receivable was $4.2 million and $2.8 million, respectively, which represent accreted ETPs and one month of accrued interest income on substantially all of our loans.

Expenses

Total expenses increased by $5.7 million, or 39.4%, to $20.1 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. Total expenses increased by $1.1 million, or 8.3%, to $14.4 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. Total operating expenses for each period consisted principally of management fees, incentive and administrative fees, interest expense and, to a lesser degree, professional fees and general and administrative expenses.

Interest expense for the years ended December 31, 2013 and 2012 was $8.1 million and $4.3 million, respectively. Interest expense for the year ended December 31, 2013 increased compared to the year ended December 31, 2012 primarily due to an increase in average borrowings. Interest expense for the year ended December 31, 2012 increased compared to the year ended December 31, 2011 primarily due to an increase in borrowings under the Wells Facility and Fortress Facility, and the issuance of our 2019 Notes, offset by repayment of the WestLB Facility.

Management fee expense for the years ended December 31, 2013 and 2012 was $5.2 million and $4.2 million, respectively. Management fee expense for the year ended December 31, 2013 increased compared to the year ended December 31, 2012 primarily due to an increase in average gross assets. Management fee expense for the year ended December 31, 2012 remained flat compared to the year ended December 31, 2011 primarily due to our average assets remaining relatively consistent.

Performance based incentive fees for the year ended December 31, 2013 increased compared to the year ended December 31, 2012 primarily due to part one of the incentive fee increasing as Pre-Incentive Fee Net Investment Income increased year over year. Performance based incentive fees for the year ended December 31, 2012 remained relatively flat compared to the year ended December 31, 2011 primarily due to part one of the incentive fee increasing as Pre-Incentive Fee Net Investment Income increased year over year, offset by a decrease in part two of the incentive fee in 2012. The incentive fees for the year ended December 31, 2013 consisted of $3.3 million of part one of the incentive fee. The incentive fees for the year ended December 31, 2012 consisted of $2.8 million of part one of the incentive fee.

In 2013 and 2012 we elected to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income. At both December 31, 2013 and 2012, we recorded an excise tax payable of $0.2 million and $0.2 million on $6.1 million and $5.9 million of undistributed earnings from operations and capital gains, respectively.

Net Realized Gains and Net Unrealized Appreciation and Depreciation

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

During the year ended December 31, 2013, we realized losses totaling $7.5 million primarily due to two debt investments that were on non-accrual. One was settled for $2.1 million, along with future contingent success payments, which generated a $1.8 million realized loss. We determined that the other investment was not recoverable, which resulted in a realized loss totaling $5.3 million. During the year ended December 31, 2012, we realized realized gains totaling $0.1 million primarily due to the sale of warrants of one portfolio company. During the year ended December 31, 2011, we realized realized gains totaling $6.3 million primarily due to the sale of warrants of three portfolio companies.

During the year ended December 31, 2013, net unrealized depreciation on investments totaled $2.3 million which was primarily due to the unrealized depreciation on the five debt investments on non-accrual status offset by the reversal of previously recorded unrealized depreciation on two debt investments that were settled in the period, as described above. During the year ended December 31, 2012, net unrealized depreciation on investments totaled $8.1 million which was primarily due to the unrealized depreciation on the three debt investments on non-accrual status. During the year ended December 31, 2011, net unrealized depreciation on investments totaled $5.7 million which was primarily due to $4.0 million in reversal of previously recorded unrealized appreciation on the sale of warrants and $2.7 million of previously recorded unrealized depreciation on six debt investments partially offset by unrealized appreciation on investments.

Liquidity and Capital Resources

As of December 31, 2013 and 2012, we had cash and investments in money market funds of $26.5 million and $3.6 million, respectively. These amounts are available to fund new investments, reduce borrowings, pay operating expenses and pay dividends. In addition, as of December 31, 2013 we had $6.0 million of restricted investments in money market funds, which may be used to make monthly interest and principal payments on the Asset-Backed Notes. Our primary sources of capital have been from our private and public common stock offerings, use of the Wells Facility and Fortress Facility and issuance of our 2019 Notes and our Asset-Backed Notes.

As of December 31, 2013, there were no outstanding amounts due under the Key Facility. As of December 31, 2013, we had available borrowing capacity of $50.0 million under our Key Facility, subject to existing terms and advance rates.

As of December 31, 2013, the outstanding principal balance under the Fortress Facility was $10.0 million. As of December 31, 2013, we had available borrowing capacity of $65.0 million under our Fortress Facility, subject to existing terms and advance rates. As of December 31, 2012, the outstanding principal balance under the Wells Facility and Fortress Facility was $46.0 million and $10.0, respectively. All obligations under the WestLB Facility were paid, and the WestLB Facility was terminated, during the fourth quarter of 2012.

Our operating activities provided cash of $6.5 million for the year ended December 31, 2013, and our financing activities provided cash of $17.8 million for the same period. Our operating activities provided cash primarily from regular principal payments and early pay-offs received, offset by investments made in portfolio companies. Our financing activities provided cash primarily from the issuance of our Asset-Backed Notes. This increase from investing activities was partially offset by repayments of $56.7 million of borrowings and $12.6 million of dividends paid.

Our operating activities used cash of $36.1 million for the year ended December 31, 2012, and our financing activities provided cash of $35.8 million for the same period. Our operating activities used cash primarily for investing in portfolio companies, net of principal payments received. Our financing activities provided cash primarily from the issuance of our 2019 Notes for net proceeds of $31.7 million, and the completion of a follow-on public offering of 1.9 million shares of common stock for net proceeds of $29.5 million. These increases from investing activities were partially offset by repayments of $8.6 million of debt under the Credit Facilities and $15.1 million of dividends paid.

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

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 income except for certain net capital gains (to the extent available). In addition, as a BDC, we are required to meet a coverage ratio of 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 Credit Facilities 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 December 31, 2013 and 2012 is as follows:

	December 31, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	$ 90,000	$ 79,343	$ —
Fortress Facility	75,000	10,000	65,000
Key Facility	50,000	—	50,000
2019 Notes	33,000	33,000	—
Total	$ 248,000	$ 122,343	$ 115,000

	December 31, 2012		
	Total Commitment	Balance Outstanding	Unused Commitment
Wells Facility	$ 75,000	$ 46,020	$ 28,980
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	$ 183,000	$ 89,020	$ 93,980

We, through our wholly owned subsidiary, Credit II, entered into the Wells Facility on July 14, 2011 and on November 4, 2013 we renewed and amended the Wells Facility, which among other things, assigned all rights and obligations of Wells to Key. 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% and 5.00% as of December 31, 2013 and December 31, 2012, respectively.

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 loans 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 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. There were no advances made under the Key Facility for the year ended December 31, 2013.

On March 23, 2012, we issued and sold an aggregate principal amount of $30 million of the 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 rank (1) equally in right of payment with our future senior unsecured indebtedness; (2) senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (3) 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) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of December 31, 2013, we were in material compliance with the terms of the 2019 Notes. The 2019 Notes are listed on the NYSE under the symbol "HTF".

We, through our wholly owned subsidiary, Credit III, entered into the Fortress Facility on August 23, 2012. The interest rate on the Fortress Facility is 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 and December 31, 2012.

We may request advances under the Fortress Facility through August 23, 2016, or the Draw Period. After the Draw Period, we may not request new advances and we must repay the outstanding advances under the Fortress 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 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. We must pay an unused line fee equal to 1.00% of any unborrowed amount available under the Fortress Facility annually. All outstanding advances under the Fortress Facility are due and payable on August 23, 2017.

The Fortress Facility is collateralized by loans and warrants held by Credit III and permits an advance rate of up to 66% of eligible loans held by Credit III. The Fortress Facility contains covenants that, among other things, require 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.

On June 28, 2013, we completed a $189.3 million securitization of secured loans which we originated. 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, the Trust Depositor, 2013-1 Trust and Guggenheim Securities, LLC, or Guggenheim Securities, as initial purchaser, and are backed by a pool of loans made to certain portfolio companies of ours and secured by certain assets of such portfolio companies. The pool of loans is to be 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 have agreed to sell or have contributed to the Trust Depositor the Loans. We have 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 have 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 2013-1 LLC has agreed to sell or has contributed the Loans to 2013-1 Trust. We have made customary representations, warranties and covenants in the Sale and Servicing Agreement. We will also 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 its outstanding obligations under the Term Loan and the security interest of Guggenheim Securities was released.

As of December 31, 2013 and 2012, other assets were $5.7 million and $4.6 million, respectively, which is primarily comprised of debt issuance costs and prepaid expenses. The increase was due to the debt issuance costs of $2.1 million and $0.8 million incurred related to our 2013-1 Securitization and the Key Facility, respectively.

Contractual Obligations and Off-Balance Sheet Arrangements

A summary of our significant contractual payment obligations and off-balance sheet arrangements as of December 31, 2013 are as follows:

	Payments due by period				
	Total	Less than 1 year	1 – 3 Years	3 – 5 Years	After 5 years
Borrowings	$ 122,343	$ 26,787	$ 61,110	$ 1,446	$ 33,000
Unfunded commitments	9,000	9,000	—	—	—
Total	$ 131,343	$ 35,787	$ 61,110	$ 1,446	$ 33,000

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of December 31, 2013, we had unfunded commitments of $9.0 million. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

In addition to the Credit Facilities, we have certain commitments pursuant to our Investment Management Agreement entered into with our Advisor. We have agreed to pay a fee for investment advisory and management services consisting of two components — a base management fee and an incentive fee. Payments under the Investment Management Agreement are equal to (1) a base management fee equal to a percentage of the value of our average gross assets and (2) a two-part incentive fee. We have also entered into a contract with our Advisor to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of our Advisor's overhead in performing its 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 the sum of 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 distribute monthly dividends to our stockholders as determined by our Board.

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

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

We have adopted an "opt out" 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 in the same manner as cash distributions, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. 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 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 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 relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. We have categorized our investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

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

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

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

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

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

We receive a variety of fees from borrowers in the ordinary course of conducting our business, including advisory fees, commitment fees, amendment fees, non-utilization fees and prepayment fees. In a limited number of cases, we may also receive a non-refundable deposit earned upon the termination of a transaction. Loan origination fees, net of certain direct origination costs, are deferred, and along with unearned income, are amortized as a level yield adjustment over the respective term of the loan. 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.

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 December 31, 2013 and 2012.

Recently Issued Accounting Standards

In June 2013, the FASB issued Accounting Standards Update ("ASU") 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements ("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. We do not expect ASU 2013-08 to have a material impact on our consolidated financial position or disclosures.

Item 7A. ***Quantitative And Qualitative Disclosures About Market Risk***

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

Assuming that the consolidated statement of assets and liabilities as of December 31, 2013 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-Back Notes bear interest at a fixed rate, our Credit Facilities have a floating interest rate provision based on a LIBOR index which resets daily, and we expect that any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations and we may use them in the future. Such instruments may include swaps, futures, options and forward contracts. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

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

Item 8. ***Consolidated Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements

Management's Report on Internal Control over Financial Reporting

Management of Horizon Technology Finance Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published financial statements.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions recorded necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The Company's policies and procedures also provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework issued in 1992. Based on the assessment, management believes that, as of December 31, 2013, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, which appears in this annual report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Horizon Technology Finance Corporation

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Horizon Technology Finance Corporation and Subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments as of December 31, 2013 and 2012, by correspondence with custodians or borrowers. Our audits also involved performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Technology Finance Corporation and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Horizon Technology Finance Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992, and our report dated March 11, 2014 expressed an unqualified opinion on the effectiveness of Horizon Technology Finance Corporation's internal control over financial reporting.

/s/ McGladrey LLP

New Haven, Connecticut
March 11, 2014

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the Board of Directors and Stockholders
Horizon Technology Finance Corporation

We have audited Horizon Technology Finance Corporation and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Horizon Technology Finance Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Horizon Technology Finance Corporation and Subsidiaries as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, and our report dated March 11, 2014 expressed an unqualified opinion.

/s/McGladrey LLP
New Haven, Connecticut
March 11, 2014

Horizon Technology Finance Corporation and Subsidiaries

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

	December 31, 2013	December 31, 2012
Assets		
Non-affiliate investments at fair value (cost of $234,310 and $239,385, respectively) (Note 4)	$ 221,284	$ 228,613
Investment in money market funds	1,188	2,560
Cash	25,341	1,048
Restricted investments in money market funds	5,951	—
Interest receivable	4,240	2,811
Other assets	5,733	4,626
Total assets	$ 263,737	$ 239,658
Liabilities		
Borrowings (Note 6)	$ 122,343	$ 89,020
Dividends payable	3,315	3,301
Base management fee payable (Note 3)	439	402
Incentive fee payable (Note 3)	852	855
Other accrued expenses	953	1,108
Total liabilities	127,902	94,686
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2013 and 2012	—	—
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 9,608,949 and 9,567,225 shares outstanding as of December 31, 2013 and 2012	10	10
Paid-in capital in excess of par	154,975	154,384
Accumulated undistributed net investment income	1,463	1,428
Net unrealized depreciation on investments	(13,026)	(10,772)
Net realized loss on investments	(7,587)	(78)
Total net assets	135,835	144,972
Total liabilities and net assets	$ 263,737	$ 239,658
Net asset value per common share	$ 14.14	$ 15.15

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Investment income			
Interest income on non-affiliate investments	$ 31,904	$ 25,289	$ 22,879
Interest income on money market funds	—	—	91
Fee income on non-affiliate investments	1,739	1,375	1,084
Total investment income	33,643	26,664	24,054
Expenses			
Interest expense	8,124	4,283	2,681
Base management fee (Note 3)	5,209	4,208	4,192
Performance based incentive fee (Note 3)	3,318	2,847	3,013
Administrative fee (Note 3)	1,169	1,082	1,199
Professional fees	1,464	1,027	1,259
General and administrative	848	990	988
Total expenses	20,132	14,437	13,332
Net investment income before excise tax	13,511	12,227	10,722
Provision for excise tax (Note 7)	(240)	(231)	(211)
Net investment income	13,271	11,996	10,511
Net realized and unrealized (loss) gain on investments			
Net realized (loss) gain on investments	(7,509)	108	6,316
Provision for excise tax (Note 7)	—	—	(129)
Net unrealized depreciation on investments	(2,254)	(8,113)	(5,702)
Net realized and unrealized (loss) gain on investments	(9,763)	(8,005)	485
Net increase in net assets resulting from operations	$ 3,508	$ 3,991	$ 10,996
Net investment income per common share	$ 1.38	$ 1.41	$ 1.38
Net increase in net assets per common share	$ 0.37	$ 0.47	$ 1.44
Dividends declared per share	$ 1.38	$ 2.15	$ 1.18
Weighted average shares outstanding	9,583,257	8,481,604	7,610,818

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

	Common Stock		Paid-In Capital in Excess of	Accumulated Undistributed (distributions in excess of) Net	Net Unrealized Appreciation (Depreciation) on	Net Realized Gain (Loss) on	Total Net
	Shares	Amount	Par	Investment Income	Investments	Investments	Assets
Balance at December 31, 2010	7,593,421	$ 8	$ 123,836	$ (143)	$ 3,043	$ 451	$ 127,195
Net increase in net assets resulting from operations	—	—	—	10,511(1)	(5,702)	6,187	10,996
Issuance of common stock as stock dividend	43,111	—	676	—	—	—	676
Dividends declared	—	—	—	(5,403)	—	(3,580)	(8,983)
Balance at December 31, 2011	7,636,532	8	124,512	4,965	(2,659)	3,058	129,884
Issuance of common stock, net of offering costs (2)	1,909,000	2	29,523	—	—	—	29,525
Net increase in net assets resulting from operations	—	—	—	11,996(1)	(8,113)	108	3,991
Issuance of common stock as stock dividend	21,693	—	349	—	—	—	349
Dividends declared	—	—	—	(15,533)	—	(3,244)	(18,777)
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	—	—	—	13,271(1)	(2,254)	(7,509)	3,508
Issuance of common stock as stock dividend	41,724	—	591	—	—	—	591
Dividends declared	—	—	—	(13,236)	—	—	(13,236)
Balance at December 31, 2013	9,608,949	$ 10	$ 154,975	$ 1,463	$ (13,026)	$ (7,587)	$ 135,835

(1) Net of excise tax.

(2) On July 18, 2012, the Company completed a follow-on public offering of 1,909,000 shares (including 249,000 shares of common stock that was issued pursuant to the underwriters' options to purchase additional shares) of its common stock at a public offering price of $16.20 per share. Total offering costs were $1.4 million.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flow
(In thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 3,508	$ 3,991	$ 10,996
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	1,484	471	277
Net realized loss (gain) on investments	7,299	(82)	(6,599)
Net unrealized depreciation on investments	2,254	8,113	5,717
Purchase of investments	(88,362)	(138,907)	(97,673)
Principal payments received on investments	87,497	81,383	51,442
Proceeds from sale of investments	200	281	6,623
Stock received in settlement of fee income	—	—	(544)
Changes in assets and liabilities:			
Net decrease in investments in money market funds	1,372	10,958	25,586
Net increase in restricted investments in money market funds	(5,951)	—	—
Decrease (increase) in interest receivable	237	(98)	(837)
Increase in end-of-term payments	(1,666)	(260)	(210)
Decrease in unearned loan income	(1,559)	(855)	(790)
Decrease (increase) in other assets	307	(93)	(40)
(Decrease) increase in other accrued expenses	(155)	(152)	707
Increase (decrease) in base management fee payable	37	72	(30)
(Decrease) increase in incentive fee payable	(3)	(911)	1,352
Net cash provided by (used in) operating activities	6,499	(36,089)	(4,023)
Cash flows from financing activities:			
Proceeds from shares sold, net of offering costs	—	29,525	—
Proceeds from issuance of 2019 Notes	—	33,000	—
Proceeds from issuance of Asset-Backed Notes	90,000	—	—
Dividends paid	(12,632)	(15,128)	(8,307)
Net decrease in borrowings	(56,677)	(8,551)	(22,854)
Debt issuance costs	(2,897)	(3,007)	(1,207)
Net cash provided by (used in) financing activities	17,794	35,839	(32,368)
Net increase (decrease) in cash	24,293	(250)	(36,391)
Cash:			
Beginning of period	1,048	1,298	37,689
End of period	$ 25,341	$ 1,048	$ 1,298
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 6,707	$ 3,002	$ 2,330
Supplemental non-cash investing and financing activities:			
Warrant investments received & recorded as unearned loan income	$ 704	$ 1,998	$ 1,316
Dividends Payable	$ 3,315	$ 3,301	$ —
Receivables resulting from sale of investments	$ —	$ 25	$ 361
Reclassification of receivables to investments	$ —	$ 532	$ —

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	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 (Floor 10.75%; Ceiling 2.75%), 4.00% ETP, Due 7/1/17)	3,000	2,957	2,957
		Term Loan (10.75% cash (Floor 10.75%; Ceiling 2.75%), 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
			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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
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
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 (Floor 10.50%; Ceiling 3.50%), 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	—

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
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
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`	Semi-conductor	1,877,799 Preferred Stock Warrants	—	16	15
Kaminario, Inc.	Semi-conductor	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

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

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

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
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
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				$ 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 (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 domiciled in the United States and/or 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.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2012
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
Debt Investments — 152.0% (9)					
Debt Investments — Life Science — 42.4% (9)					
ACT Biotech Corporation (8)	Biotechnology	Term Loan (13.10% cash, 8.00% ETP, Due 9/1/14)	$ 3,947	$ 3,906	$ 2,770
Ambit Biosciences Corporation (2)	Biotechnology	Term Loan (12.25% cash, 3.00% ETP, Due 10/1/13)	2,206	2,197	2,197
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (9.41% cash, 5.50% ETP, Due 4/1/15)	2,671	2,644	2,645
		Term Loan (9.67% cash, 5.50% ETP, Due 4/1/15)	2,139	2,109	2,109
		Term Loan (9.47% cash, 5.50% ETP, Due 4/1/15)	3,762	3,708	3,708
Celsion Corporation (2)(5)	Biotechnology	Term Loan (11.75% cash, Due 10/1/15)	2,500	2,466	2,466
N30 Pharmaceuticals, LLC (2)	Biotechnology	Term Loan (11.25% cash, 3.00% ETP, Due 9/1/14)	1,679	1,657	1,657
		Term Loan (11.25% cash, 3.00% ETP, Due 7/1/15)	2,500	2,450	2,450
Revance Therapeutics, Inc.	Biotechnology	Convertible Note (8.00% ETP, Due 2/10/13)	71	71	71
Sample6 Technologies, Inc. (2)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 1/1/16)	2,500	2,454	2,454
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (8.95% cash, 3.75% ETP, Due 10/1/15)	2,000	1,984	1,984
		Term Loan (9.00% cash, 3.75% ETP, Due 10/1/15)	3,000	2,911	2,911
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	Term Loan (11.00% cash, 3.00% ETP, Due 8/1/14)	2,090	2,079	2,079
		Term Loan (11.00% cash, 2.50% ETP, Due 1/1/15)	5,962	5,915	5,915
Xcovery Holding Company, LLC (2)	Biotechnology	Term Loan (12.50% cash, Due 8/1/15)	918	915	915
		Term Loan (12.50% cash, Due 8/1/15)	1,444	1,439	1,439
		Term Loan (12.50% cash, Due 10/1/15)	250	249	249
Direct Flow Medical, Inc. (2)	Medical Device	Term Loan (11.00% cash, 3.00% ETP, Due 7/1/16)	5,000	4,831	4,831
Mitralign, Inc. (2)	Medical Device	Term Loan (12.00% cash, 3.00% ETP, Due 10/1/15)	1,714	1,655	1,655
		Term Loan (10.88% cash, 3.00% ETP, Due 11/1/15)	1,143	1,119	1,119
OraMetrix, Inc. (2)	Medical Device	Term Loan (11.50% cash, 3.00% ETP, Due 4/1/14)	2,468	1,966	1,966
		Revolver (11.50% (Prime + 8.25%) cash, Due 12/1/15)	2,000	2,449	2,449
PixelOptics, Inc. (2)	Medical Device	Term Loan (10.75% cash, 3.00% ETP, Due 11/1/14)	7,900	7,865	7,865
Tengion, Inc. (2)(5)	Medical Device	Term Loan (13.00% cash, Due 5/1/14)	3,660	3,560	3,560
Total Debt Investments — Life Science				62,599	61,464
Debt Investments — Technology — 72.9% (9)					
Avalanche Technology, Inc. (2)	Semiconductors	Term Loan (10.00% cash, 2.00% ETP, Due 7/1/16)	4,000	3,866	3,866
Luxtera, Inc. (2)	Semiconductors	Term Loan (10.25% cash, 8.00% ETP, Due 12/1/15)	3,333	3,290	3,290
		Term Loan (10.25% cash, 8.00% ETP, Due 3/1/16)	1,667	1,642	1,642
Newport Media, Inc. (2)	Semiconductors	Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)	3,500	3,445	3,445
		Term Loan (11.00% cash, 2.14% ETP, Due 1/1/16)	3,500	3,445	3,445
Xtera Communications, Inc. (2)	Semiconductors	Term Loan (11.50% cash, Due 12/1/14)	8,222	8,136	8,136
		Term Loan (11.50% cash, Due 7/1/15)	2,000	1,972	1,972
Grab Networks, Inc. (2)	Internet and Media	Term Loan (12.00% cash, Due 1/1/16)	2,500	2,387	2,387
Optaros, Inc. (2)	Internet and Media	Term Loan (11.95% cash, 3.00% ETP, Due 10/1/15)	2,000	1,976	1,976
		Term Loan (11.95% cash, 3.00% ETP, Due 3/1/16)	500	495	495
SimpleTuition, Inc. (2)	Internet and Media	Term Loan (11.75% cash, Due 3/1/16)	5,000	4,905	4,905
Construction Software Technologies, Inc. (2)	Software	Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,200	4,156	4,156
		Term Loan (11.75% cash, 5.00% ETP, Due 10/1/16)	4,200	4,156	4,156
Courion Corporation (2)	Software	Term Loan (11.45% cash, Due 10/1/15)	3,500	3,481	3,481
		Term Loan (11.45% cash, Due 10/1/15)	3,500	3,481	3,481
Fiberlink Communications Corporation (2)	Software	Term Loan (11.50% cash, 5.00% ETP, Due 7/1/16)	5,000	4,920	4,920
Kontera Technologies, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,000	3,917	3,917
		Term Loan (11.50% cash, 3.00% ETP, Due 10/1/16)	4,000	3,917	3,917
Netuitive, Inc. (2)	Software	Term Loan (11.75% cash, Due 1/1/16)	3,000	2,939	2,939
Seapass Solutions, Inc. (2)	Software	Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	5,000	4,933	4,933
		Term Loan (11.65% cash, 4.00% ETP, Due 5/1/16)	5,000	4,933	4,933
StreamBase Systems, Inc. (2)	Software	Term Loan (12.51% cash, Due 11/1/13)	1,360	1,353	1,353
		Term Loan (12.50% cash, Due 6/1/14)	558	553	553
		Term Loan (12.50% cash, Due 12/1/15)	1,500	1,477	1,477
Sys-Tech Solutions, Inc. (2)	Software	Term Loan (11.65% cash, Due 6/1/16)	7,500	7,193	7,193
Vidsys, Inc. (2)	Software	Term Loan (11.00% cash, 5.00% ETP, Due 6/1/16)	3,000	2,948	2,948

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2012
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
Aquion Energy, Inc. (2)	Power Management	Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)	3,333	3,312	3,312
		Term Loan (10.25% cash, 4.00% ETP, Due 3/1/16)	3,333	3,312	3,312
		Term Loan (10.25% cash, 4.00% ETP, Due 6/1/16)	3,333	3,309	3,309
Xtreme Power, Inc. (2)	Power Management	Term Loan (10.75% cash, 3.50% ETP, Due 5/1/16)	6,000	5,859	5,859
Total Debt Investments — Technology				105,708	105,708
Debt Investments — Cleantech — 16.4% (9)					
Renmatix, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	2,500	2,402	2,402
		Term Loan (10.25% cash, 3.00% ETP, Due 2/1/16)	2,500	2,473	2,473
Semprius, Inc. (2)	Alternative Energy	Term Loan (10.25% cash, 2.50% ETP, Due 6/1/16)	3,750	3,712	3,712
Cereplast, Inc. (5)(8)	Waste Recycling	Term Loan (12.00% cash, Due 8/1/14)	1,683	1,515	890
		Term Loan (12.00% cash, Due 8/1/14)	1,806	1,787	1,116
		Term Loan (15.00% cash, Due 4/4/13)	75	75	47
		Term Loan (15.00% cash, Due 4/4/13)	125	125	78
Aurora Algae, Inc. (2)	Energy Efficiency	Term Loan (10.50% cash, 2.00% ETP, Due 5/1/15)	2,075	2,062	2,062
Satcon Technology Corporation (5)(8)	Energy Efficiency	Term Loan (12.58% cash, Due 1/1/14)	5,278	5,278	—
Solarbridge Technologies, Inc. (2)	Energy Efficiency	Term Loan (11.65% cash, Due 4/1/16)	7,000	6,826	6,826
Tigo Energy, Inc. (2)	Energy Efficiency	Term Loan (11.00% cash, Due 8/1/14)	2,326	2,306	2,306
		Revolver (10.75% (Prime + 7.50%) cash, Due 1/1/14)	1,859	1,821	1,821
Total Debt Investments — Cleantech				30,382	23,733
Debt Investments — Healthcare information and services — 20.3% (9)					
Accumetrics, Inc. (2)	Diagnostics	Term Loan (10.90% cash, 5.00% ETP, Due 6/1/16)	4,000	3,853	3,853
BioScale, Inc. (2)	Diagnostics	Term Loan (11.51% cash, Due 1/1/14)	2,643	2,630	2,630
Radisphere National Radiology Group, Inc. (2)	Diagnostics	Revolver (11.25% (Prime + 8.00%) cash, Due 10/1/15)	15,000	14,856	14,856
Recondo Technology, Inc. (2)	Software	Term Loan (11.50% cash, 3.00% ETP, Due 4/1/15)	2,000	1,968	1,968
		Term Loan (11.00% cash, 3.00% ETP, Due 1/1/17)	2,500	2,460	2,460
		Revolver (10.50% (Prime + 7.25%) cash, Due 4/1/15)	1,000	968	968
Singulex, Inc.	Other Healthcare	Term Loan (11.00% cash, 3.00% ETP, Due 3/1/14)	1,602	1,593	1,593
		Term Loan (11.00% cash, 3.00% ETP, Due 3/1/14)	1,068	1,064	1,064
Total Debt Investments — Healthcare information and services				29,392	29,392
Total Debt Investments				228,081	220,297
Warrant Investments — 3.8% (9)					
Warrants — Life Science — 1.1% (9)					
ACT Biotech Corporation	Biotechnology	1,390,910 Preferred Stock Warrants	—	83	—
Ambit Biosciences, Inc. (2)	Biotechnology	1,075,083 Preferred Stock Warrants	—	143	101
Anacor Pharmaceuticals, Inc. (2)(5)	Biotechnology	84,583 Common Stock Warrants	—	93	41
Anesiva, Inc.	Biotechnology	198,898 Common Stock Warrants	—	18	—
Celsion Corporation (2)(5)	Biotechnology	25,685 Common Stock Warrants	—	15	136
N30 Pharmaceuticals, LLC (2)	Biotechnology	214,200 Preferred Stock Warrants	—	122	252
Novalar Pharmaceuticals, Inc.	Biotechnology	84,845 Preferred Stock Warrants	—	69	—
Revance Therapeutics, Inc.	Biotechnology	199,470 Preferred Stock Warrants	—	224	404
Sample6 Technologies, Inc. (2)	Biotechnology	200,582 Preferred Stock Warrants	—	27	28
Sunesis Pharmaceuticals, Inc. (2)(5)	Biotechnology	116,203 Common Stock Warrants	—	83	251
Supernus Pharmaceuticals, Inc. (2)(5)	Biotechnology	42,083 Preferred Stock Warrants	—	94	117
Tranzyme, Inc. (2)(5)	Biotechnology	77,902 Common Stock Warrants	—	6	—
Direct Flow Medical, Inc. (2)	Medical Device	176,922 Preferred Stock Warrants	—	145	145
EnteroMedics, Inc. (5)	Medical Device	141,026 Common Stock Warrants	—	347	2
Mitralign, Inc. (2)	Medical Device	295,238 Common Stock Warrants	—	49	43
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	—	78	—
PixelOptics, Inc. (2)	Medical Device	381,612 Preferred Stock Warrants	—	96	35
Tengion, Inc. (2)(5)	Medical Device	1,716,339 Common Stock Warrants	—	124	62
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	—	13	—
Total Warrants — Life Science				1,829	1,617
Warrants — Technology — 1.9% (9)					
OpenPeak, Inc.	Communications	18,997 Preferred Stock Warrants	—	89	—
Everyday Health, Inc.	Consumer-related Technologies	65,674 Preferred Stock Warrants	—	69	97
SnagAJob.com, Inc.	Consumer-related Technologies	365,396 Preferred Stock Warrants	—	23	269
Tagged, Inc.	Consumer-related Technologies	190,868 Preferred Stock Warrants	—	27	80
Avalanche Technology, Inc. (2)	Semiconductors	201,835 Preferred Stock Warrants	—	45	46

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2012
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
Impinj, Inc.	Semi-conductor	1 Preferred Stock Warrants	—	7	—
Luxtera, Inc. (2)	Semiconductors	1,827,485 Preferred Stock Warrants	—	34	30
Newport Media, Inc. (2)	Semiconductors	188,764 Preferred Stock Warrants	—	40	40
Xtera Communications, Inc. (2)	Semiconductors	983,607 Preferred Stock Warrants	—	206	1
XIOtech, Inc.	Data Storage	2,217,979 Preferred Stock Warrants	—	22	20
Cartera Commerce, Inc.	Internet and media	90,909 Preferred Stock Warrants	—	16	162
Grab Networks, Inc. (2)	Internet and media	1,493,681 Preferred Stock Warrants	—	194	119
Optaros, Inc. (2)	Internet and media	477,403 Preferred Stock Warrants	—	20	18
SimpleTuition, Inc. (2)	Internet and media	189,573 Preferred Stock Warrants	—	63	56
IntelePeer, Inc.	Networking	141,549 Preferred Stock Warrants	—	39	481
Motion Computing, Inc.	Networking	260,707 Preferred Stock Warrants	—	7	293
Clarabridge, Inc.	Software	104,503 Preferred Stock Warrants	—	28	17
Construction Software Technologies, Inc. (2)	Software	386,415 Preferred Stock Warrants	—	69	49
Courion Corporation (2)	Software	772,543 Preferred Stock Warrants	—	107	98
DriveCam, Inc.	Software	71,639 Preferred Stock Warrants	—	19	120
Kontera Technologies, Inc. (2)	Software	99,476 Preferred Stock Warrants	—	101	101
Netuitive, Inc. (2)	Software	748,453 Preferred Stock Warrants	—	75	61
Seapass Solutions, Inc. (2)	Software	202,892 Preferred Stock Warrants	—	113	105
StreamBase Systems, Inc. (2)	Software	306,041 Preferred Stock Warrants	—	83	63
Sys-Tech Solutions, Inc. (2)	Software	375,000 Preferred Stock Warrants	—	242	242
Vidsys, Inc. (2)	Software	178,802 Preferred Stock Warrants	—	23	23
Aquion Energy, Inc. (2)	Power Management	82,644 Preferred Stock Warrants	—	7	4
Xtreme Power, Inc. (2)	Power Management	182,723 Preferred Stock Warrants	—	76	68
Total Warrants — Technology				1,844	2,663
Warrants — Cleantech — 0.2% (9)					
Renmatix, Inc. (2)	Alternative Energy	52,296 Preferred Stock Warrants	—	69	70
Semprius, Inc. (2)	Alternative Energy	519,981 Preferred Stock Warrants	—	25	27
Cereplast, Inc. (5)	Waste Recycling	365,000 Common Stock Warrants	—	175	2
Enphase Energy, Inc. (5)	Energy Efficiency	161,959 Common Stock Warrants	—	176	4
Satcon Technology Corporation (5)	Energy Efficiency	493,097 Common Stock Warrants	—	285	—
Solarbridge Technologies, Inc. (2)	Energy Efficiency	1,761,051 Preferred Stock Warrants	—	125	112
Tigo Energy, Inc. (2)	Energy Efficiency	190,901 Preferred Stock Warrants	—	101	72
Total Warrants — Cleantech				956	287
Warrants — Healthcare information and services — 0.6% (9)					
Accumetrics, Inc. (2)	Diagnostics	1,028,57 Preferred Stock Warrants	—	107	107
BioScale, Inc. (2)	Diagnostics	315,618 Preferred Stock Warrants	—	55	46
Precision Therapeutics, Inc.	Diagnostics	561,409 Preferred Stock Warrants	—	73	142
Radisphere National Radiology Group, Inc. (2)	Diagnostics	519,943 Preferred Stock Warrants	—	378	288
Recondo Technology, Inc. (2)	Software	360,645 Preferred Stock Warrants	—	60	144
Patientkeeper, Inc.	Other Healthcare	396,410 Preferred Stock Warrants	—	269	31
Singulex, Inc.	Other Healthcare	293,632 Preferred Stock Warrants	—	44	71
Talyst, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	—	100	72
Total Warrants — Healthcare information and services				1,086	901
Total Warrants				5,715	5,468
Other Investments — 1.4% (9)					
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019		4,880	2,100
Total Other Investments				4,880	2,100
Equity — 0.5% (9)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock		227	222
Overture Networks Inc.	Communications	386,191 Preferred Stock		482	526
Total Equity				709	748
Total Portfolio Investment Assets — 157.7% (9)				$ 239,385	$ 228,613

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2012
(In thousands)

Portfolio Company (1)	Sector	Type of Investment (3)(4)(7)	Principal Amount	Cost of Investments (6)	Fair Value
Short Term Investments — Money Market Funds — 1.8% (9)					
Blackrock Liquid Fed Funds Institutional (Fund #30)				$ 2,197	$ 2,197
Fidelity Prime Money Market (Class I Fund #690)				91	91
US Bank Money Market				272	272
Total Short Term Investments — Money Market Funds				$ 2,560	$ 2,560

(1) All of the Company's investments are in entities which are domiciled in the United States and/or have principal place of business in the United States.

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

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

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company's debt investments. 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, we have provided the current interest rate in effect as of December 31, 2012.

(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, 2012, and is therefore considered non-income producing.

(9) Value as a percent of net assets.

See Notes to Consolidated Financial Statements

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 the 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 the sole equity member. Credit I is a special purpose bankruptcy remote entity and is a separate legal entity from the Company and CHF. There has been no activity at Credit I during the twelve months ended December 31, 2013.

Horizon Credit II LLC ("Credit II") was formed as a Delaware limited liability company on June 28, 2011, with the Company as the sole equity member. Credit II is a special purpose bankruptcy remote entity and is a separate legal entity from the Company. Any assets conveyed to Credit II 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 the 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. 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'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 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-K and Article 6 or 10 of Regulation S-X. In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

As required under GAAP and Regulation S-X, the Company will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's subsidiaries in its consolidated financial statements.

Use of Estimates

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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs, ("ASU 2011-04"). ASU 2011-04 converges the fair value measurement guidance in GAAP and the International Financial Reporting Standards ("IFRSs"). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. The Company has adopted ASU 2011-04 and included additional disclosures in Note 5.

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 loans for the foreseeable future or until maturity or payoff.

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a loan becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the loan is placed on non-accrual status and the recognition of interest income is discontinued. Interest payments received on loans that are on non-accrual status are treated as reductions of principal until the principal is repaid. As of December 31, 2013, there were five investments on non-accrual status with a cost of $23.2 million and a fair value of $13.9 million. As of December 31, 2012, there were three investments on non-accrual status with a cost of $12.9 million and a fair value of $4.9 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 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 end-of-term payment ("ETP"), that is accrued into interest income over the life of the loan to the extent such amounts are expected to be collected. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay all principal and interest due.

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

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 our 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 December 31, 2013 and 2012, included in other assets, was $5.1 million and $3.7 million, respectively. The accumulated amortization balances as of December 31, 2013 and 2012 were $2.0 million and $0.6 million, respectively. The amortization expense for the years ended December 31, 2013, 2012 and 2011 relating to debt issuance costs was $1.5 million, $0.5 million and $0.3 million, respectively.

Income Taxes

As a BDC, the Company also 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 year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the years ended December 31, 2013, 2012 and 2011, $0.2 million, $0.2 million and $0.3 million was recorded for U.S. federal excise tax, respectively.

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 December 31, 2013 and 2012. The 2012, 2011, and 2010 tax years remain subject to examination by U.S. federal and state tax authorities.

Dividends

Dividends to common stockholders are recorded on the declaration date. The amount to be paid out as a dividend is determined by the Board. Net realized 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 dividend, then stockholders who have not "opted out" of the dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of the Company's common stock, rather than receiving the cash dividend. The Company may use newly issued shares to implement the plan (especially if the Company's shares are trading at a premium to net asset value), or the Company may purchase shares in the open market in connection with the obligations under the plan.

Interest Rate Swaps and Hedging Activities

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

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

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.

Reclassifications

Certain 2011 amounts were reclassified to conform with the 2012 financial statement presentation. Such reclassifications had no impact on the 2011 Statements of Operations.

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. We do not expect ASU 2013-08 to have a material impact on our 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, under which the Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of the Company's gross assets, payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage. The management fee payable as of December 31, 2013 and 2012, respectively, was $0.4 million. The base management fee expense was $5.2 million, $4.2 million and $4.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The incentive fee has two parts, as follows:

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

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

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date), and equals 20.00% of the Company's 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.

The performance based incentive fee expense was $3.3 million, $2.8 million and $3.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. The incentive fee payable for both December 31, 2013 and 2012 was $0.9 million. The entire incentive fee payable for each of the years ended December 31, 2013 and 2012 represents part one of the incentive fee.

(In thousands, except share data)

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 will reimburse the Advisor for the Company's allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company's allocable portion of the costs of compensation and related expenses of the Company's chief compliance officer and chief financial officer and their respective staffs. For the years ended December 31, 2013, 2012 and 2011, $1.2 million, $1.1 million and $1.2 million were charged to operations under this agreement, respectively.

Note 4. Investments

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

	December 31, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 1,188	$ 1,188	$ 2,560	$ 2,560
Restricted investments in money market funds	$ 5,951	$ 5,951	$ —	$ —
Non-affiliate investments				
Debt	$ 223,054	$ 213,754	$ 228,081	$ 220,297
Warrants	5,745	6,036	5,715	5,468
Other Investments	4,729	400	4,880	2,100
Equity	782	1,094	709	748
Total non-affiliate investments	$ 234,310	$ 221,284	$ 239,385	$ 228,613

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

	December 31, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Life Science				
Biotechnology	$ 17,604	$ 19,631	$ 40,358	$ 39,569
Medical Device	20,079	14,972	24,296	23,733
Technology				
Consumer-Related Technologies	118	435	118	445
Networking	1,025	1,034	46	774
Software	67,510	67,869	55,220	55,237
Data Storage	4,751	419	4,901	2,121
Internet and Media	6,119	6,201	10,056	10,118
Communications	10,019	9,847	571	526
Semiconductors	37,897	37,793	26,128	25,913
Power Management	14,382	13,101	15,875	15,864
Cleantech				
Energy Efficiency	13,743	11,596	18,914	13,138
Waste Recycling	2,294	680	3,744	2,199
Alternative Energy	12,263	11,840	8,680	8,683
Healthcare Information and Services				
Diagnostics	12,752	12,203	21,952	21,921
Other Healthcare Related Services	7,384	7,190	3,067	2,829
Software	6,370	6,473	5,459	5,543
Total non-affiliate investments	$ 234,310	$ 221,284	$ 239,385	$ 228,613

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 that have been 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 without readily available market quotations subject to review by an independent valuation firm.

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 year end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At December 31, 2013 and 2012, the discount rates used ranged from 9% to 25% and 8% 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 measurements.

- 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 were 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 significantly lower (higher) fair value measurement.

- Historical portfolio experience on cancellations and exercises of our 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.

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 with the fair value hierarchy described above. These assets are recorded at fair value on a recurring basis.

(In thousands, except share data)

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. These assets are recorded at fair value on a recurring basis.

The following table provides a summary of quantitative information about the Company's Level 3 fair value measurements of our investments as of December 31, 2013. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our 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 for the year ended December 31, 2013.

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range
Debt investments	$ 199,815	Discounted Expected Future Cash Flows	Hypothetical Market Yield	9% - 25%
	13,939	Multiple Probability Weighted Cash Flow Model	Probability Weighting	10% - 100%
Warrant investments	4,579	Black-Scholes Valuation Model	Price per share	$0.0 – $63.98
			Average Industry Volatility	19%
			Marketability Discount	20%
			Estimated Time to Exit	1 to 10 years
Other investments	400	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%
			Probability Weighting	0 to 100%
Equity investments	529	Most Recent Equity Investment	Price Per Share	$1.09 – $1.50
Total Level 3 investments	$ 219,262			

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 for the year ended December 31, 2012.

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range
Debt investments	$ 215,397	Discounted Expected Future Cash Flows	Hypothetical Market Yield	8% - 25%
	4,900	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%
			Probability Weighting	10% - 60%
Warrant investments	4,914	Black-Scholes Valuation Model	Price per share	$0.0 - 9.56
			Average Industry Volatility	21%
			Marketability Discount	20%
			Estimated Time to Exit	1 to 10 years
Other investments	2,100	Multiple Probability Weighted Cash Flow Model	Discount Rate	25%
			Probability Weighting	10% - 45%
Equity investments	526	Market Comparable Companies	Revenue Multiple	1.5x – 2.0x
Total Level 3 investments	$ 227,837			

Borrowings: The carrying amount of borrowings under the Credit Facilities (as defined in Note 6 below) approximates fair value due to the variable interest rate of the Credit Facilities and are 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 is based on the closing public share price on the date of measurement. At December 31, 2013, the 2019 Notes were trading on the New York Stock Exchange for $25.35 per note, or $33.5 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above. Based on market quotations on or around December 31, 2013, the Asset-Backed Notes were trading at par value, or $90.0 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.

(In thousands, except share data)

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 December 31, 2013 and 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	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

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 2,560	$ —	$ 2,560	$ —
Debt investments	$ 220,297	$ —	$ —	$ 220,297
Warrant investments	$ 5,468	$ —	$ 554	$ 4,914
Other investments	$ 2,100	$ —	$ —	$ 2,100
Equity investments	$ 748	$ 222	$ —	$ 526

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets for the year ended December 31, 2013:

	December 31, 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	88,362	—	—	—	88,362
Warrants and equity received and classified as Level 3	—	704	—	—	704
Principal payments received on investments	(87,434)	—	—	(63)	(87,497)
Sales of investments	—	(200)	—	—	(200)
Net realized loss on investments	(6,825)	(171)	—	—	(6,996)
Unrealized depreciation included in earnings	(1,428)	(552)	(70)	(1,637)	(3,687)
Transfer out of Level 3	—	(116)	—	—	(116)
Transfer from debt to other investments	(73)	—	73	—	—
Other	855	—	—	—	855
Level 3 assets, end of period	$ 213,754	$ 4,579	$ 529	$ 400	$ 219,262

(In thousands, except share data)

The Company's transfers between levels are recognized at the end of the applicable reporting period. During the year ended December 31, 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 value of $0.1 million, that were transferred into Level 2 due to the portfolio company becoming a public company during the year ended December 31, 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 December 31, 2013.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at December 31, 2013 includes $7.9 million unrealized depreciation on loans, $0.4 million unrealized depreciation on warrants, $0.1 million unrealized depreciation on equity and $1.6 million unrealized depreciation on other investments.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets for the year ended December 31, 2012:

	December 31, 2012				
	Debt Investments	Warrant Investments	Equity Investments	Other Investments	Total
Level 3 assets, beginning of period	$ 173,286	$ 4,048	$ 526	$ —	$ 177,860
Purchase of investments	138,907	—	—	—	138,907
Warrants and equity received and classified as Level 3	—	1,816	—	—	1,816
Principal payments received on investments	(81,383)	—	—	—	(81,383)
Sales of investments	—	(306)	—	—	(306)
Net realized gain on investments	—	131	—	—	131
Unrealized (depreciation) appreciation included in earnings	(7,902)	(497)	—	100	(8,299)
Transfer out of Level 3	—	(278)	—	—	(278)
Transfer from debt to other investments	(2,000)	—	—	2,000	—
Other	(611)	—	—	—	(611)
Level 3 assets, end of period	$ 220,297	$ 4,914	$ 526	$ 2,100	$ 227,837

The Company's transfers between levels are recognized at the end of the applicable reporting period. During the year ended December 31, 2012, there were no transfers between Level 1 and Level 2. The transfer out of Level 3 relates to warrants held in two portfolio companies, each with a value of $0.3 million, that were transferred into Level 2 due to the portfolio companies becoming public companies during the year ended December 31, 2012. Because the fair value of warrants held in publicly traded companies are 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 December 31, 2012.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at December 31, 2012 includes $7.9 million unrealized depreciation on loans and $0.5 million unrealized depreciation on warrants.

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

The fair value amounts for 2013 and 2012 have been measured as of the reporting date, and have not been reevaluated or updated for purposes of these financial statements subsequent to that date. As such, the fair values of these financial instruments subsequent to the reporting date may be different than amounts reported at year-end.

(In thousands, except share data)

As of December 31, 2013 and 2012, the recorded book 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.

Note 6. Borrowings

A summary of our borrowings as of December 31, 2013 and 2012 is as follows:

	December 31, 2013		
	Total Commitment	Balance Outstanding	Unused Commitment
Asset-Backed Notes	$ 90,000	$ 79,343	$ —
Fortress Facility	75,000	10,000	65,000
Key Facility	50,000	—	50,000
2019 Notes	33,000	33,000	—
Total	$ 248,000	$ 122,343	$ 115,000

	December 31, 2012		
	Total Commitment	Balance Outstanding	Unused Commitment
Wells Facility	$ 75,000	$ 46,020	$ 28,980
Fortress Facility	75,000	10,000	65,000
2019 Notes	33,000	33,000	—
Total	$ 183,000	$ 89,020	$ 93,980

In accordance with the 1940 Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of December 31, 2013, the asset coverage for borrowed amounts was 211%.

On November 4, 2013, the Company renewed and amended the revolving credit facility ("Wells Facility") previously administered by Wells Fargo Capital Finance LLC ("Wells") and facilitated the assignment of all rights and obligations of Wells under the Wells Facility to Key Equipment Finance ("Key") (here and after referred to as the "Key Facility"). 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, or LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The rate at December 31, 2013 was 4.00%. There were no advances made under the Key Facility for the year ended December 31, 2013.

The Company entered into the Wells Facility with Wells effective July 14, 2011. The Wells Facility had an accordion feature which allowed for an increase in the total loan commitment to $150 million from the $75 million commitment provided by Wells. The Wells Facility was collateralized by all loans and warrants held by Credit II and permitted an advance rate of up to 50% of eligible loans held by Credit II. The Wells Facility contained covenants that, among other things, required the Company to maintain a minimum net worth and restricted the loans securing the Wells Facility to certain criteria for qualified loans and includes portfolio company concentration limits as defined in the related loan agreement. The Wells Facility had a three-year revolving term followed by a three-year amortization period and matured on July 14, 2017. The interest rate was based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. On May 28, 2013, the Company and Wells amended the Wells Facility. As amended, effective May 1, 2013, the stated interest rate was reduced to one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 1.00%. In general, all other terms and conditions of the Wells Facility remain unchanged. The interest rate was based upon the one-month LIBOR plus a spread of 4.00%, with a LIBOR floor of 1.00%. The rate at December 31, 2012 was 5.0%. The average rate for the years ended December 31, 2013 and 2012 was 4.8% and 5.0%, respectively. The average amounts of borrowings were $26.2 million and $15.1 million for the year ended December 31, 2013 and 2012, respectively.

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 rank (i) equally in right of payment with the Company's future senior unsecured indebtedness; (ii) senior in right of payment to any of the Company's future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) effectively subordinated to all of the Company's 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 (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. As of December 31, 2013, 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 a term loan credit facility (the "Fortress Facility" and, together with the Key Facility, the "Credit Facilities") with Fortress Credit Co LLC ("Fortress") effective August 23, 2012. The Fortress Facility is collateralized by all loans and warrants held by Credit III. The Fortress Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict 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, has a three-year term subject to two one-year extensions with a draw period of up to four years. The Fortress Facility requires the payment of an unused line fee in an amount equal to 1.00% of unborrowed amounts available under the facility annually and has an effective advance rate of 66% against eligible loans. The Fortress Facility generally bears interest based upon the one-month LIBOR plus a spread of 6.00%, with a LIBOR floor of 1.00%. The rate for both December 31, 2013 and 2012 was 7.00%, and the average rate for the period within the years ended December 31, 2013 and 2012, in which the loan was outstanding, was 7.00%.

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.

(In thousands, except share data)

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 has agreed to sell or has contributed to 2013-1 LLC certain secured loans made to certain portfolio companies of the Company (the "Loans"). The Company has 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 has 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 agreed to sell or has contributed the Loans to 2013-1 Trust. The Company has made customary representations, warranties and covenants in the Sale and Servicing Agreement. The Company will also 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, 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.

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.

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. There was $6.0 million of restricted investments in money market funds as of December 31, 2013.

Note 7. Federal Income Tax

The Company elected to be treated as a RIC under Subchapter M of the Code and to distribute substantially all of its respective net taxable income. Accordingly, no provision for federal income tax has been recorded in the financial statements. Taxable income differs from net increase in net assets resulting from operations primarily due to unrealized appreciation on investments as investment gains and losses are not included in taxable income until they are realized.

The following reconciles net increase in net assets resulting from operations to taxable income:

	Year Ended December 31,		
	2013	2012	2011
Net increase in net assets resulting from operations	$ 3,508	$ 3,991	$ 10,996
Net unrealized depreciation on investments	2,254	8,113	5,702
Other book-tax differences	113	869	526
Capital Loss carry forward	7,509	—	—
Taxable income before deductions for distributions	$ 13,384	$ 12,973	$ 17,224

(In thousands, except share data)

The tax characters of distributions paid are as follows:

	Year Ended December 31,		
	2013	2012	2011
Ordinary income	$ 13,171	$ 12,232	$ 5,403
Long-term capital gains	52	3,244	3,580
Total	$ 13,223	$ 15,476	$ 8,983

The components of undistributed ordinary income earnings (accumulated losses) on a tax basis were as follows:

	As of December 31,		
	2013	2012	2011
Undistributed ordinary income	$ 6, 338	$ 6,139	$ 5,505
Undistributed long-term gain	—	52	3,187
Capital Loss carry forward	(7,509)	—	—
Unrealized depreciation	(13,026)	(10,772)	(2,659)
Total	$ (14,197)	$ (4,581)	$ 6,033

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. In 2013 and 2012 the Company elected to carry forward taxable income in excess of current year dividend distributions and recorded an excise tax payable of $0.2 million and $0.2 million on $6.1 million and $5.9 million of undistributed earnings from operations and capital gains.

Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 $9.0 million and $24.6 million as of December 31, 2013 and 2012, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. Commitments may also include a financial or non-financial milestone that has to be achieved before the commitment can be drawn. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Note 9. Concentrations of Credit Risk

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

The largest loans may vary from year to year as new loans are recorded and repaid. The Company's five largest loans represented 22% and 23% of total loans outstanding as of December 31, 2013 and 2012, respectively. No single loan represented more than 10% of the total loans as of December 31, 2013 or 2012. Loan income, consisting of interest and fees, can fluctuate significantly upon repayment of large loans. Interest income from the five largest loans accounted for 23%, 22% and 21% of total loan interest and fee income for the years ended December 31, 2013, 2012 and 2011, respectively.

(In thousands, except share data)

Note 10. Dividends and Distributions

The Company's dividends and distributions are recorded on the record date. The following table summarizes the Company's dividend declaration and distribution activity during the years end December 31, 2013 and 2012:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
Year Ended December 31, 2013						
11/1/13	2/17/14	3/17/14	$ 0.115	$ —	—	$ —
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	$ 11,558	40,803	$ 573
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 March 6, 2014, the Board declared a monthly dividend of $0.115 per share payable as set forth in the table below.

Record Dates	Payment Date	Dividends Declared
May 20, 2014	June 16, 2014	$ 0.115
April 17, 2014	May 15, 2014	$ 0.115
March 19, 2014	April 15, 2014	$ 0.115

(In thousands, except share data)

Note 11. Financial Highlights

The financial highlights for the Company are as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Per share data:			
Net asset value at beginning of period	$ 15.15	$ 17.01	$ 16.75
Net investment income	1.38	1.41	1.38
Realized (loss) gain on investments	(0.78)	0.01	0.81
Unrealized depreciation on investments	(0.23)	(0.95)	(0.75)
Net increase in net assets resulting from operations	0.37	0.47	1.44
Net dilution from issuance of common stock	—	(0.28)	—
Issuance of common stock and capital contributions	—	—	—
Offering costs	—	—	—
Dividends declared	(1.38)	(2.15)	(1.18)
Other [1]	—	0.10	—
Net asset value at end of period	$ 14.14	$ 15.15	$ 17.01
Per share market value, end of period	$ 14.21	$ 14.92	$ 16.32
Total return based on a market value [2]	4.5%	2.5%	21.2%
Shares outstanding at end of period	9,608,949	9,567,225	7,636,532
Ratios to average net assets:			
Expenses without incentive fees[3]	11.8%	8.4%	7.9%
Incentive fees	2.3%	2.1%	2.3%
Total expenses[3]	14.1%	10.5%	10.2%
Net investment income with incentive fees[3]	9.2%	8.7%	8.1%
Average net asset value	$ 142,327	$ 137,741	$ 130,385
Average debt per share	12.06	7.42	10.26
Portfolio turnover ratio	37.9%	74.0%	59.4%

(1) Includes the impact of the different share amounts as a result of calculating per share data based on the weighted average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.

(2) The total return equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

(3) During the year ended December 31, 2013, the Advisor waived $0.1 million of management fees. Had this expense not been waived, the ratio of expenses without incentive fees to average net assets, the ratio of total expenses to average net assets and the ratio of net investment income with incentive fees to average net assets would have been 11.9%, 14.3% and 9.1% respectively.

(In thousands, except share data)

Note 12. Selected Quarterly Financial Data (Unaudited)

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total investment income	$ 8,776	$ 8,712	$ 8,787	$ 7,368
Net investment income	3,410	3,487	3,601	2,773
Net realized and unrealized (loss) gain	(7,921)	401	(2,453)	210
Net (decrease) increase in net asset resulting from operations	(4,511)	3,888	1,148	2,983
Net (loss) earnings per share [1]	(0.47)	0.41	0.12	0.31
Net asset value per share at period end [2]	$ 14.14	$ 14.95	$ 14.89	$ 15.12

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Total investment income	$ 7,938	$ 6,619	$ 5,482	$ 6,625
Net investment income	3,417	2,969	2,258	3,352
Net realized and unrealized (loss) gain	(7,827)	677	(42)	(813)
Net (decrease) increase in net asset resulting from operations	(4,410)	3,646	2,216	2,539
Earnings per share [1]	(0.46)	0.40	0.29	0.33
Net asset value per share at period end [2]	$ 15.15	$ 16.41	$ 16.73	$ 16.89

(1) Based on weighted average shares outstanding for the respective period.
(2) Based on shares outstanding at the end of the respective period.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None

Item 9A. ***Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2013, 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 Exchange Act). Based on that evaluation, our management, including our 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) Management's Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting and McGladrey LLP's Report of Independent Registered Public Accounting Firm are included in "Item 8. Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(c) 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.

Item 9B. ***Other Information***

None

PART III

We will file a definitive Proxy Statement for our 2014 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 11. ***Executive Compensation***

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

Item 14. ***Principal Accountant Fees and Services***

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days following the end of our fiscal year.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) **Financial Statements**

(1) Financial Statements — Refer to Item 8 starting on page 69.

(2) Financial Statement Schedules — None

(3) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to exhibit (a) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
3.2	Amended and Restated Bylaws (Incorporated by reference to exhibit (b) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
4.1	Form of Specimen Certificate (Incorporated by reference to exhibit (d) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)
4.2	Form of Registration Rights Agreement among Compass Horizon Partners, LP, HTF-CHF Holdings LLC and the Company (Incorporated by reference to exhibit (k)(3) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
4.3	Form of Indenture (Incorporated by reference to Exhibit (d)(4) of the Company's Registration Statement on Form N-2, File No. 333-178516, filed on December 15, 2011)
4.4	Indenture, dated as of March 23, 2012, between the Company and U.S. Bank National Association. (Incorporated by reference to Exhibit (d)(7) of the Company's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-178516, filed on March 23, 2012)
4.5	First Supplemental Indenture, dated as of March 23, 2012, between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit (d)(8) of the Company's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-178516, filed on March 23, 2012)
4.6	Form of 7.375% 2019 Notes due 2019 (included as part of Exhibit 4.5)
4.7	Indenture, dated as of June 28, 2013, between Horizon Technology Funding Trust 2013-1 and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q, filed on August 6, 2013)
10.1	Form of Investment Management Agreement (Incorporated by reference to exhibit (g) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
10.2	Form of Custody Agreement (Incorporated by reference to exhibit (j) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)
10.3	Form of Administration Agreement (Incorporated by reference to exhibit (k)(1) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)

10.4	Form of License Agreement by and between the Company and Horizon Technology Finance, LLC (Incorporated by reference to exhibit (k)(2) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
10.5	Sale and Contribution Agreement by and between Compass Horizon Funding Company LLC and Horizon Credit I LLC, dated as of March 4, 2008 (Incorporated by reference to exhibit (f)(5) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
10.6	Form of Dividend Reinvestment Plan (Incorporated by reference to exhibit (e) of the Company's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 2, 2010)
10.7	Loan and Security Agreement, dated as of August 23, 2012, by and among Horizon Credit III LLC, as the borrower, the Lenders that are signatories thereto, as the lenders, and Fortress Credit Co LLC, as the administrative agent. (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed on August 23, 2012)
10.8	Sale and Servicing Agreement, dated August 23, 2012, by and among Horizon Credit III LLC, as the buyer, Horizon Technology Finance Corporation, as the originator, Horizon Technology Finance Management LLC, as the servicer, U.S. Bank National Association, as the collateral custodian and back-up servicer, and Fortress Credit Co LLC, as the agent. (Incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed on August 23, 2012)
10.9	Promissory Note, dated as of June 3, 2013, by and between Horizon Technology Finance Corporation, as the borrower, and Guggenheim Securities, LLC, as the lender (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on June 3, 2013)
10.10	Amended and Restated Trust Agreement, dated as of June 28, 2013, by and between Horizon Funding 2013-1 LLC and Wilmington Trust, National Association (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on August 6, 2013)
10.11	Sale and Servicing Agreement, dated as of June 28, 2013, by and among the Company, Horizon Funding Trust 2013-1, Horizon Funding 2013-1 LLC and U.S. Bank National Association (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q, filed on August 6, 2013)
10.12	Sale and Contribution Agreement, dated as of June 28, 2013, between the Company and Horizon Funding 2013-1 LLC (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q, filed on August 6, 2013)
10.13	Note Purchase Agreement, dated as of June 28, 2013, by and among the Company, Horizon Funding 2013-1 LLC, Horizon Funding Trust 2013-1 and Guggenheim Securities, LLC (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q, filed on August 6, 2013)
10.14*	Amended and Restated Loan and Security Agreement, dated as of November 4, 2013, by and among Horizon Credit II LLC, as the borrower, the Lenders that are signatories thereto, as the lenders, and Key Equipment Finance Inc,. as the arranger and the agent
10.15*	Amended and Restated Sale and Servicing Agreement, dated as of November 4, 2013, by and among Horizon Credit II LLC, as the buyer, Horizon Technology Finance Corporation, as the originator and the servicer, Horizon Technology Finance Management LLC, as the sub-servicer, U.S. Bank National Association, as the collateral custodian and backup servicer, and Key Equipment Finance Inc., as the agent
10.16*	Agreement Regarding Loan Assignment and Related Matters, dated as of November 4, 2013, by and among Horizon Credit II LLC, Wells Fargo Capital Finance, LLC and Key Equipment Finance Inc.
11.1*	Computation of per share earnings (included in the notes to the audited financial statements included in this report)
14.1	Code of Ethics of the Company (Incorporated by reference to exhibit (r)(1) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)
14.2	Code of Ethics of the Advisor (Incorporated by reference to exhibit (r)(2) of the Company's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 19, 2010)
21*	List of Subsidiaries
24*	Power of Attorney (included on signature page hereto)

31.1*	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
31.2*	Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
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
99.1	Privacy Policy of the Company (Incorporated by reference to Exhibit 99.1 of the Company's Annual Report on Form 10-K, filed on March 16, 2011)

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Horizon Technology Finance Corporation

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

Date: March 11, 2014

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert D. Pomeroy, Jr., Christopher M. Mathieu and Gerald A. Michaud as his true and lawful attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert D. Pomeroy, Jr. **Robert D. Pomeroy, Jr.**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 11, 2014
/s/ Christopher M. Mathieu **Christopher M. Mathieu**	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 11, 2014
/s/ Gerald A. Michaud **Gerald A. Michaud**	President and Director	March 11, 2014
/s/ James J. Bottiglieri **James J. Bottiglieri**	Director	March 11, 2014
/s/ Edmund V. Mahoney **Edmund V. Mahoney**	Director	March 11, 2014
/s/ Elaine A. Sarsynski **Elaine A. Sarsynski**	Director	March 11, 2014
/s/ Christopher B. Woodward **Christopher B. Woodward**	Director	March 11, 2014

EXHIBIT 10.14

Execution Version

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

by and among

HORIZON CREDIT II LLC

as Borrower,

THE LENDERS THAT ARE SIGNATORIES HERETO

as the Lenders,

and

KEY EQUIPMENT FINANCE INC.

as the Arranger and Agent,

Dated as of November 4, 2013

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

EXHIBITS AND SCHEDULES

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Agreement"), is entered into as of November 4, 2013, between and among, on the one hand, the lenders identified on the signature pages hereof (such lenders, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), **KEY EQUIPMENT FINANCE INC.**, a Michigan corporation, as the arranger and administrative agent for the Lenders ("Agent"), and, on the other hand, **HORIZON CREDIT II LLC**, a Delaware limited liability company ("Borrower").

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account" means an account (as that term is defined in the Code).

"Account Debtor" means any Person who is obligated under, with respect to, or on account of, an Account, chattel paper or a General Intangible, or is a debtor under, or a maker of, a Note Receivable, including any guarantor thereof.

"Accounting Changes" means changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants (or successor thereto or any agency with similar functions).

"Additional Documents" has the meaning set forth in Section 4.4(c).

"Advance" means a revolving loan advance made by a Lender to the Borrower under and in accordance with the terms hereof, including, without limitation, a Post-Termination Revolving Note Receivable Funding.

"Advance Rate" means 50%; provided, that, following the occurrence of the Termination Date, the Advance Rate with respect to Revolving Note Receivables shall be reduced by 5% as of the first day of each calendar month commencing thereafter until reduced to 0% (e.g., if the Termination Date occurs on June 15, 2014, the Advance Rate with respect to a Revolving Note Receivable, shall be 50% from and including June 15, 2014 until June 30, 2014, 45% from and including July 1, 2014 until July 31, 2014, 40% from and including August 1, 2014 until August 31, 2014, etc.).

"Affected Lender" has the meaning set forth in Section 2.11(b).

"Affiliate" means, as applied to any Person, any other Person who, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct the management and policies of a Person, whether through the ownership of Stock, by contract, or otherwise; provided, however, that, in any event: (a) any Person which owns directly or indirectly 20% or more of the Stock having ordinary voting power for the election of directors or other members of the governing body of a Person or 20% or more of the partnership, membership or other ownership interests of a Person (other than as a limited partner of such Person) shall be deemed to control such Person, (b) each director (or comparable manager) of a Person shall be deemed to be an Affiliate of such Person, and (c) each partnership or joint venture in which a Person is a partner or joint venturer shall be deemed to be an Affiliate of such Person.

"Agent" means KEF, solely in its capacity as agent for the Lenders hereunder, and any successor thereto.

"Agent Fee Letter" means that certain Agent Fee Letter dated as of the Restatement Effective Date between the Borrower and the Agent.

"Agent-Related Persons" means Agent together with its Affiliates, officers, directors, employees, and agents.

"Agent's Account" means an account at a bank designated by Agent from time to time as the account into which Borrower shall make all payments to Agent for the benefit of the Lender Group and into which the Lender Group shall make all payments to Agent under this Agreement and the other Loan Documents; unless and until Agent notifies Borrower and the Lender Group to the contrary, Agent's Account shall be that certain deposit account bearing account number XXXXXXXXXXXX at KeyBank, ABA number XXXXXXXXX, account name Key Equipment Finance, REF: Las Operations, and all payments by Borrower or any member of the Lender Group to such deposit account shall be designated: "Credit to: Key Equipment Finance, Re: Horizon Credit."

"Agent's Fees" means the fees payable to the Agent pursuant to the Agent Fee Letter.

"Agent's Liens" means the Liens granted by Borrower to Agent for the benefit of the Lender Group under this Agreement or the other Loan Documents.

"Agreement" has the meaning set forth in the preamble hereto.

"Aggregate Outstanding Note Receivable Balance" means on any day, the sum of the outstanding note receivable balances of all Eligible Note Receivables.

"Amortization Commencement Date" means the day immediately following the end of the Revolving Credit Availability Period.

"Amortization Period" means the period commencing on the Amortization Commencement Date and ending on the earlier of (a) payment in full of the Obligations, or (b) the second anniversary of the Amortization Commencement Date, unless otherwise extended.

"Applicable Margin" means, with respect to any Advances outstanding, a rate per annum equal to (x) 3.25% during the Revolving Credit Availability Period, (y) 3.75% during the first 12 months of the Amortization Period and (z) 4.25% thereafter; provided, that if the Interest Rate for the Advances is calculated by reference to the Base Rate for more than ten (10) consecutive calendar days and the Base Rate is more than the Lenders' actual cost of funds, the Agent shall reset the Applicable Margin to an amount which, after giving effect to such reset, will cause the interest rate (inclusive of both base interest and applicable margin), to reflect Lenders' actual cost of funds.

"Approved Forms" means the standard forms of Note Receivable Documents, including any loan application, promissory note, loan agreement, lien instrument, security agreement, guaranty, and related documents used by Horizon in the conduct of its business with its borrowers, and substantially similar in scope and content as the forms attached as an exhibit to the Closing Certificate, which forms shall be in form and substance satisfactory to Agent, together with such changes and modifications or additions thereto from time to time as Horizon may approve from time to time in accordance with the Required Procedures.

"Approved Senior Revolving Lender" means a Person listed on Schedule A-3, any bank, commercial finance company or other institutional lender that is a Subsidiary of, or a fund controlled by, a Person listed on Schedule A-3 and that targets the same market segment of the lending business as Borrower (i.e. in one of the Target Industries), or any other bank, commercial finance company or other institutional lender approved by Agent from time to time in its Permitted Discretion.

"Approved Third-Party Lender" means a bank, commercial finance company or other institutional lender listed on Schedule A-1, any bank, commercial finance company or other institutional lender that is a Subsidiary of, or a fund controlled by, a Person listed on Schedule A-1 and that targets the same market segment of the lending business as Borrower (i.e. in one of the Target Industries), or any other bank, commercial finance company or other institutional lender approved by Agent from time to time in its Permitted Discretion.

"Approved Third-Party Originator" means a bank, commercial finance company or other institutional lender listed on Schedule A-2, any bank, commercial finance company or other institutional lender that is a Subsidiary of, or a fund controlled by, a Person listed on Schedule A-2 and that targets the same market segment of the lending business as such Borrower (i.e. in one of the Target Industries), or any other bank, commercial finance company or other institutional lender approved by Agent from time to time in its Permitted Discretion.

"Asset Quality Test" means as of any date from and after the end of the Ramp-Up Period, a test which is satisfied so long as each of the following are true with respect to the Eligible Note Receivables: (i) the Weighted Average Remaining Maturity of the Eligible Note Receivables is less than or equal to 48 months as of such date, (ii) the Weighted Average Spread on the Eligible Note Receivables is equal to or greater than 6.00% as of such date, (iii) the weighted average internal credit rating assigned to the Eligible Note Receivables is equal to or better than 2.7 under the Servicer's Required Procedures, and (iv) the weighted average LTV of the Eligible Note Receivables shall not exceed 25.0%.

"Assignee" has the meaning set forth in Section 14.1(a).

"Assignment and Acceptance" means an Assignment and Acceptance substantially in the form of Exhibit A-1.

"Authorized Person" means (a) with respect to Borrower, any of Robert D. Pomeroy, Jr., Chief Executive Officer, Gerald A. Michaud, President, or Christopher M. Mathieu, Chief Financial Officer, or any other individual then serving as the Chief Executive Officer, President, or Chief Financial Officer of Borrower**,** (b) with respect to Horizon, any of Robert D. Pomeroy, Jr., Chief Executive Officer, Gerald A. Michaud, President, or Christopher M. Mathieu, Chief Financial Officer, or any other individual then serving as the Chief Executive Officer, President, or Chief Financial Officer of Horizon, and (c) with respect to Servicer, any of Robert D. Pomeroy, Jr., Chief Executive Officer, Gerald A. Michaud, President, or Christopher M. Mathieu, Chief Financial Officer, or any other individual then serving as the Chief Executive Officer, President, or Chief Financial Officer of Servicer; provided, that for purposes of this Agreement, no individual who is an Authorized Person shall cease to be an Authorized Person, and no individual who is not then an Authorized Person shall become an Authorized Person, unless and until Agent has received written notice of such change from Borrower, Horizon or Servicer, as applicable, and in the case of an individual becoming an Authorized Person such individual has qualifications and experience substantially similar to the Authorized Person being replaced and Agent has completed a background check on such proposed new Authorized Person with the results of such background check being acceptable to Agent in its Permitted Discretion.

"Available Amount" means the amount equal to the lesser of (a) (i) the Maximum Availability minus (ii) the aggregate Advances outstanding on such day, and (b) the Borrowing Base on such day minus the aggregate Advances outstanding on such day minus the amount by which the Borrowing Base plus the Revolving Note Receivable Unfunded Available Amount exceeds the Maximum Availability; provided, however, that following the Termination Date, the Available Amount shall be zero.

"Available Collections" has the meaning given to such term in Section 2.4.

"Average Daily Balance" means (a) the sum of the Daily Balances for each day during a measurement period divided by (b) the number of days in the measurement period.

"Backup Servicer" means U.S. Bank National Association, solely its capacity as the Person appointed as the backup servicer of the Note Receivables pursuant to the Sale and Servicing Agreement, or any replacement for such Person acceptable to both Borrower and Agent or otherwise appointed pursuant to the terms of the Sale and Servicing Agreement.

"Backup Servicer Engagement Letter" has the meaning set forth in the Sale and Servicing Agreement, as amended from time to time with the consent of the Agent, not to be unreasonably withheld.

"Backup Servicer Fees" means any fees payable to the Backup Servicer in accordance with the Sale and Servicing Agreement and the Backup Servicer Engagement Letter.

"Bank Product" means any one or more of the following financial products or accommodations extended to Borrower by a Bank Product Provider: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) stored value cards, (e) purchase cards (including so-called "procurement cards" or "P-cards"), (f) Cash Management Services, or (g) transactions under Hedge Agreements.

"Bank Product Agreements" means those agreements entered into from time to time by Borrower with a Bank Product Provider in connection with the obtaining of any of the Bank Products.

"Bank Product Collateralization" means providing cash collateral (pursuant to documentation reasonably satisfactory to Agent) to be held by Agent for the benefit of the Bank Product Providers (other than the Hedge Providers) in an amount determined by Agent as sufficient to satisfy the reasonably estimated credit exposure with respect to the then existing Bank Product Obligations (other than Hedge Obligations).

"Bank Product Obligations" means (a) all obligations, liabilities, reimbursement obligations, fees, or expenses owing by Borrower to any Bank Product Provider pursuant to or evidenced by a Bank Product Agreement and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, (b) all Hedge Obligations, and (c) all amounts that Agent or any Lender is obligated to pay to a Bank Product Provider as a result of Agent or such Lender purchasing participations from, or executing guarantees or indemnities or reimbursement obligations to, a Bank Product Provider with respect to the Bank Products provided by such Bank Product Provider to Borrower.

"Bank Product Provider" means any Lender or any of its Affiliates; provided, however, that no such Person (other than KeyBank or its Affiliates) shall constitute a Bank Product Provider with respect to a Bank Product unless and until Agent shall have received a Bank Product Provider Letter Agreement from such Person and with respect to the applicable Bank Product within 10 days after the provision of such Bank Product to Borrower; provided further, however, that if, at any time, a Lender ceases to be a Lender under the Agreement, then, from and after the date on which it ceases to be a Lender thereunder, neither it nor any of its Affiliates shall constitute Bank Product Providers and the obligations with respect to Bank Products provided by such former Lender or any of its Affiliates shall no longer constitute Bank Product Obligations.

"Bank Product Provider Letter Agreement" means a letter agreement in substantially the form attached hereto as Exhibit B-2, in form and substance satisfactory to Agent, duly executed by the applicable Bank Product Provider, Borrower, and Agent.

"Bank Product Reserve Amount" means, as of any date of determination, the Dollar amount of reserves that Agent has determined it is necessary or appropriate to establish (based upon the Bank Product Providers' reasonable determination of their credit exposure to Borrower in respect of Bank Product Obligations) in respect of Bank Products then provided or outstanding; provided, however, that such amount shall at no time exceed the lesser of (a) ten percent (10%) of the Maximum Revolver Amount at such time, or (b) $5,000,000.

"Bankruptcy Code" means title 11 of the United States Code, as in effect from time to time.

"Base Rate" means the greater of (a) the Federal Funds Rate plus one-half percent (0.50%), and (b) the rate of interest announced, from time to time, within KeyBank at its principal office in Ohio as its "prime rate", with the understanding that the "prime rate" is one of KeyBank's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publications as KeyBank may designate.

"Base Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the Base Rate.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which Borrower or any Subsidiary or ERISA Affiliate of Borrower has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Board of Directors" means the board of directors (or comparable managers or managing members) of a Person or any committee thereof duly authorized to act on behalf of the board of directors (or comparable managers or managing members).

"Books" means all of Borrower's and its Subsidiaries' now owned or hereafter acquired books and records (including all of their Records indicating, summarizing, or evidencing their assets (including the Collateral) or liabilities, all of Borrower's and its Subsidiaries' Records relating to their business operations or financial condition, and all of their goods or General Intangibles related to such information).

"Borrower" has the meaning set forth in the preamble to this Agreement.

"Borrower Collateral" means all of Borrower's now owned or hereafter acquired right, title, and interest in and to all property, including, without limitation, each of the following:

(a) all of its Accounts,

(b) all of its Books,

(c) all of its commercial tort claims,

(d) all of its Deposit Accounts,

(e) all of its Equipment,

(f) all of its General Intangibles,

(g) all of its Inventory,

(h) all of its Investment Property (including all of its securities and Securities Accounts),

(i) all of its Negotiable Collateral, including all of its Notes Receivable,

(j) all of its Hedge Collateral,

(k) all of its Supporting Obligations,

(l) all of its Supplemental Interests,

(m) money or other assets of Borrower that now or hereafter come into the possession, custody, or control of Agent or any Lender, and

(n) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all Accounts, Books, Deposit Accounts, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, Real Property, Supporting Obligations, money, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Borrowing Base" means on any date of determination, the sum of (i) (x) the difference of (a) the Aggregate Outstanding Note Receivable Balance as of such date less (b) the Excess Concentration Amount as of such date times (y) the Advance Rate as of such date, plus (ii) the amount of cash and cash equivalents constituting Principal Collections held in the Collection Account.

"Borrowing Base Certificate" means a certificate in the form of Exhibit B-1.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks are authorized or required to close in the State of New York, the State of Connecticut, or the State of Ohio, except that if a determination of a Business Day shall relate to a LIBOR Rate Loan, the term "Business Day" also shall exclude any day on which banks are closed for dealings in Dollar deposits in the London interbank market.

"Capital Lease" means a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Capitalized Lease Obligation" means that portion of the obligations under a Capital Lease that is required to be capitalized in accordance with GAAP.

"Carrying Costs" means, for any Collection Period, the sum of (i) the aggregate amount of interest accrued during such Collection Period with respect to all outstanding Advances during such Collection Period; plus (ii) all amounts due and payable to any Hedge Provider with respect to such Collection Period; plus (iii) an amount equal to the product of (x) 0.10% times (y) the Average Daily Balance during such Collection Period.

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within 1 year from the date of acquisition thereof, (b) marketable direct obligations issued or fully guaranteed by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within 1 year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Rating Group ("S&P") or Moody's Investors Service, Inc. ("Moody's"), (c) commercial paper maturing no more than 270 days from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's, (d) certificates of deposit, time deposits, overnight bank deposits or bankers' acceptances maturing within 1 year from the date of acquisition thereof issued by any bank organized under the laws of the United States or any state thereof or the District of Columbia or any United States branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than $1,000,000,000, (e) Deposit Accounts maintained with (i) any bank that satisfies the criteria described in clause (d) above, or (ii) any other bank organized under the laws of the United States or any state thereof so long as the full amount maintained with any such other bank is insured by the Federal Deposit Insurance Corporation, (f) repurchase obligations of any commercial bank satisfying the requirements of clause (d) of this definition or recognized securities dealer having combined capital and surplus of not less than $1,000,000,000, having a term of not more than seven days, with respect to securities satisfying the criteria in clauses (a) or (d) above, (g) debt securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the criteria described in clause (d) above, and (h) Investments in money market funds substantially all of whose assets are invested in the types of assets described in clauses (a) through (g) above.

"Cash Management Account" has the meaning set forth in Section 2.6(a).

"Cash Management Agreements" means those certain cash management service agreements, in form and substance satisfactory to Agent, each of which is among Borrower or one of its Subsidiaries, Agent, and one of the Cash Management Banks.

"Cash Management Bank" has the meaning set forth in Section 2.6(a).

"Cash Management Services" means any cash management or related services including treasury, depository, return items, overdraft, controlled disbursement, merchant store value cards, e-payables services, electronic funds transfer, interstate depository network, automatic clearing house transfer (including the Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) and other cash management arrangements.

"Cash Runway Analysis" means such analytical spreadsheet prepared by the Chief Credit Officer of Horizon or Horizon Management, reflecting the most recent qualitative and quantitative analysis of each Account Debtor's remaining cash runway, loan to value and compliance with the terms of its loan agreement with the Borrower.

"Change of Control" means any of the following: (a) Horizon ceases to directly own and control 100% of the outstanding capital Stock of Borrower; (b) Borrower ceases to directly own and control 100% of the outstanding capital Stock of each of its Subsidiaries; (c) Horizon or parties designated or appointed by Horizon cease to be the only Manager(s) of Borrower; (d) any person or group of persons (within the meaning of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934) of twenty percent (20%) or more of the issued and outstanding shares of capital Stock of Horizon having the right to vote for the election of directors of Horizon under ordinary circumstances; or (e) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the board of directors of Horizon (together with any new directors whose election by the board of directors of Horizon or whose nomination for election by the Stockholders of Horizon was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

"Charged-Off Note Receivable" means any Note Receivable (a) with respect to which any payment thereunder remains outstanding and unpaid, in whole or in part, for more than ninety (90**)** days past the date it became due and payable according to the original face and tenor of such Note Receivable or as extended in accordance with the Required Procedures, (b) with respect to which the Account Debtor is subject to an Insolvency Proceeding or is generally unable to meet its financial obligations, (c) that has been charged-off or deemed non-collectible by the Borrower or the Servicer, in accordance with the Credit Policy or (d) such Note Receivable is an Eligible Second Lien Note Receivable where the senior lien lender has reduced or delayed any interest or principal payments due Borrower.

"Charged-Off Ratio" means, with respect to any Collection Period, the percentage equivalent of a fraction, calculated as of the end of such Collection Period on the Determination Date occurring in the second calendar month following the end of such Collection Period, (i) the numerator of which is equal to the aggregate outstanding principal amount of all Note Receivables that were or became Charged-Off Note Receivables during such Collection Period and (ii) the denominator of which is equal to the sum of (A) the aggregate outstanding principal amount of all Note Receivables as of the first day of such Collection Period and (B) the aggregate outstanding principal balance of all Note Receivables as of the last day of such Collection Period divided by 2.

"Closing Certificates" means certificates from

(a) an Authorized Person of Borrower, dated as of the Restatement Effective Date, in form and substance satisfactory to Agent, certifying the following: (i) each of the representations and warranties of Borrower contained in Section 5 of this Agreement is true and correct in all respects (in the case of any representation or warranty qualified by materiality or Material Adverse Change) or in all material respects (in the case of any representation or warranty not qualified by materiality or a Material Adverse Change) on and as of the Restatement Effective Date (except to the extent any such representation or warranty was expressly made only as of a specified date, in which case such representation or warranty was true and correct as of such date); (ii) no event has occurred and is continuing as of the Restatement Effective Date that constitutes a Default or an Event of Default; (iii) after giving effect to the incurrence of Indebtedness under this Agreement and the other transactions contemplated by this Agreement, Borrower will be Solvent, (iv) all tax returns required to be filed by Borrower have been timely filed and all taxes upon Borrower or its properties, assets, income, and franchises (including Real Property taxes, sales taxes, and payroll taxes) have been paid prior to delinquency, except such taxes that are the subject of a Permitted Protest, or the nonpayment of which could not reasonably be expected to result in a Material Adverse Change, and (v) attached thereto are true, correct and complete copies of the Required Procedures and the Approved Forms;

(b) an Authorized Person of Horizon, dated as of the Restatement Effective Date, in form and substance satisfactory to Agent, certifying the following: (i) all tax returns required to be filed by Horizon have been timely filed and all taxes upon Horizon or its properties, assets, income, and franchises (including Real Property taxes, sales taxes, and payroll taxes) have been paid prior to delinquency, except such taxes that are the subject of a Permitted Protest or the nonpayment of which could not reasonably be expected to result in a Material Adverse Change, (ii) as of the Restatement Effective Date, Horizon has a Tangible Net Worth of not less than $100,000,000; and (iii) attached thereto is true, correct and complete copies of Horizon's unaudited consolidated balance sheet, income statement and statement of cash flows covering Horizon's and its Subsidiaries' operations for its fiscal quarter ended September 30, 2013 and the fiscal year-to date period ending thereon; and

(c) an Authorized Person of Horizon Management, dated as of the Restatement Effective Date, in form and substance satisfactory to Agent, certifying the following: (i) as of the Restatement Effective Date, Horizon Management has a Tangible Net Worth of not less than $500,000, and (ii) attached thereto is true, correct and complete copies of Horizon Management's unaudited consolidated balance sheet, income statement and statement of cash flows covering Horizon Management's operations for its fiscal quarter ended September 30, 2013 and the fiscal year-to date period ending thereon.

"Closing Date" means July 14, 2011.

"Code" means the New York Uniform Commercial Code, as in effect from time to time; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, priority, or remedies with respect to Agent's Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies.

"Collateral" means the Borrower Collateral and all other assets and interests in assets and proceeds thereof now owned or hereafter acquired by Borrower in or upon which a Lien is granted or purported to be granted under any of the Loan Documents.

"Collateral Access Agreement" means a landlord waiver, bailee letter, or acknowledgement agreement of any lessor, warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in any Collateral, in each case, in form and substance satisfactory to Agent.

"Collateral Custodian" means U.S. Bank National Association, solely its capacity as the Person appointed as the collateral custodian for Agent pursuant to the Sale and Servicing Agreement to hold the original Notes Receivable and certain other documents to be delivered under this Agreement or the Sale and Servicing Agreement for Agent's benefit, or any replacement for such Person acceptable to both Borrower and Agent or otherwise appointed pursuant to the terms of the Sale and Servicing Agreement.

"Collateral Custodian Fee Letter" has the meaning set forth in the Sale and Servicing Agreement, as amended from time to time with the consent of the Agent, not to be unreasonably withheld.

"Collateral Custodian Fees" means any fees payable to the Collateral Custodian in accordance with the Sale and Servicing Agreement and the Collateral Custodian Fee Letter.

"Collection Account" means an account in the name of Borrower, established at a Collection Account Bank, pledged to, and subject to a Control Agreement in favor of Agent, to which all Collections payable to Borrower in connection with Notes Receivable owed by an Account Debtor shall be deposited.

"Collection Account Agreement" means the Control Agreement by and among Borrower, Agent and the Collection Account Bank with respect to the Collection Account, in form and substance reasonably satisfactory to Agent, as modified, amended supplemented or restated, from time to time.

"Collection Account Bank" means KeyBank, or such other commercial bank acceptable to Agent in its Permitted Discretion.

"Collection Period" means a period commencing on the first day of a calendar month and ending on the last day of such calendar month; provided, however, that the initial Collection Period shall be the period commencing on the Restatement Effective Date and ending on the last day of the calendar month in which the Restatement Effective Date occurs.

"Collections" means all cash, checks, notes, instruments, and other items of payment (including proceeds of cash sales, rental proceeds, warrant proceeds, and tax refund payments) and repayments and prepayments of principal, interest, fees, penalties, payments under policies of title, hazard or other insurance, payments under supporting obligations and other payments paid with respect to or in connection with Notes Receivable or Note Receivable Documents.

"Commercial Tort Claim Assignment" has the meaning set forth in Section 4.4(b).

"Commitment" means, with respect to each Lender, the aggregate commitment of such Lender to make Advances and, with respect to all Lenders, the aggregate commitments of all Lenders to make Advances, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 or in the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder, as such amounts may be reduced or increased from time to time pursuant to assignments made in accordance with the provisions of Section 14.1.

"Commitment Termination Date" means the third anniversary of the Restatement Effective Date, as such date may be extended pursuant to Section 2.2(b).

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 executed and delivered to Agent by an Authorized Person of Borrower or an Authorized Person of Horizon, as applicable.

"Concentration Test Balance" means on any date (i) during the Ramp-Up Period, $75,000,000 and (ii) at any day thereafter, the Aggregate Outstanding Note Receivable Balance on such date.

"Confidential Information" has the meaning set forth in Section 17.9(a).

"Control Agreement" means a control agreement, in form and substance satisfactory to Agent, executed and delivered by Borrower or one of its Subsidiaries, Agent, and the applicable securities intermediary (with respect to a Securities Account) or bank (with respect to a Deposit Account).

"Control Position Note Receivable" means any Note Receivable with respect to which Horizon or one or more of its Affiliates either (i) individually or collectively hold greater than 50% of the voting interests with regard to such Note Receivable and the related loan documents, (ii) hold a minority blocking interest such that decisions with regard to such Note Receivable under the related loan documents regarding material consents, amendments, waivers or approvals require Horizon and/or its Affiliates' vote, or (iii) hold rights to determine, direct and/or implement enforcement action in respect thereof.

"Credit Protection Laws" means all federal, state and local laws in respect of the business of extending credit to borrowers, including without limitation, the Truth in Lending Act (and Regulation Z promulgated thereunder), Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, Gramm-Leach-Bliley Financial Privacy Act, Real Estate Settlement Procedures Act, Home Mortgage Disclosure Act, Fair Housing Act, antidiscrimination and fair lending laws, laws relating to servicing procedures or maximum charges and rates of interest, and other similar laws, each to the extent applicable, and all applicable regulations in respect of any of the foregoing.

"Daily Balance" means, with respect to each day during the term of this Agreement, the aggregate outstanding amount of all Advances or Obligations, as the context requires, at the end of such day.

"Data Tape" means a tape or other electronic file on each Note Receivable and the collateral therefor as of the most recent month end in a sortable format (which tape may be a roll forward of the Data Tape provided as of the previous month end indicating what data has been added, deleted or otherwise changed), which shall include, but not be limited to, the Account Debtor(s), each Account Debtor's address (street, city, state and zip code), contact name and telephone number, related Account Debtors, industry sector, guarantors (if any), equity sponsors (if any), credit rating, commitment amount, outstanding amount (advances and other usage), commencement date, maturity date, participation status, contractual interest rate basis and margin (and any applicable floor), current interest rate, payment type (interest only, principal plus interest, principal and interest, interest-only period, step-up amortization, etc), payment method if other than charge to loan, payment frequency, last payment date, next payment date, days past due, collection status (delinquent, defaulted, bankrupt, legal, etc.), current payment amount (interest and principal components if term loan), collections received for the period, advances made for the period, each applicable financial covenant and compliance therewith, modification history (number, type, date, result, etc.), and whether such Note Receivable is not approved, documented, managed and otherwise in conformance with the Required Procedures.

"Default" means an event or condition that, but for the giving of notice or the passage of time, or both, would constitute an Event of Default.

"Default Rate" has the meaning set forth in Section 2.5(b).

"Defaulting Lender" means any Lender that (a) has failed to fund any amounts required to be funded by it under the Agreement on the date that it is required to do so under this Agreement, (b) notified the Borrower, Agent, or any Lender in writing that it does not intend to comply with all or any portion of its funding obligations under this Agreement, (c) has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or under other agreements generally (as reasonably determined by Agent) under which it has committed to extend credit, (d) failed, within 1 Business Day after written request by Agent, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund any amounts required to be funded by it under this Agreement, (e) otherwise failed to pay over to Agent or any other Lender any other amount required to be paid by it under this Agreement on the date that it is required to do so under this Agreement, or (f) (i) becomes or is insolvent or has a parent company that has become or is insolvent or (ii) becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"Defaulting Lender Rate" means (a) for the first three (3) days from and after the date the relevant payment is due, the Base Rate, and (b) thereafter, the interest rate then applicable to Advances (inclusive of the Applicable Margin).

"Delinquent Note Receivable" means any Note Receivable with respect to which any payment thereunder remains outstanding and unpaid, in whole or in part, for more than sixty (60) days, but not more than ninety (90) days, past the date it became due and payable according to the original face and tenor of such Note Receivable or as extended in accordance with the Required Procedures.

"Deposit Account" means any deposit account (as that term is defined in the Code).

"Designated Account" means an account of Borrower maintained with Borrower's Designated Account Bank, or such other deposit account of Borrower (located within the United States) that has been designated as such, in writing, by Borrower to Agent.

"Designated Account Bank" means KeyBank, or such other commercial bank (located within the United States), acceptable to Agent in its Permitted Discretion, that has been designated as such, in writing, by Borrower to Agent.

"Determination Date" means the last day of each calendar month or, if such day is not a Business Day, the next succeeding Business Day.

"Disbursement Letter" means an instructional letter executed and delivered by Borrower to Agent regarding the extensions of credit to be made on the Restatement Effective Date, the form and substance of which is satisfactory to Agent.

"Dollars" or "$" means United States dollars.

"Early Termination Event" means the occurrence of any of the following events:

(a) any Event of Default shall occur and shall not have been waived;

(b) any Servicer Default shall occur and shall not have been waived;

(c) as of any Determination Date, the Interest Spread Test is not satisfied and was not satisfied as of the immediately preceding Determination Date;

(d) as of any Determination Date, the Rolling Six-Month Portfolio Charged-Off Ratio shall exceed (i) 15.0% as a result of a charge-off affecting more than five Account Debtors or (ii) 20.0%;

(e) as of any Determination Date, the Rolling Six-Month Charged-Off Ratio shall exceed 15.0% as a result of a charge-off affecting more than one Account Debtor;

(f) the Servicer or Horizon shall fail to pay any Indebtedness as and when due, including upon maturity or acceleration thereof, or otherwise; or

(g) the Asset Quality Test shall fail to be satisfied, and such failure shall continue for a period of forty-five (45) consecutive days or more.

"EBITDA" means, with respect to any Person for any fiscal period, such Person's consolidated net earnings (or loss), minus to the extent included in determining net earnings, extraordinary gains, plus interest expense, plus income taxes, plus depreciation and amortization, in each case as determined for such period and in each case not otherwise defined herein as determined in accordance with GAAP.

"Eligible Assignee" has the meaning set forth in Section 2.13.

"Eligible Notes Receivable" means those Notes Receivable that comply with each of the representations and warranties respecting Eligible Notes Receivable made in the Loan Documents, and that are not excluded as wholly or partially ineligible by virtue of one or more of the excluding criteria set forth below. Eligible Notes Receivable shall not include all or any portion of a Note Receivable (unless specifically determined to be eligible by Agent following a review thereof on a case-by-case basis) unless, in each case:

(a) such Note Receivable is approved, documented, managed and otherwise in conformance with the Required Procedures;

(b) such Note Receivable shall not have been extended or otherwise modified, or any material requirements relating thereto shall not have been waived as a result of Account Debtor financial under-performance or Account Debtor credit related concerns, in each case, without the prior written consent of Agent; provided, however, that such Note Receivable may have been extended or otherwise modified, or a material requirement relating thereto waived as a result of Account Debtor financial under-performance or Account Debtor credit related concerns, in accordance with the Required Procedures not more than one time during any 12-month period (each such modified Note Receivable, a "Materially Modified Note Receivable");

(c) if, at the time of its initial funding, such Note Receivable represents a loan made to an Account Debtor in which venture capital firms, private equity groups or other institutional investors meeting Borrower's underwriting requirements under the Required Procedures in effect upon Borrower's acquisition thereof have an aggregate equity ownership of at least ten percent (10%) on a fully-diluted basis; provided, however, that such threshold shall not apply if the Account Debtor's Stock is traded on a major United States stock exchange;

(d) such Note Receivable is not a Delinquent Note Receivable or a Charged-Off Note Receivable, unless approved by Agent in its sole discretion;

(e) such Note Receivable has an original term to maturity of not more than sixty (60) months;

(f) the Account Debtor in respect thereof is generally able to meet its financial obligations, and shall not have gone out of business or be subject to an Insolvency Proceeding, and such Note Receivable is not a "debtor-in-possession" loan;

(g) such Note Receivable is evidenced by the Approved Forms, or other documentation acceptable to Agent in its Permitted Discretion;

(h) such Note Receivable represents a valid and binding obligation owed to Borrower and enforceable in accordance with its terms for the amount outstanding thereof, except only as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights;

(i) such Note Receivable was originated by Horizon or an Approved Third-Party Originator;

(j) Borrower owns the full and undivided interest in such Note Receivable; provided, that a Note Receivable representing a purchased pro rata participation in a loan originated by an Approved Third-Party Originator will not be ineligible solely by reason of a failure to satisfy this clause (j) to the extent of Borrower's purchased interest therein so long as (A) such Note Receivable has been underwritten by Borrower and adheres to the underwriting guidelines under the Required Procedures, (B) Borrower's interest in such Note Receivable does not exceed the retained interest of the Approved Third-Party Originator, (C) Borrower's interest in such Note Receivable is acquired and subject to a participation agreement that is materially consistent with the Required Procedures or otherwise acceptable to Agent in its Permitted Discretion, and (D) such Note Receivable is a First Lien Note Receivable or an Eligible Second Lien Note Receivable (a purchased participation meeting each of such tests being an "Eligible Purchased Participation");

(k) such Note Receivable represents a loan made as part of a syndicated or other co-lending arrangement with one or more third-party lenders, so long as (i) such syndicated or co-lending arrangement is subject to intercreditor or other agreements consistent with the Required Procedures and (ii) each such other lender is an Approved Third-Party Lender (a syndicated or other co-lending arrangement meeting each of such tests being an "Eligible Co-Lending Arrangement");

(l) such Note Receivable has been originated in accordance with and complies in all material respects with, all applicable federal, state and local laws and regulations, including applicable usury and Credit Protection Laws;

(m) such Note Receivable requires (i) current cash payments of interest on at least a quarterly basis, (ii) principal amortization on Term Note Receivables paid, following any applicable interest only period, at least quarterly and to a zero balance at maturity; provided, that, notwithstanding the foregoing, not more than 15% of the Aggregate Outstanding Note Receivable Balance may include principal due at the maturity of such Term Note Receivables ("Balloon Principal"), but the Aggregate Outstanding Note Receivable Balance shall exclude, for each Term Note Receivable, the amount, if any, by which the Balloon Principal exceeds 25% of the original principal amount of such Term Note Receivable and (iii) all principal of any Revolving Note Receivables to be due at the Revolving Note Receivables' respective maturity date;

(n) such Note Receivable, if it is a Term Note Receivable, has scheduled principal payments beginning not later than twenty-four (24) months after its origination;

(o) such Note Receivable is a secured Note Receivable and is either a First Lien Note Receivable, an Eligible Second Lien Note Receivable or a Revolving Note Receivable;

(p) such Note Receivable shall, as of the related Funding Date, have been assigned an internal credit rating in accordance with Servicer's Required Procedures;

(q) the information with respect to such Note Receivable set forth in the Note Receivable data tape provided to Agent as of the Restatement Effective Date and to the Backup Servicer each month shall be true and correct in all material respects;

(r) all of the required documentation with respect to such Note Receivable shall have been delivered to the Collateral Custodian in conformity with the Loan Documents;

(s) the primary Account Debtor, or the owner of the majority of the collateral or the producer of the majority of the cash flow that is the primary basis for the credit decision to make the loan evidenced by such Note Receivable (i) is organized under the laws of the United States or any state thereof, or (ii) is an OUS Organized Debtor;

(t) such Note Receivable is payable in Dollars;

(u) the Account Debtor with respect to such Note Receivable is not (i) an Affiliate of Horizon, Horizon Management, or Borrower, (ii) a holder of five percent (5%) or more of the Stock of Horizon, Horizon Management, or Borrower, (iii) an employee or agent of Horizon, Horizon Management, or Borrower, (iv) a member, employee or agent of any Affiliate of Horizon, Horizon Management, or Borrower, or (v) a member of the family of any of the foregoing;

(v) such Note Receivable is owed by an Account Debtor that (i) was rated "3" or "4" in accordance with the Required Procedures when acquired by Borrower, or (ii) is not rated lower than "2" in accordance with the Required Procedures at any other time; provided, however, that such Note Receivable shall only be ineligible pursuant to this clause (ii) during any period that Account Debtor is rated lower than "2" in accordance with the Required Procedures;

(w) such Note Receivable does not represent a Real Estate Loan;

(x) the Account Debtor with respect to such Note Receivable is in a Target Industry, unless otherwise approved by Agent in its sole discretion;

(y) the Account Debtor with respect to such Note Receivable is not (i) the United States or any department, agency, or instrumentality of the United States, (ii) any state of the United States, or (iii) the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof;

(z) the Borrower shall have good and indefeasible title to, and be the sole owner of, such Note Receivable, subject to no liens, charges, mortgages, encumbrances or rights of others and has, as applicable, a perfected first or second security interest in the collateral (including a real estate mortgage if applicable) of such Note Receivable;

(aa) the note in respect of such Note Receivable and the security agreement pursuant to which collateral was pledged in respect of such Note Receivable shall not have been impaired, altered or modified in any material respect, except in accordance with the Required Procedures by a written instrument which has been recorded, if necessary, to protect the interest of the Agent and the Borrower and which written instrument shall have been delivered to the Collateral Custodian;

(bb) there shall be no obligation on the part of the Borrower or any other party (except for any Guarantor of a Note Receivable) to make any payments in respect of such Note Receivable in addition to those made by the applicable Account Debtor;

(cc) there shall not be any statement, report or other document signed by Horizon constituting a part of the applicable file in respect of such Note Receivable which contains any untrue statement of a material fact or omits to state a material fact in respect of such Note Receivable;

(dd) the Borrower, and, to the Borrower's knowledge, any other parties which have an interest in such Note Receivable, whether as mortgagee, assignee, pledgee or otherwise, shall be in compliance in all material respects with any and all applicable licensing requirements of the laws of the state wherein any collateral is located, and with respect to any applicable federal laws;

(ee) as of the applicable Funding Date, there is not any default, breach, violation or event of acceleration existing under such Note Receivable or any event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration;

(ff) as of the applicable Funding Date, any party to such Note Receivable and any related mortgage or other document pursuant to which collateral was pledged shall have had legal capacity to execute the Note Receivable or any such mortgage or other document and such Note Receivable and mortgage or other document shall have been duly and properly executed by such parties;

(gg) such Note Receivable is assignable without restrictions;

(hh) such Note Receivable is not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, or any assertion thereof by the related Account Debtor, nor will the operation of any of the terms of such Note Receivable or any related Note Receivable Document, or the exercise of any right thereunder, including, without limitation, remedies after default, render either the Note Receivable or any related Note Receivable Document unenforceable in whole or in part; nor is the Note Receivable subject to any prepayment in an aggregate amount less than the remaining principal balance of the Note Receivable plus all accrued and unpaid interest;

(ii) there is only one originally signed note evidencing such Note Receivable and it has been delivered to the Collateral Custodian and such note has been duly authorized and that is in full force and effect and, together with the related Note Receivable Documents, constitutes the legal, valid and binding obligation of the Account Debtor of such Note Receivable to pay the stated amount of the Note Receivable and interest thereon; or the Note Receivable is a "noteless" loan documented and delivered to the Collateral Custodian in a manner satisfactory to the Agent;

(jj) the Borrower has caused and will cause to be performed any and all acts reasonably required to be performed to preserve the rights and remedies of the Lender in any insurance policies applicable to the Note Receivable and any Related Property with respect to the Note Receivable is insured in accordance with the Required Procedures;

(kk) if the Note Receivable is made to an Account Debtor which holds any other loans originated by Horizon or an Affiliate thereof, whether such other loan is funded hereunder or through another lender, such Note Receivable contains standard cross-collateralization and cross-default provisions with respect to such other loan;

(ll) the Note Receivable, together with the Note Receivable Documents related thereto, is a "general intangible", an "instrument", an "account", or "chattel paper" within the meaning of the UCC of all jurisdictions that govern the perfection of the security interest granted therein;

(mm) such Note Receivable has been assigned an NAICS code correlated with its Target Industry;

(nn) such Note Receivable is not convertible into stock, warrants, or interests treated as equity for United States federal income tax purposes;

(oo) such Note Receivable does not provide for payments that are subject to withholding tax, unless the Account Debtor is required to make "gross-up" payments that cover the full amount of such withholding tax on an after-tax basis; and

(pp) such Note Receivable is subject to a valid and perfected first-priority Lien of Agent.

"Eligible Second Lien Note Receivable" means a Note Receivable (i) subordinate in right of payment to any other obligation for borrowed money of the Account Debtor and (ii) with respect to which the Borrower's Liens are not first priority Liens on property of the Account Debtor in accordance with the Required Procedures solely because of the existence of a Lien to secure a receivables-based or formula-based revolving credit facility (including all obligations and liabilities outstanding thereunder or incurred in connection therewith, including in connection with overadvances, cash management services, letters of credit, or overdraft arrangements) provided to the Account Debtor by a third-party lender that is not an Affiliate of Borrower; provided that (x) the senior revolving lender is an Approved Senior Revolving Lender, (y) the senior Lien is subject to a subordination agreement or an intercreditor agreement between Borrower and the senior revolving lender in accordance with the Required Procedures, and (z) the combined amount of such Note Receivable and the senior revolving credit facility would not create a combined loan to value ratio (determined in accordance with the Required Procedures) greater than forty percent (40%).

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $500,000,000, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country and which has total assets in excess of $500,000,000, provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having (together with its Affiliates) total assets in excess of $500,000,000, (d) any Affiliate (other than individuals) of a pre-existing Lender, (e) so long as no Default or Event of Default has occurred and is continuing, any other Person approved by Agent and Borrower (which approval of Borrower shall not be unreasonably withheld, delayed, or conditioned and, if not granted or rejected within five (5) Business Days of notice to Borrower will be deemed to have been granted), and (f) during the continuation of a Default or an Event of Default, any other Person approved by Agent.

"Environmental Actions" means any complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Materials from (a) any assets, properties, or businesses of Borrower, its Subsidiaries, or any of their predecessors in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Materials generated by Borrower, its Subsidiaries, or any of their predecessors in interest.

"Environmental Law" means any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy, or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, in each case, to the extent binding on Borrower, relating to the environment, the effect of the environment on employee health or safety, or Hazardous Materials, in each case as amended from time to time.

"Environmental Liabilities" means all liabilities, monetary obligations, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand, or Remedial Actions required, by any Governmental Authority or any third party, and which relate to any Environmental Action.

"Environmental Lien" means any Lien in favor of any Governmental Authority for Environmental Liabilities.

"Equipment" means all equipment (as that term is defined in the Code), including machinery, machine tools, motors, furniture, furnishings, fixtures, vehicles (including motor vehicles), computer hardware, tools, parts and goods (other than consumer goods, farm products, or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto.

"ERISA Affiliate" means (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of Borrower under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of Borrower under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which Borrower or any of its Subsidiaries are a member under IRC Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any Person subject to ERISA that is a party to an arrangement with Borrower or any of its Subsidiaries and whose employees are aggregated with the employees of Borrower under IRC Section 414(o).

"Eurodollar Disruption Event" means, with respect to any Advance as to which Interest accrues or is to accrue at a rate based upon the LIBOR Rate, any of the following: (a) a determination by a Lender that it would be contrary to law or to the directive of any central bank or other governmental authority (whether or not having the force of law) to obtain Dollars in the London interbank market to make, fund or maintain any Advance; (b) the inability of any Lender to obtain timely information for purposes of determining the LIBOR Rate; (c) a determination by a Lender that the rate at which deposits of Dollars are being offered to such Lender in the London interbank market does not accurately reflect the cost to such Lender of making, funding or maintaining any Advance; or (d) the inability of a Lender to obtain Dollars in the London interbank market to make, fund or maintain any Advance.

"Event of Default" has the meaning set forth in Section 8.

"Excess Concentration Amount" means on any date of determination during the Revolving Credit Availability Period, the sum of, without duplication:

(a) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral for which the applicable Account Debtors are domiciled (x) in California exceeds sixty percent (60%) of the Concentration Test Balance and (y) in any single State other than California exceeds twenty-five percent (25%) of the Concentration Test Balance;

(b) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral for which the applicable Account Debtors in the same Target Industry segment exceeds the applicable Target Industry Percentage Limit for such Industry segment of the Concentration Test Balance on such date;

(c) at any time following the Ramp-Up Period, the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral for which the applicable Account Debtors in the Target Industry segments of Life Science and Healthcare Information and Services exceeds 75% of the Concentration Test Balance on such date;

(d) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables of the single Account Debtor having the largest aggregate Outstanding Note Receivable Balance exceeds the lower of $15,000,000 or 15% of the Concentration Test Balance on such date;

(e) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables of the single Account Debtor having the second largest aggregate Outstanding Note Receivable Balance exceeds 12% of the Concentration Test Balance on such date;

(f) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables of the five Account Debtors having the five largest aggregate Outstanding Note Receivable Balances exceeds 50% of the Concentration Test Balance on such date;

(g) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables of the ten Account Debtors having the ten largest aggregate Outstanding Note Receivable Balances exceeds (i) 90% of the Aggregate Outstanding Note Receivable Balance (during any period when the Aggregate Outstanding Note Receivable Balance is less than or equal to $100,000,000), (ii) 85% of the Aggregate Outstanding Note Receivable Balance (during any period when the Aggregate Outstanding Note Receivable Balance is more than $100,000,000 and less than or equal to $150,000,000), (iii) 75% of the Aggregate Outstanding Note Receivable Balance (during any period when the Aggregate Outstanding Note Receivable Balance is more than $150,000,000 and less than or equal to $200,000,000), (iv) 55% of the Aggregate Outstanding Note Receivable Balance (during any period when the Aggregate Outstanding Note Receivable Balance exceeds $200,000,000);

(h) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables which are Eligible Second Lien Note Receivables exceed 70% of the Concentration Test Balance on such date;

(i) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables which do not pay interest and/or principal at least monthly exceeds 25% of the Concentration Test Balance on such date;

(j) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral that are not Control Position Note Receivables exceeds 20% of the Concentration Test Balance;

(k) the aggregate amount by which the Outstanding Note Receivable Balances of all Note Receivables included as part of the Collateral that (i) are Materially Modified Note Receivables, (ii) have had any material requirements relating thereto waived as a result of the Account Debtor's material financial underperformance, distress or material default, in each case in accordance with the Required Procedures or (iii) are out of covenant compliance under the related Note Receivable Documents but which are not Charged-Off Note Receivables or Delinquent Note Receivables exceeds 10% of the Concentration Test Balance;

(l) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral which are Rehabilitated Note Receivables exceeds 35% of the Concentration Test Balance;

(m) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables which were originated as Eligible Purchased Participations exceeds 10% of the Concentration Test Balance;

(n) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral which are Revolving Note Receivables exceeds 25% of the Concentration Test Balance;

(o) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral for which the applicable Account Debtors are owned by a single Lead Investor exceeds 25% of the Concentration Test Balance;

(p) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral for which the applicable Account Debtors are owned by a shared common Lead Investor exceeds 25% of the Concentration Test Balance;

(q) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables which are not in the "Late Stage" (as designated in accordance with the Required Procedures) exceeds 80% of the Concentration Test Balance;

(r) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables which are in the "Early Stage" (as designated in accordance with the Required Procedures) exceeds 35% of the Concentration Test Balance;

(s) the aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables having a principal balloon payment at maturity in excess of twenty-five percent of the original principal amount exceeds 15% of the Concentration Test Balance; and

(t) aggregate amount by which the Outstanding Note Receivable Balances of all Eligible Note Receivables included as part of the Collateral the Account Debtors of which are OUS Organized Debtors exceeds 20% of the Concentration Test Balance.

"Exchange Act" means the Securities Exchange Act of 1934, as in effect from time to time.

"Excluded Taxes" means, with respect to Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of Borrower hereunder or under any other Loan Document, (a) any Taxes imposed on or measured by its net income (however denominated) or overall gross income (including branch profits), franchise (and similar) Taxes imposed on it in lieu of net income taxes as a result of such recipient being organized or resident in, maintaining a lending office in, doing business in or having another present or former connection with, such jurisdiction (other than a business or connection deemed to arise solely by virtue of the Loan Documents or any transactions occurring pursuant thereto), (b) any United States federal withholding tax that is imposed pursuant to any applicable law in effect at the time such recipient becomes a party to this Agreement, changes its applicable lending office or changes its place of organization, except to the extent such Lender's assignor (if any) was entitled, immediately prior to the assignment, or such Lender was entitled, immediately prior to the change in lending office or change of place of organization, to payments in respect of United States federal withholding tax under Section 16.11; (c) any Taxes attributable to a recipient's failure to comply with Section 16.11(c), (d) any United States federal taxes imposed under Sections 1471 through 1474 of the IRC, or any amended version or successor provision that is substantively comparable thereto, and, in each case, any regulations promulgated thereunder and any interpretation or other guidance issued in connection therewith, or (e) any U.S. federal backup withholding taxes imposed under Section 3406 of the IRC.

"Facility Amount" means, at any time and as reduced or increased from time to time, pursuant to the terms of this Agreement the aggregate dollar amount of Commitments of all the Lenders; provided, however, that on the Termination Date and on each date thereafter, the Facility Amount shall be equal to the outstanding Advances as of such date. As of the Restatement Effective Date, the Facility Amount is $50,000,000. The Facility Amount may be increased up to a total of $150,000,000 in accordance with the provisions of Section 2.13.

"Fair Market Value" has the meaning set forth in the Sale and Servicing Agreement.

"Fee Letter" means that certain Fee Letter, dated as of even date herewith, between Borrower and Agent, in form and substance satisfactory to Agent.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to (a) the weighted average of the federal funds rates as quoted by KeyBank and confirmed in Federal Reserve Board Statistical Release H. 15 (519) or any successor or substitute publication selected by KeyBank (or, if such day is not a Business Day, for the next preceding Business Day); or (b) if, for any reason, such rate is not available on any day, the rate determined, in the sole opinion of KeyBank, to be the rate at which federal funds are being offered for sale in the national federal funds market at 9:00 a.m. (New York City time).

"FEIN" means Federal Employer Identification Number.

"First Lien Note Receivable" means a Term Note Receivable that is (a) not subordinate in right of payment to any other obligation for borrowed money of the Account Debtor, (b) is secured by a valid first priority perfected security interest or lien on specified collateral securing the obligations of the Account Debtor and (c) LTV of such loan is not greater than 40% when comparing the (i) aggregate principal balance of such Term Note Receivable plus all other outstanding balances of loans of such Account Debtor *pari passu* to the Term Note Receivable to the (ii) Account Debtor value, determined in accordance with Servicer's Required Procedures.

"FMV" means, with respect to any Note Receivable, on any date of determination, the Fair Market Value of such Note Receivable.

"Foreign Lender" means any Lender that is not a United States person within the meaning of IRC section 7701(a)(30).

"Funding Date" means the date on which an Advance is made by the Lenders.

"Funding Request" has the meaning set forth in Section 2.2(a).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied; provided, however, that solely for purposes of calculating Tangible Net Worth as required hereunder or pursuant to the Sale and Servicing Agreement, such calculations relative to liabilities shall be made without giving effect to Statement of Financial Accounting Standards No. 159.

"General Intangibles" means all general intangibles (as that term is defined in the Code), including payment intangibles, contract rights, rights to payment, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trade secrets, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, catalogs, insurance premium rebates, tax refunds, and tax refund claims, and any other personal property other than Accounts, commercial tort claims, Deposit Accounts, goods, Investment Property, and Negotiable Collateral.

"Governing Documents" means, with respect to any Person, the certificate or articles of incorporation, formation or organization, bylaws, partnership agreement, operating or limited liability company agreement, or other organizational documents of such Person.

"Governmental Authority" means any federal, state, local, or other governmental or administrative body, instrumentality, board, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

"Guarantor" means any Person that executes a Guaranty with respect to the Obligations.

"Guaranty" means any guaranty executed and delivered by a Guarantor in favor of Agent, for the benefit of the Lender Group and the Bank Product Providers, in form and substance satisfactory to Agent.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means each agreement between the Borrower and a Hedge Provider that governs one or more Hedge Transactions entered into pursuant to Section 6.19, which agreement shall consist of a "Master Agreement" in a form published by the International Swaps and Derivatives Association, Inc., together with a "Schedule" thereto substantially in a form as the Agent shall approve in writing, and each "Confirmation" thereunder confirming the specific terms of each such Hedge Transaction.

"Hedge Collateral" is defined in Section 6.19(b).

"Hedge Obligations" means any and all obligations or liabilities, whether absolute or contingent, due or to become due, now existing or hereafter arising, of Borrower arising under, owing pursuant to, or existing in respect of Hedge Agreements entered into with one or more of the Bank Product Providers.

"Hedge Provider" means KeyBank or any entity that (a) on the date of entering into any Hedge Transaction has been approved in writing by the Agent (which approval shall not be unreasonably withheld), and (ii) has a short-term unsecured debt rating of not less than A-1 by S&P and not less than P-1 by Moody's, and (b) enters into a Hedge Agreement that (i) consents to the assignment of the Borrower's rights under the Hedge Agreement to the Agent pursuant to Section 6.19(b) and (ii) agrees that in the event that S&P or Moody's reduces its short-term unsecured debt rating below A-1 or P-1, respectively, it shall transfer its rights and obligations under each Hedging Transaction to another entity that meets the requirements of clause (a) and (b) hereof or make other arrangements acceptable to the Agent and the Rating Agencies.

"Hedge Transaction" means each interest rate cap transaction between the Borrower and a Hedge Provider that is entered into pursuant to Section 6.19 and is governed by a Hedge Agreement.

"Holdout Lender" has the meaning set forth in Section 15.2(a).

"Horizon" means Horizon Technology Finance Corporation, a Delaware corporation.

"Horizon Group Managed Loans" means all loans that are managed or serviced by Horizon or Horizon Management for Horizon or any of Horizon's Subsidiaries or Affiliates (including the Notes Receivable).

"Horizon Management" means Horizon Technology Finance Management LLC, a Delaware limited liability company.

"Indebtedness" as to any Person means (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, or other financial products, (c) all obligations of such Person as a lessee under Capital Leases, (d) all obligations or liabilities of others secured by a Lien on any asset of such Person, irrespective of whether such obligation or liability is assumed, (e) all obligations of such Person to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices), (f) all obligations of such Person owing under Hedge Agreements (which amount shall be calculated based on the amount that would be payable by such Person if the Hedge Agreement were terminated on the date of determination), and (g) any obligation of such Person guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (f) above. For purposes of this definition, (i) the amount of any Indebtedness represented by a guaranty or other similar instrument shall be the lesser of the principal amount of the obligations guaranteed and still outstanding and the maximum amount for which the guaranteeing Person may be liable pursuant to the terms of the instrument embodying such Indebtedness, and (ii) the amount of any Indebtedness described in clause (d) above shall be the lower of the amount of the obligation and the fair market value of the assets of such Person securing such obligation.

"Indemnified Liabilities" has the meaning set forth in Section 11.3.

"Indemnified Person" has the meaning set forth in Section 11.3.

"Indemnity Reserve" has the meaning set forth in Section 2.1(b).

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intangible Assets" means, with respect to any Person, that portion of the book value of all of such Person's assets that would be treated as intangibles under GAAP.

"Interest Collections" means any and all Collections representing (a) payments of interest, prepayment fees, "end of term" payments, late payment charges and any other fees and charges related to any Note Receivable, and its related cost of carry by the Borrower; and (b) recoveries of charged off interest on any Note Receivable.

"Interest Period" means a period commencing on the first day of a calendar month and ending on the last day of such calendar month; provided, however, that the initial Interest Period shall be the period commencing on the Restatement Effective Date and ending on the last day of the calendar month in which the Restatement Effective Date occurs.

"Interest Rate" means for any Interest Period and any Advance, a rate per annum equal to the LIBOR Rate plus the Applicable Margin; provided, however, that the Interest Rate shall be the Base Rate plus the Applicable Margin if a Eurodollar Disruption Event occurs.

"Interest Reset Date" means the Business Day which is two Business Days prior to the first day of each Interest Period.

"Interest Spread Test" means a test as of any date on which Advances are outstanding, with respect to any Collection Period, calculated as of the end of such Collection Period on the Determination Date occurring in the second calendar month following the end of such Collection Period, which shall be satisfied if ([A-B]/C) x 12 exceeds 4.0% on a rolling three Collection Period basis (provided, that for the first Collection Period, such test shall be calculated by reference to the calculation for such Collection Period only, and for the second Collection Period, shall be calculated by reference to the calculation for the first two Collection Periods) where:

A = the amount of Interest Collections on the Aggregate Outstanding Note Receivable Balance during such Collection Period;

B = the sum for such Collection Period of (i) Carrying Costs, (ii) the Servicing Fee, (iii) the Agent's Fee, (iv) the Collateral Custodian Fee and (v) the Backup Servicer Fee; and

C = the average outstanding Advances during such Collection Period.

"Inventory" means inventory (as that term is defined in the Code).

"Investment" means, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, or capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) bona fide Accounts arising in the ordinary course of business consistent with past practice), purchases or other acquisitions of Indebtedness, Stock or all or substantially all of the assets of such Person (or of any division or business line of such other Person), and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"Investment Property" means investment property (as that term is defined in the Code).

"IRC" means the Internal Revenue Code of 1986, as in effect from time to time.

"KEF" means Key Equipment Finance Inc., a Michigan corporation and its successors and assigns.

"KeyBank" means Key Bank National Association, a national banking association, and its successors and assigns.

"Lead Investor" means, with respect to any Account Debtor, the venture capital firm or other institutional investor that purchased the most Stock of such Account Debtor in the Account Debtor's most recently completed round of equity financing.

"Lender" has the meaning set forth in the preamble to the Agreement and shall also include any other Person made a party to this Agreement pursuant to the provisions of Section 14.1, and "Lenders" means each of the Lenders or any one or more of them.

"Lender Group" means each of the Lenders and Agent, or any one or more of them.

"Lender Group Expenses" means all (a) costs or expenses (including taxes, and insurance premiums) required to be paid by Horizon or Borrower under any of the Loan Documents that are paid, advanced, or incurred by the Lender Group, (b) out-of-pocket fees or charges paid or incurred by Agent in connection with the Lender Group's transactions with Horizon or Borrower under any of the Loan Documents, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic collateral appraisals or business valuations to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement, the Agent Fee Letter or the Fee Letter), real estate surveys, real estate title policies and endorsements, and environmental audits, (c) Agent's customary fees and charges (as adjusted from time to time) with respect to the disbursement of funds (or the receipt of funds) to or for the account of Borrower (whether by wire transfer or otherwise), together with any out-of-pocket costs and expenses incurred in connection therewith, (d) out-of-pocket charges paid or incurred by Agent resulting from the dishonor of checks payable by or to Borrower or any of its Affiliates, (e) reasonable out-of-pocket costs and expenses paid or incurred by the Lender Group to correct any default or enforce any provision of the Loan Documents, or during the continuance of an Event of Default, in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated, (f) reasonable out-of-pocket audit fees and expenses (including travel, meals, and lodging) of Agent related to any inspections or audits to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement, the Agent Fee Letter or the Fee Letter, (g) reasonable out-of-pocket costs and expenses of third party claims or any other suit paid or incurred by the Lender Group in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or the Lender Group's relationship with Horizon, Borrower or any of its Subsidiaries, (h) Agent's reasonable costs and expenses (including reasonable attorneys fees) incurred in advising, structuring, drafting, reviewing, administering (including travel, meals, and lodging), syndicating or amending the Loan Documents, and (i) Agent's and each Lender's reasonable costs and expenses (including reasonable attorneys, accountants, consultants, and other advisors fees and expenses) incurred in terminating, enforcing (including attorneys, accountants, consultants, and other advisors fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Horizon, Borrower or any of its Subsidiaries or in exercising rights or remedies under the Loan Documents), or defending the Loan Documents, irrespective of whether suit is brought, or in taking any Remedial Action concerning the Collateral.

"Lender Group Representatives" has the meaning set forth in Section 17.9(a).

"Lender-Related Person" means, with respect to any Lender, such Lender, together with such Lender's Affiliates, and the officers, directors, employees, and agents of such Lender.

"LIBOR Rate" means the greater of (a) three-quarters of a percent (0.75%) per annum, and (b) an interest rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) equal to:

(i) the posted rate for thirty (30) day deposits in Dollars appearing on the Bloomberg – BBAM page (or any successor page or successor service that displays the British Bankers' Association Interest Settlement Rates ("BBA LIBOR") for Dollar deposits) as of 11:00 a.m. (London, England time) on the applicable Interest Reset Date; or

(ii) if BBA LIBOR (as defined above) is not published at such time and day for any reason, then the LIBOR Rate shall be determined by the Agent (each such determination, absent manifest error, to be conclusive and binding on all parties hereto and their assignees) as the interest rate quoted by Barclays Bank at approximately 11:00 A.M., New York City time on the applicable Interest Reset Date, for deposits in Dollars offered to major banks in the London interbank Eurodollar market for a period comparable to such Interest Period in an amount comparable to the principal amount of such Advance.

"LIBOR Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the LIBOR Rate.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, charge, deposit arrangement, encumbrance, easement, lien (statutory or other), security interest, or other security arrangement and any other preference, priority, or preferential arrangement of any kind or nature whatsoever, including any conditional sale contract or other title retention agreement, the interest of a lessor under a Capital Lease and any synthetic or other financing lease having substantially the same economic effect as any of the foregoing.

"Loan Account" has the meaning set forth in Section 2.9.

"Loan Documents" means this Agreement, the Cash Management Agreements, the Closing Certificates, the Control Agreements, the Sale and Servicing Agreement, the Disbursement Letter, the Agent Fee Letter, the Fee Letter, the Backup Servicer Engagement Letter, the Collateral Custodian Fee Letter, the Guaranties (if any), the Officers' Certificates, any note or notes executed by Borrower in connection with this Agreement and payable to a member of the Lender Group, and any other agreement entered into, now or in the future, by Horizon, Borrower or any of its Subsidiaries or any Guarantor and the Lender Group in connection with this Agreement.

"LTV" means, with respect to any Note Receivable, the quotient of (a) the aggregate principal balances of each Eligible Note Receivable of an Account Debtor plus all other outstanding balances of secured and unsecured loans of such Account Debtor divided by (b) the Account Debtor "value", determined in accordance with Servicer's Required Procedures.

"Margin Stock" has the meaning set forth in Section 5.23.

"Material Adverse Change" means (a) a material adverse change in the business, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Borrower, or Horizon and its Subsidiaries, taken as a whole, or Horizon Management, (b) a material impairment of the ability of Horizon, Horizon Management, Borrower or their respective Subsidiaries to perform their obligations under the Loan Documents to which they are parties or of the Lender Group's ability to enforce the Obligations or realize upon the Collateral, or (c) a material impairment of the enforceability or priority of the Agent's Liens with respect to the Collateral as a result of an action or failure to act on the part of Borrower, its Subsidiaries or Horizon or Horizon Management.

"Maturity Date" has the meaning set forth in Section 3.4.

"Maximum Availability" means, for any day, the least of (i) the Facility Amount, (ii) the Borrowing Base on such day, and (iii) the Aggregate Outstanding Note Receivable Balance on such day minus the Minimum Equity Requirement.

"Maximum Revolver Amount" means $150,000,000, or such other amount of the aggregate Commitments at such time as reflected on Schedule C-1 as then in effect pursuant to this Agreement or any amendment to this Agreement.

"Minimum Equity Requirement" means the minimum amount of equity investment in the Borrower which shall be maintained by Horizon, in the form of cash and/or Eligible Notes Receivable having an outstanding principal balance at all times prior to the Maturity Date of an amount equal to the greater of (a) $35,000,000 and (b) (i) during the Ramp-Up Period, the sum of the Aggregate Outstanding Note Receivable Balance for the three (3) largest Account Debtors and (ii) following the Ramp-Up Period, the sum of the Aggregate Outstanding Note Receivable Balance for the four (4) largest Account Debtors; provided, however, that at any time there are no outstanding Advances, the "Minimum Equity Requirement" shall be zero.

"Negotiable Collateral" means letters of credit, letter of credit rights, instruments, promissory notes, drafts, documents, and chattel paper (including electronic chattel paper and tangible chattel paper).

"Net Eligible Notes Receivable" means, as of any date of determination, the aggregate unpaid principal amount of all Eligible Notes Receivable (less any portions that are excluded based upon the definition of Eligible Notes Receivable, all principal representing accrued interest, all end of term fees payable at maturity, and all undrawn principal amounts, each to the extent included in such Notes Receivable) on such date.

"Net Investment Income" means, with respect to any Person for any fiscal period, such Person's interest and fee income, less operating expenses, in each case as determined for such period and in each case not otherwise defined herein as determined in accordance with GAAP.

"Note Receivable" means a promissory note evidencing a commercial loan made or purchased by Borrower in accordance with the Required Procedures and secured by a Lien on property owned by the maker of such note.

"Note Receivable Documents" means, with respect to any Note Receivable, the Note Receivable and all other material loan or collateral documentation executed or delivered in connection therewith.

"Obligations" means (a) all loans (including the Advances), debts, principal, interest (including any interest that accrues after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), premiums, liabilities (including all amounts charged to the Loan Account pursuant to this Agreement), obligations (including indemnification obligations), fees (including the fees provided for in the Agent Fee Letter and the Fee Letter), Lender Group Expenses (including any fees or expenses that accrue after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), guaranties, and all covenants and duties of any other kind and description owing by Borrower to the Lender Group pursuant to or evidenced by this Agreement or any of the other Loan Documents and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all other expenses or other amounts that Borrower is required to pay or reimburse by the Loan Documents or by law or otherwise in connection with the Loan Documents, and (b) all Bank Product Obligations. Any reference in the Agreement or in the Loan Documents to the Obligations shall include all or any portion thereof and any extensions, modifications, renewals, or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

"OFAC" means The Office of Foreign Assets Control of the U.S. Department of the Treasury.

"Originating Lender" has the meaning set forth in Section 14.1(e).

"OUS Organized Debtor" means an Account Debtor organized under the laws of (i) Canada, (ii) the United Kingdom or (iii) any other foreign jurisdiction as may be proposed to the Agent in writing and approved by the Agent in its reasonable discretion from time to time, in each case, which does business in the United States or any state thereof.

"Outstanding Note Receivable Balance" means with respect to any Note Receivable, the lesser of (i) the FMV of such Note Receivable, not to exceed such Note Receivable's par value or (ii) then outstanding principal balance thereof.

"Overadvance" has the meaning set forth in Section 2.3(b).

"Participant" has the meaning set forth in Section 14.1(e).

"Patriot Act" has the meaning set forth in Section 5.26.

"Permitted Discretion" means a determination made in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Permitted Dispositions" means (a) sales or other dispositions of Equipment that is substantially worn, damaged, or obsolete in the ordinary course of business, (b) sales of Inventory to buyers in the ordinary course of business, (c) the use or transfer of money or Cash Equivalents in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents, (d) the licensing, on a non-exclusive basis, of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of business, (e) sales to Horizon pursuant to the Sale and Servicing Agreement of Notes Receivable that are either not Eligible Notes Receivable or that have become ineligible in whole or in part due to one or more of the concentration limits in the definition of Eligible Notes Receivable, for replacement or substitute Eligible Notes Receivable of at least equivalent face value, (f) sales of Note Receivable Collateral, without recourse to Borrower, in connection with a foreclosure or similar proceeding following a default under the Note Receivable secured by such Note Receivable Collateral, for a cash purchase price of not less than the fair market value of such Notes Receivable Collateral to a person that is not an Affiliate of Borrower and (g) sales of Real Estate Owned without recourse to Borrower, for a cash purchase price of not less than the fair market value of such Real Estate Owned, to a person that is not an Affiliate of Borrower.

"Permitted Investments" means (a) Investments in cash and Cash Equivalents, (b) Investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) commercial loans evidenced by a Note Receivable made in the ordinary course of business and related equity investments received or made in accordance with the Required Procedures, (e) Investments received in settlement of amounts due to Borrower or any of its Subsidiaries effected in the ordinary course of business or owing to Borrower or any of its Subsidiaries as a result of Insolvency Proceedings involving an Account Debtor or upon the foreclosure or enforcement of any Lien in favor of Borrower, and (f) Real Estate Owned.

"Permitted Liens" means (a) Liens granted to, or for the benefit of, Agent, to secure the Obligations, (b) Liens for unpaid taxes or assessments that either (i) are not yet delinquent, (ii) are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP, or (iii) do not constitute an Event of Default hereunder and are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests, (f) Liens resulting from any judgment or award that is not an Event of Default hereunder, and (g) rights of setoff imposed by law upon deposit of cash and cash equivalents in favor of banks or other depository institutions incurred in the ordinary course of business in deposit accounts maintained with such bank or depository institution to the extent permitted under this Agreement.

"Permitted Protest" means the right of Borrower or any of its Subsidiaries to protest any Lien (other than any Lien that secures the Obligations), taxes, or rental payment, provided that (a) a reserve with respect to such obligation is established on the Books in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by Borrower or any of its Subsidiaries, as applicable, in good faith, and (c) Agent is satisfied that, while any such protest is pending, there will be no material impairment of the enforceability, validity, or priority of any of the Agent's Liens.

"Person" means natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Portfolio Charged-Off Ratio" means, with respect to any Collection Period, the percentage equivalent of a fraction, calculated as of the end of such Collection Period on the Determination Date occurring in the second calendar month following the end of such Collection Period, (i) the numerator of which is equal to the aggregate outstanding principal balance of all Note Receivables in Horizon's consolidated and managed portfolio that became Charged-Off Note Receivables during such Collection Period and (ii) the denominator of which is equal to the sum of (A) the aggregate outstanding principal balance of all Note Receivables serviced by the Servicer as of the first day of such Collection Period and (B) the aggregate outstanding principal balance of all Note Receivables in Horizon's consolidated and managed portfolio as of the last day of such Collection Period divided by 2.

"Post-Termination Revolving Note Receivable Funding" means an Advance by the Lenders, made following the termination of the Revolving Credit Availability Period, which Advance may be used for the sole purpose of funding advances requested by Account Debtors under the Revolving Note Receivables.

"Prepayment Make-Whole Amount" has the meaning set forth in the Fee Letter.

"Principal Collections" means any and all Collections representing amounts paid by the applicable Account Debtor and applied by the Servicer in accordance with GAAP to the payment of the principal of a Note Receivable.

"Projections" means, with respect to any Person, such Person's forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements (if applicable), all prepared on a basis consistent with such Person's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Pro Rata Share" means, as of any date of determination, with respect to all matters as to a particular Lender (including the indemnification obligations arising under Section 16.7), (a) prior to the Commitments being terminated or reduced to zero, the percentage obtained by dividing (i) such Lender's Commitment, by (ii) the aggregate Commitments of all Lenders, and (b) from and after the time that the Commitments have been terminated or reduced to zero, the percentage obtained by dividing (i) the aggregate outstanding principal amount of such Lender's Advances, by (ii) the aggregate outstanding principal amount of all Advances.

"Ramp-Up Period" means the period commencing on the Restatement Effective Date and ending on the earlier of (a) the six-month anniversary of the Restatement Effective Date, and (b) the first date following the Restatement Effective Date on which Borrower has an Aggregate Outstanding Note Receivable Balance of $75,000,000 or more.

"Real Estate Loan" means a Note Receivable that is secured by a Lien on Real Property where material value is attributed to such Real Property and relied upon in the underwriting of such Note Receivable.

"Real Estate Owned" means Real Property that secured a Note Receivable and was acquired by Borrower in connection with a foreclosure, deed-in-lieu of foreclosure or other similar process in which Borrower took legal title to such Real Property following a default under such Note Receivable.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Person, and the improvements thereto.

"Record" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

"Rehabilitated Note Receivable" means any Eligible Note Receivable (a) that was previously a Materially Modified Note Receivable, in each case, in accordance with the Required Procedures, (b) for which the Account Debtor is (i) now making principal amortization payments to fully amortize such Note Receivable and (ii) no longer experiencing a material financial underperformance, distress or material default, in each case in accordance with the Required Procedures. Upon the Account Debtor of a Rehabilitated Note Receivable timely making six (6) principal amortization payments and such Account Debtor no longer experiencing material financial underperformance, distress or material default of its obligations, in each case, in accordance with the Required Procedures, such Rehabilitated Note Receivable shall no longer constitute a Rehabilitated Note Receivable and shall constitute an Eligible Note Receivable (provided it meets all other requirements for an Eligible Note Receivable).

"Related Property" has the meaning set forth in the Sale and Servicing Agreement.

"Remedial Action" means all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Materials in the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Materials so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) restore or reclaim natural resources or the environment, (d) perform any pre-remedial studies, investigations, or post-remedial operation and maintenance activities, or (e) conduct any other actions with respect to Hazardous Materials authorized by Environmental Laws.

"Remittance Date" means (x) the tenth (10^{th}) day of each calendar month or, if such day is not a Business Day, the next succeeding Business Day and (y) the Maturity Date.

"Replacement Lender" has the meaning set forth in Section 2.11(b).

"Report" has the meaning set forth in Section 16.17(a).

"Required Asset Documents" means the documents set forth on Schedule R-1 hereto.

"Required Lenders" means, at any time, the Lenders whose aggregate Pro Rata Shares exceed fifty percent (50%); provided, however, that at any time when there are two or more Lenders, "Required Lenders" must include at least two Lenders whose aggregate Pro Rata Shares exceed fifty percent (50%).

"Required Procedures" means the written policies, procedures and guidelines, that Horizon utilizes in the origination (and Horizon Management utilizes in the servicing) of Notes Receivable Horizon owns, or sells to its subsidiaries, specifically including underwriting, documentation, portfolio management and financial policies, procedures and guidelines over collateral and financial analysis, business and asset valuation (including appraisal), auditing, collection activities, renewal, extension, modification, recognition, accrual, non-accrual and charge-off policies, and the use of the Approved Forms with respect to the origination, funding and servicing of Notes Receivable, all in the form delivered to Agent and approved by Agent on or prior to the Restatement Effective Date and attached to the Closing Certificate, as amended from time to time in accordance with the Sale and Servicing Agreement; provided, however, that no material change to the Approved Forms or the policies and procedures as in effect on the Restatement Effective Date shall be effective unless (a) Agent and Borrower have each received at least ten (10) Business Days prior written notice of such change and, (b) if either Agent in the exercise of its Permitted Discretion, or Borrower in its reasonable discretion, believes that such change could reasonably be expected to have a material adverse effect upon the quality or value of the Eligible Notes Receivable or the collectability of any Note Receivable or the Advances thereon, such change has the prior written approval of both Agent and Borrower; provided further, that (i) each of Agent and Borrower shall use reasonable efforts to notify Horizon of any objection it has to any such proposed change within ten (10) Business Days following its receipt of notice thereof from Horizon, but failure by Agent or Borrower to do so shall not be deemed to be a consent to or approval of such change, and (ii) if, after the expiration of such ten (10) Business Day period, Horizon has provided to each of Agent and Borrower a second written notice of such proposed change and received acknowledgment of Agent's and Borrower's receipt thereof, then each of Agent and Borrower shall be deemed to have consented to such proposed change unless either Agent or Borrower has notified Horizon of its objection thereto within twenty (20) days following its receipt of such second notice from Horizon.

"Restatement Effective Date" means the date of this Agreement.

"Restricted Payments" means (a) any dividend or other distribution, in cash or other property, direct or indirect, on account of any class of Stock in Borrower, now or hereafter outstanding, (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any class of Stock in Borrower, now or hereafter outstanding, (c) any payment made to retire, or obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Stock in Borrower, now or hereafter outstanding, (d) any payment or prepayment of principal, or redemption, purchase, retirement, defeasance, sinking fund or similar payment with respect to, any Subordinated Debt or any Indebtedness owing to a holder of Stock in Borrower or an Affiliate of a holder of Stock in Borrower, or (e) any payment (other than compensation to an officer or director of Borrower, as such, in the ordinary course of business, or Servicing Fees or other amount permitted to be paid to Servicer under the Sale and Servicing Agreement) to a holder of Stock in Borrower or to an Affiliate of Borrower or an Affiliate of any holder of Stock in Borrower not expressly authorized herein.

"Revolving Credit Availability Period" means the period commencing on the Restatement Effective Date and ending on the Termination Date.

"Revolving Note Receivable" means each Note Receivable that is a secured loan which is combined with or accompanies a First Lien Note Receivable or a Eligible Second Lien Note Receivable and with respect to which the Borrower has a revolving credit commitment to advance amounts to the applicable Account Debtor during a specified term and which was underwritten as a "Revolving Note Receivable" in accordance with the Required Procedures and is identified on the books of the Servicer as such.

"Revolving Note Receivable Unfunded Available Amount " means, at any time, the sum of the products for each Revolving Note Receivable of (x) the aggregate unfunded available commitment (after giving effect to any borrowing base or collateral tests or other restrictions on availability) under such Revolving Note Receivable at such time times (y) the applicable Advance Rate.

"Rolling Six-Month Charged-Off Ratio" means, for any day on which Advances are outstanding, the rolling six period average Charged-Off Ratio for the six immediately preceding Collection Periods.

"Rolling Six-Month Portfolio Charged-Off Ratio" means, for any day, the rolling six period average Portfolio Charged-Off Ratio for the six immediately preceding Collection Periods.

"Sale and Servicing Agreement" means the Amended and Restated Sale and Servicing Agreement among Borrower, Horizon (as Originator), Horizon Management (as initial Servicer), U.S. Bank (as Collateral Custodian), and Agent, in form and substance satisfactory to Agent.

"Sanctioned Entity" means (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

"Sanctioned Person" means a person named on the list of Specially Designated Nationals maintained by OFAC.

"Scheduled Payments" has the meaning set forth in the Sale and Servicing Agreement.

"SEC" means the United States Securities and Exchange Commission and any successor thereto.

"Securities Account" means a "securities account," as that term is defined in the Code.

"Servicer" means Horizon, or any other Person that assumes the functions of servicing the Notes Receivables with the prior written consent of Agent or is otherwise appointed pursuant to the terms of the Sale and Servicing Agreement.

"Servicer Advance" means an advance of Scheduled Payments made by the Servicer pursuant to the Sale and Servicing Agreement.

"Servicer Default" has the meaning set forth in the Sale and Servicing Agreement.

"Servicing Fees" means the "Servicing Fee" payable to Servicer in accordance with the Sale and Servicing Agreement, which shall in no case exceed for any measurement period (as determined pursuant to the Sale and Servicing Agreement) one and a half percent (1.50%) per annum on the average Notes Receivable balance (as determined pursuant to the Sale and Servicing Agreement) for such measurement period.

"Solvent" means, with respect to any Person on a particular date, that, at fair valuations, the sum of such Person's assets is greater than all of such Person's debts.

"Spread" means, with respect to Note Receivables accruing interest at a floating rate, the cash interest spread of such Note Receivables over the LIBOR Rate, or, if a Eurodollar Disruption Event occurs, the Base Rate.

"Stock" means all shares, options, warrants, membership interests, units of membership interests, other interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"Subordinated Debt" means any unsecured Indebtedness specifically subordinated to the prior payment in full in cash of the Obligations and which shall otherwise be on terms and conditions reasonably satisfactory to Agent and subject to a Subordination Agreement.

"Subordination Agreement" means a subordination agreement executed and delivered by Borrower and each of the holders of Subordinated Debt and Agent, the form and substance of which is satisfactory to Agent.

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of Stock having ordinary voting power to elect a majority of the Board of Directors of such corporation, partnership, limited liability company, or other entity.

"Supplemental Interests" means, with respect to any Note Receivable, any warrants, equity or other equity interests or interests convertible into or exchangeable for any such interests received by Horizon from the Account Debtor in connection with such Note Receivable.

"Supporting Obligation" means a letter-of-credit right or secondary obligation that supports the payment or performance of an Account, chattel paper, document, General Intangible, Note Receivable, instrument, or Investment Property.

"Swap Breakage and Indemnity Amounts" means any early termination payments, taxes, indemnification payments and any other amounts owed to a Hedge Provider under a Hedging Agreement that do not constitute monthly payments.

"Tangible Net Worth" means, with respect to any Person as of any date of determination, determined on a consolidated basis and in accordance with GAAP, the result of (a) such Person's total members' or shareholder's equity, plus (b) all Indebtedness expressly subordinated to all other borrowed Indebtedness of such Person, minus (c) all Intangible Assets of such Person, minus (d) all of such Person's prepaid expenses, minus (e) all amounts due to such Person from Affiliates of such Person.

"Target Industry" means each of the following business areas as classified in accordance with the Required Procedures: (a) Technology, (b) Life Science, (c) Healthcare Information and Services, and (d) Cleantech.

"Target Industry Percentage Limit" means (a) with respect to the Target Industry of Technology, seventy percent (70%); (b) with respect to the Target Industry of Life Science, seventy percent (70%); (c) with respect to the Target Industry of Healthcare Information and Services, seventy percent (70%); (d) with respect to the Target Industry of Cleantech, fifty percent (50%).

"Taxes" means any taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments and all interest, penalties or similar liabilities with respect thereto.

"Tax Lender" has the meaning set forth in Section 15.2(a).

"Term Note Receivable" means each Note Receivable with required scheduled monthly amortization payments, no portion of which may be reborrowed once repaid, and designated as a "term loan" on the books of the Servicer in accordance with the Required Procedures.

"Termination Date" means the earliest to occur of (a) the Commitment Termination Date, (b) the occurrence of an Early Termination Event, or (c) the date of termination declared or occurring automatically in respect of the occurrence of an Event of Default pursuant to Section 9.1.

"United States" means the United States of America.

"Unused Fee" has the meaning set forth in Section 2.10(a).

"U.S. Lender" has the meaning set forth in Section 16.11(c).

"Voidable Transfer" has the meaning set forth in Section 17.8.

"Weighted Average Fixed Coupon" means, as of any Determination Date, a fraction, expressed as a percentage (rounded up to the nearest 0.01%), (x) the numerator of which is the sum of the products for each Note Receivable accruing interest at a fixed rate (excluding Charged-Off Note Receivable) of (A) the cash yield for such Note Receivable of as of such date times (B) by the Outstanding Note Receivable Balance of such Note Receivable as of such date, and (y) the denominator of which is the aggregate Outstanding Note Receivable Balance of all such Note Receivables accruing interest at a fixed rates as of such date. For purposes of this definition, all Note Receivables accruing interest at a fixed rate that are not paying cash interest as of the applicable Determination Date shall be treated as having an interest rate of 0%.

"Weighted Average Floating Spread " means, as of any Determination Date, a fraction, expressed as a percentage (rounded up to the nearest 0.01%), (x) the numerator of which is the sum of the products for each Note Receivable accruing interest at a floating rate (excluding Charged-Off Note Receivables) of (A) the Spread, on an annualized basis, of such Note Receivables (including commitment, letter of credit and all other fees), by (B) the Outstanding Note Receivable Balance of such Note Receivables as of such date and (y) the denominator of which is the aggregate Outstanding Note Receivable Balance of all such Note Receivables accruing interest at a floating rate as of such date.

"Weighted Average Remaining Maturity " means, with respect to the Note Receivables included in the Collateral as of any Determination Date, the number equal to (i) the sum of the products for each such Note Receivable of (A) the remaining term to maturity of such Note Receivable (in years, rounded to the nearest one tenth thereof and based upon the initial maturity date of such Note Receivable) times (B) the Outstanding Note Receivable Balance of such Note Receivable divided by (ii) Aggregate Outstanding Note Receivable Balance at such time.

"Weighted Average Spread" means, as of any Determination Date, an amount (rounded up to the next 0.01%) equal to the weighted average of (a) for Note Receivables which bear interest at a floating rate, the Weighted Average Floating Spread of such Note Receivables and (b) for Note Receivables which bear interest at a fixed rate, the excess of the Weighted Average Fixed Coupon of such Note Receivables over the then-current weighted average strike rate under the Hedge Transactions, or, if there are no Hedge Transactions outstanding, over the then current LIBOR Rate.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP; provided, however, that if Borrower notifies Agent that Borrower requests an amendment to any provision hereof to eliminate the effect of any Accounting Change occurring after the Restatement Effective Date or in the application thereof on the operation of such provision (or if Agent notifies Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such Accounting Change or in the application thereof, then Agent and Borrower agree that they will negotiate in good faith amendments to the provisions of this Agreement that are directly affected by such Accounting Change with the intent of having the respective positions of the Lenders and Borrower after such Accounting Change conform as nearly as possible to their respective positions as of the date of this Agreement and, until any such amendments have been agreed upon and agreed to by the Required Lenders, the provisions in this Agreement shall be calculated as if no such Accounting Change had occurred. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Horizon" is used in respect of a financial covenant or a related definition, it shall be understood to mean Horizon and its Subsidiaries on a consolidated basis, unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein; provided however, that to the extent that the Code is used to define any term herein and such term is defined differently in different Articles of the Code, the definition of such term contained in Article 9 shall govern.

1.4 **Construction.** Unless the context of this Agreement or any other Loan Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms "includes" and "including" are not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in any other Loan Document to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein). The words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties. Any reference herein or in any other Loan Document to the satisfaction, repayment, or payment in full of the Obligations shall mean the repayment in full in cash or immediately available funds (or, in the case of obligations with respect to Bank Products (other than Hedge Obligations), providing Bank Product Collateralization) of all of the Obligations (including the payment of any Lender Group Expenses that have accrued irrespective of whether demand has been made therefor and the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Hedge Agreements provided by Hedge Providers) other than (i) unasserted contingent indemnification Obligations, (ii) any Bank Product Obligations (other than Hedge Obligations) that, at such time, are allowed by the applicable Bank Product Provider to remain outstanding without being required to be repaid or cash collateralized, and (iii) any Hedge Obligations that, at such time, are allowed by the applicable Hedge Provider to remain outstanding without being required to be repaid. Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in any other Loan Document shall be satisfied by the transmission of a Record.

1.5 **Schedules and Exhibits.** All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. **LOAN AND TERMS OF PAYMENT**.

2.1 **Revolver Advances**.

(a) Subject to the terms and conditions of this Agreement, and during the Revolving Credit Availability Period, each Lender agrees (severally, not jointly or jointly and severally) to make Advances to Borrower in an amount at any one time outstanding not to exceed *the lesser of*

(i) such Lender's Commitment, or

(ii) such Lender's Pro Rata Share of the Available Amount at such time;

(b) Anything to the contrary in this Section 2.1 notwithstanding, Agent shall have the right (but not the obligation) to establish, increase, reduce, eliminate, or otherwise adjust reserves from time to time against the Borrowing Base (or the Maximum Revolver Amount in the case of clause (iv) below) in such amounts, and with respect to such matters, as Agent in its Permitted Discretion shall deem necessary or appropriate, including (i) reserves in an amount up to the Bank Product Reserve Amount, and (ii) reserves with respect to (A) sums that Borrower is required to pay (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases) and has failed to pay under any Section of this Agreement or any other Loan Document, (B) amounts owing by Borrower or any of its Subsidiaries to any Person to the extent secured by a Lien on, or trust over, any of the Collateral (other than any existing Permitted Lien set forth on Schedule P-1 which is specifically identified thereon as entitled to have priority over the Agent's Liens), which Lien or trust, in the Permitted Discretion of Agent likely would have a priority superior to the Agent's Liens (such as Liens or trusts in favor of landlords, warehousemen, carriers, mechanics, materialmen, laborers, or suppliers, or Liens or trusts for ad valorem, excise, sales, or other taxes where given priority under applicable law) in and to such item of the Collateral, (iii) the valuation of any Note Receivable, the Collateral securing any Note Receivable, or other Collateral, and (iv) up to the aggregate amount of available unfunded revolver commitments of Borrower to the makers of Notes Receivable. On the Restatement Effective Date, the Borrower shall fund an indemnity reserve in the amount of $200,000 (the "Indemnity Reserve"), held in a sub-account of the Collection Account, which amount may be utilized by KEF, as Agent, in its sole discretion to compensate itself for any losses, costs or expenses incurred by it in connection with any claim made by Wells Fargo National Bank or any Affiliate in connection with the assignment by it of its rights and obligations (as a Lender or Agent) under this Agreement or the other Loan Documents. The Indemnity Reserve shall be maintained until the second anniversary of the Restatement Effective Date at which time any remaining funds shall be distributed to the Borrower, unless at such time there are outstanding and unpaid indemnification claims, in which event the Indemnity Reserve shall be maintained until such outstanding and unpaid indemnification claims are finally resolved. Borrower shall have no obligation to restore the Indemnity Reserve to its original amount. Agent will review the amount of the Indemnity Reserve on the first anniversary of the Restatement Effective Date to determine whether and in what amount (up to a maximum of $200,000 less any proceeds of the Indemnity Reserve used to satisfy prior indemnification claims) such reserve shall continue to be maintained, if at all. So long as no Event of Default has occurred and is continuing, Agent shall first notify and attempt to discuss with Borrower any such reserve level.

(c) During the Amortization Period until the reduction to zero of all outstanding commitments in respect of Revolving Note Receivables, each Lender shall make Post-Termination Revolving Note Receivable Fundings up to an aggregate amount equal to such Lender's Commitment less outstanding Advances made by such Lender. Requests for and funding of Post-Termination Revolving Note Receivable Fundings shall be made in accordance the procedures set forth in Section 2.2; provided, that the Agent may, in its sole discretion, advance funds constituting Post-Termination Revolving Note Receivable Fundings to (i) the Borrower or (ii) the applicable Account Debtor directly, on behalf of the Borrower, and in either case, such funds shall be used solely for the purpose of funding advances requested by an Account Debtor under a Revolving Note Receivable.

(d) Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2 Borrowing Procedures and Settlements.

(a) **Procedure for Borrowing.** On the terms and conditions hereinafter set forth, the Borrower may, by delivery of an irrevocable written request to the Agent (any such request, a "Funding Request"), from time to time on any Business Day during the Revolving Credit Availability Period (but not more than once per calendar week), at its option, request that the Lenders make Advances to it in an amount which, at any time, shall not exceed the Available Amount in effect on the related Funding Date.

(i) Such Funding Request shall be delivered not later than 12:00 noon (New York City time) on the date which is one (1) Business Day prior to the requested Funding Date. Each Funding Request shall specify the aggregate amount of the requested Advance, which shall be in an amount equal to at least $1,000,000. Each Funding Request shall be accompanied by (i) a certificate of the Borrower, depicting the outstanding amount of Advances under this Agreement and representing that all conditions precedent for a funding have been met, including a representation by the Borrower that the requested Advance shall not, on the Funding Date thereof, exceed the Available Amount on such day, (ii) a Borrowing Base Certificate as of the applicable Funding Date (giving pro forma effect to the Advance requested and the use of proceeds thereof), (iii) an updated schedule listing of all Notes Receivable including each Note Receivable that is subject to the requested Advance, (iv) the proposed Funding Date, and (v) wire transfer instructions for the Advance. Upon receipt of such Funding Request, the Agent shall promptly forward such Funding Request to the Lenders.

(ii) A Funding Request shall be irrevocable when delivered; provided however, that if the Borrowing Base calculation delivered pursuant to clause (ii) above includes a Note Receivable which does not become part of the Borrower Collateral on or before the applicable Funding Date as anticipated, and the Borrower cannot otherwise make the representations required pursuant to clause (i) above, the Borrower shall revise the Funding Request accordingly, and shall pay any loss, cost or expense incurred by any Lender in connection with the broken funding evidenced by such revised Funding Request.

(iii) On the Funding Date following the satisfaction of the applicable conditions set forth in this Section 2.2(a) and Article III, the Lenders shall make available to the Agent at its address listed beneath its signature on its signature page to this Agreement (or on the signature page to the Joinder Agreement pursuant to which it became a party hereto), for deposit to the account of the Borrower or its designee in same day funds, at the Borrower's Designated Account, an amount equal to such Lender's Pro Rata Share of the Advance then being made. Each wire transfer of an Advance to the Borrower shall be initiated by the applicable Lender no later than 3:00 p.m. (New York City time) on the applicable Funding Date. The obligation of each Lender to remit its Pro Rata Share of any such Advance shall be several from that of each other Lender, and the failure of any Lender to so make such amount available to the Borrower shall not relieve any other Lender of its obligation hereunder.

(iv) The Borrower shall deliver to the Agent any other documents or materials reasonably requested with respect to each Note Receivable, promptly upon request therefor.

(b) **Extension of Commitment Termination Date**. The Borrower may, no later than ninety (90) days prior to the then current anniversary of the Restatement Effective Date, by written notice to the Agent, make written requests for the Lenders to extend the Commitment Termination Date for an additional revolving period of 364 days. The Agent will give prompt notice to each Lender of its receipt of such request for extension of the Commitment Termination Date. Each Lender shall make a determination, in its sole discretion and after a full credit review, not less than fifteen (15) days prior to the then applicable anniversary of the Restatement Effective Date as to whether or not it will agree to extend the Commitment Termination Date; provided, however, that the failure of any Lender to make a timely response to the Borrower's request for extension of the Commitment Termination Date shall be deemed to constitute an acceptance by such Lender to extend the Commitment Termination Date.

(c) **Notation.** Agent shall record on its books the principal amount of the Advances owing to each Lender, and the interests therein of each Lender, from time to time and such records shall, absent manifest error, conclusively be presumed to be correct and accurate. In addition, each Lender is authorized, at such Lender's option, to note the date and amount of each payment or prepayment of principal of such Lender's Advances in its books and records, including computer records.

(d) **Defaulting Lenders.** Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrower to Agent for the Defaulting Lender's benefit or any Collections or proceeds of Collateral that would otherwise be remitted hereunder to the Defaulting Lender, and, in the absence of such transfer to the Defaulting Lender, Agent shall transfer any such payments to each non-Defaulting Lender ratably in accordance with their Commitments (but, in each case, only to the extent that such Defaulting Lender's portion of an Advance (or other funding obligation) was funded by such other non-Defaulting Lender), (i) to a suspense account maintained by Agent, the proceeds of which shall be retained by Agent and may be made available to be re-advanced to or for the benefit of Borrower as if such Defaulting Lender had made its portion of Advances (or other funding obligations) hereunder, and (ii) from and after the date on which all other Obligations have been paid in full, to such Defaulting Lender in accordance with tier (M) of Section 2.4(b). Subject to the foregoing, Agent may hold and, in its discretion, re-lend to Borrower for the account of such Defaulting Lender the amount of all such payments received and retained by Agent for the account of such Defaulting Lender. Solely for the purposes of voting or consenting to matters with respect to the Loan Documents (including the calculation of Pro Rata Share in connection therewith) and for the purpose of calculating the fee payable under Section 2.10(a), such Defaulting Lender shall be deemed not to be a "Lender" and such Lender's Commitment shall be deemed to be zero. The provisions of this Section 2.2(d) shall remain effective with respect to such Defaulting Lender until the earlier of (x) the date on which all of the non-Defaulting Lenders, Agent, and Borrower shall have waived, in writing, the application of this Section 2.2(d) to such Defaulting Lender, or (y) the date on which such Defaulting Lender makes payment of all amounts that it was obligated to fund hereunder, pays to Agent all amounts owing by Defaulting Lender in respect of the amounts that it was obligated to fund hereunder, and, if requested by Agent, provides adequate assurance of its ability to perform its future obligations hereunder. The operation of this Section 2.2(d) shall not be construed to increase or otherwise affect the Commitment of any Lender, to relieve or excuse the performance by such Defaulting Lender or any other Lender of its duties and obligations hereunder, or to relieve or excuse the performance by Borrower of its duties and obligations hereunder to Agent or to the Lenders other than such Defaulting Lender. Any failure by a Defaulting Lender to fund amounts that it was obligated to fund hereunder shall constitute a material breach by such Defaulting Lender of this Agreement and shall entitle Borrower, at its option, upon written notice to Agent, to arrange for a substitute Lender to assume the Commitment of such Defaulting Lender, such substitute Lender to be reasonably acceptable to Agent. In connection with the arrangement of such a substitute Lender, the Defaulting Lender shall have no right to refuse to be replaced hereunder, and agrees to execute and deliver a completed form of Assignment and Acceptance in favor of the substitute Lender (and agrees that it shall be deemed to have executed and delivered such document if it fails to do so) subject only to being paid its share of the outstanding Obligations (other than Bank Product Obligations, but including all interest, fees, and other amounts that may be due and payable in respect thereof,); provided, however, that any such assumption of the Commitment of such Defaulting Lender shall not be deemed to constitute a waiver of any of the Lender Groups' or Borrower's rights or remedies against any such Defaulting Lender arising out of or in relation to such failure to fund. In the event of a direct conflict between the priority provisions of this Section 2.2(d) and any other provision contained in this Agreement or any other Loan Document, it is the intention of the parties hereto that such provisions be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.2(d) shall control and govern.

(e) **Independent Obligations.** All Advances shall be made by the Lenders contemporaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Advance (or other extension of credit) hereunder, nor shall any Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligations hereunder, and (ii) no failure by any Lender to perform its obligations hereunder shall excuse any other Lender from its obligations hereunder.

2.3 **Payments; Overadvances**.

(a) **Payments by Borrower**.

(i) Except as otherwise expressly provided herein, all payments by Borrower shall be made to Agent's Account for the account of the Lender Group and shall be made in immediately available funds, no later than 2:00 p.m. (New York time) on the date specified herein. Any payment received by Agent later than 2:00 p.m. (New York time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Unless Agent receives notice from Borrower prior to the date on which any payment is due to the Lenders that Borrower will not make such payment in full as and when required, Agent may assume that Borrower has made (or will make) such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrower does not make such payment in full to Agent on the date when due, each Lender severally shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Defaulting Lender Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(b) **Overadvances**. If, at any time or for any reason, the amount of Obligations owed by Borrower to the Lender Group is greater than the Maximum Availability (an "Overadvance"), Borrower shall, within two Business Days pay to Agent, in cash, the amount of such excess (to the extent not paid sooner from Collections), which amount shall be used by Agent to reduce the Obligations in accordance with the priorities set forth in Section 2.4. Borrower promises to pay the Obligations (including principal, interest, fees, costs, and expenses) in full on the Maturity Date or, if earlier, on the date on which the Obligations (other than the Bank Product Obligations) become due and payable pursuant to the terms of this Agreement and the other Loan Documents.

2.4 Apportionment and Application of Payments.

On each Remittance Date, the Servicer on behalf of the Borrower shall pay for receipt by the applicable Lender no later than 11:00 a.m. (New York City time) to the following Persons, from (i) amounts on deposit in the Collection Account, including, all Collections, to the extent of available funds, (ii) Servicer Advances, and (iii) amounts received in respect of any Hedge Agreement during such Collection Period (the sum of such amounts described in clauses (i), (ii) and (iii), being the "Available Collections") the following amounts in the following order of priority:

(a) During the Revolving Credit Availability Period, and in each case unless otherwise specified below, applying Available Collections (provided, that, Available Collections which do not constitute Principal Collections shall be applied to the extent available before any Available Collections constituting Principal Collections are applied):

(A) FIRST, to the Servicer, in an amount equal to any unreimbursed Servicer Advances, for the payment thereof;

(B) SECOND, to the Servicer, in an amount equal to its accrued and unpaid Servicing Fees to the end of the preceding Collection Period for the payment thereof;

(C) THIRD, ratably, (A) to the Backup Servicer and any Successor Servicer, as applicable, in an amount equal to any accrued and unpaid Backup Servicing Fees, in an amount not to exceed the aggregate Backup Servicing Fees provided for in the Backup Servicer Engagement Letter per annum, (B) to the Collateral Custodian in an amount equal to any accrued and unpaid Collateral Custodian Fees, in an amount not to exceed the aggregate Collateral Custodian Fees provided for in the Collateral Custodian Fee Letter per annum, and (C) to the Agent, in an amount equal to any accrued and unpaid Agent's Fee;

(D) FOURTH, to each Hedge Provider, any amounts owing that Hedge Provider under its respective Hedging Agreement in respect of any Hedge Transaction(s), for the payment thereof, but excluding, to the extent the Hedge Provider is not the same Person as the Agent, any Swap Breakage and Indemnity Amounts;

(E) FIFTH, to the Agent for payment to each Lender, in an amount equal to any accrued and unpaid Interest and Unused Fee for such Remittance Date;

(F) SIXTH, first, to the Agent for payment to each Lender, an amount equal to the excess, if any, of outstanding Advances over the lesser of (i) the Borrowing Base or (ii) the Facility Amount, *pro rata*;

(G) SEVENTH, ratably, (A) to the Backup Servicer and any Successor Servicer, as applicable, in an amount equal to any accrued and unpaid Backup Servicing Fee and any other amounts due and owing to such Person and (B) to the Collateral Custodian in an amount equal to any accrued and unpaid Collateral Custodian Fee and any other amounts due and owing to such Person, in each case, to the extent not paid pursuant to clause THIRD above;

(H) EIGHTH, to each Hedge Provider, any Swap Breakage and Indemnity Amounts owing that Hedge Provider;

(I) NINTH, to the Agent for payment to each Lender, in the amount of unpaid other costs or expenses, and/or taxes (if any) owed to such Lender;

(J) TENTH, to the Agent, all other amounts or Obligations then due under this Agreement or the other Loan Documents to the Agent, the Lenders or any Indemnified Person, each for the payment thereof;

(K) ELEVENTH, to the Servicer, all other amounts then due under this Agreement or the other Loan Documents to the Servicer, for the payment thereof; and

(L) TWELFTH, all remaining amounts to the Borrower.

(b) During the Amortization Period, to the extent of Available Collections (provided, that, (i) Available Collections which do not constitute Principal Collections shall be applied to clauses FIRST through SIXTH to the extent available before any Available Collections constituting Principal Collections are applied, and (ii) unless an Event of Default shall have occurred and be continuing, only Available Collections constituting Principal Collections shall be applied to clause SIXTH):

(A) FIRST, to the Servicer, in an amount equal to any unreimbursed Servicer Advances, for the payment thereof;

(B) SECOND, to the Servicer, in an amount equal to its accrued and unpaid Servicing Fees to the end of the preceding Collection Period for the payment thereof;

(C) THIRD, ratably, (A) to the Backup Servicer and any Successor Servicer, as applicable, in an amount equal to any accrued and unpaid Backup Servicing Fee, in an amount not to exceed the aggregate Backup Servicing Fees provided for in the Backup Servicer Engagement Letter per annum, (B) to the Collateral Custodian in an amount equal to any accrued and unpaid Collateral Custodian Fee, in an amount not to exceed the aggregate Collateral Custodian Fees provided for in the Collateral Custodian Fee Letter per annum, and (C) to the Agent, in an amount equal to any accrued and unpaid Agent's Fee;

(D) FOURTH, to each Hedge Provider, any amounts owing that Hedge Provider under its respective Hedging Agreement in respect of any Hedge Transaction(s), for the payment thereof, but excluding, to the extent the Hedge Provider is not the same Person as the Agent, any Swap Breakage and Indemnity Amounts;

(E) FIFTH, to the Agent for payment to each Lender, in an amount equal to any accrued and unpaid Interest and Unused Fee for such Remittance Date;

(F) SIXTH, to the Agent for ratable payment to each Lender, in an amount to reduce outstanding Advances to zero;

(G) SEVENTH, ratably, (A) to the Backup Servicer and any Successor Servicer, as applicable, in an amount equal to any accrued and unpaid Backup Servicing Fee and any other amounts due and owing to such Person and (B) to the Collateral Custodian in an amount equal to any accrued and unpaid Collateral Custodian Fee and any other amounts due and owing to such Person, in each case, to the extent not paid pursuant to clause THIRD and FOURTH above;

(H) EIGHTH, to each Hedge Provider, any Swap Breakage and Indemnity Amounts owing that Hedge Provider;

(I) NINTH, to the Agent for payment to each Lender, in the amount of unpaid breakage costs with respect to any prepayments made on such Remittance Date, increased costs and/or taxes (if any) owed to such Lender;

(J) TENTH, to the Agent, all other amounts or Obligations then due under this Agreement or the other Loan Documents to the Agent, the Lenders or any Indemnified Person, each for the payment thereof;

(K) ELEVENTH, to the Servicer, all other amounts then due under this Agreement or the other Loan Documents to the Servicer, for the payment thereof;

(L) TWELFTH, to the Agent, all other amounts or Obligations then due under this Agreement or the other Loan Documents to any Defaulting Lender, each for the payment thereof; and

(M) THIRTEENTH, all remaining amounts to the Borrower.

In the event of a direct conflict between the priority provisions of this Section 2.4 and other provisions contained in this Agreement or any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.4 shall control and govern.

2.5 Interest Rates: Rates, Payments, and Calculations.

(a) **Interest Rates**. Except as provided in Section 2.5(b) below, all Obligations that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to the Interest Rate at such time.

(b) **Default Rate**. Upon the occurrence and during the continuation of an Event of Default (and at the election of Agent or the Required Lenders), all Obligations that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to two percent (2.0%) above the Interest Rate otherwise applicable hereunder (the "Default Rate").

(c) **Payment**. Except to the extent, if any, provided to the contrary in Section 2.10 or Section 2.12, interest and all other fees payable hereunder shall be due and payable, in arrears, (i) on the first day of each month at any time that Obligations or Commitments are outstanding, and (ii) on the Maturity Date. Borrower hereby authorizes Agent, from time to time without prior notice to Borrower, to charge all interest and fees (when due and payable), all Lender Group Expenses (as and when incurred), all fees and costs provided for in Section 2.10 (as and when accrued or incurred), and all other payments as and when due and payable under any Loan Document or any Bank Product Agreement (including any amounts due and payable to the Bank Product Providers in respect of Bank Products) to Borrower's Loan Account, all of which amounts thereafter shall constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances hereunder. Any interest, fees, costs, expenses, Lender Group Expenses, or other amounts payable hereunder or under any other Loan Document or under any Bank Product Agreement that are charged to the Loan Account shall thereupon constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances hereunder.

(d) **Computation**. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360-day year for the actual number of days elapsed. In the event the Base Rate is changed from time to time hereafter, the rates of interest hereunder based upon the Base Rate automatically and immediately shall be increased or decreased by an amount equal to such change in the Base Rate.

(e) **Intent to Limit Charges to Maximum Lawful Rate**. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrower and the Lender Group, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto, as of the date of this Agreement, Borrower is and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrower in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.6 Cash Management.

(a) Borrower shall and shall cause each of its Subsidiaries to, or shall cause Servicer to, (i) establish and maintain cash management services of a type and on terms satisfactory to Agent at one or more of the banks set forth on Schedule 2.6(a) (each, a "Cash Management Bank"), including without limitation, the Collection Account Bank, and shall request in writing and otherwise take such reasonable steps to ensure that all of Borrower's and its Subsidiaries' Account Debtors (and third party payors in the case of Account Debtors with governmental and institutional payors) forward payment of the amounts owed by them directly to the Collection Account, and (ii) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all Collections received in good funds (including those sent directly by their Account Debtors to Borrower or one of its Subsidiaries) into the Collection Account, (iii) cause all payments for each sale or other disposition of one or more Notes Receivable or payment in full of one or more Notes Receivable in connection with the refinancing of such Note Receivable or the sale and release of the collateral securing such Note Receivable to be made by the escrow company, title insurance company or refinancing lender or purchaser directly to the Collection Account by wire transfer or check drawn on the account of such escrow company or title insurance company or by cashier's check, and (iv) until such time as the Collection Account or an account in Agent's name for receipt of Collections (each a "Cash Management Account") is established, forward or cause to be forwarded no later than the first Business Day after the date of receipt thereof, all of their Collections to Agent's Account. Borrower shall, or shall cause Servicer to, request in writing and otherwise take such reasonable steps to ensure that all of Borrower's and its Subsidiaries' Account Debtors forward payment of the amounts owed by them to Borrower directly to a Cash Management Account. Borrower covenants that no Collections made in respect of Borrower shall be commingled with Horizon's, Servicer's or any other Person's deposits.

(b) Each Cash Management Bank shall establish and maintain Cash Management Agreements with Agent and Borrower, in form and substance acceptable to Agent in its Permitted Discretion. Each such Cash Management Agreement shall provide, among other things, that (i) the Cash Management Bank will comply with any instructions originated by Agent directing the disposition of the funds in such Cash Management Account without further consent by Borrower, as applicable, (ii) the Cash Management Bank has no rights of setoff or recoupment or any other claim against the applicable Cash Management Account other than for payment of its service fees and other charges directly related to the administration of such Cash Management Account and for returned checks or other items of payment, and (iii) it will forward, by an automatic daily sweep, all amounts in the applicable Cash Management Account to the deposit account of Agent designated in such Cash Management Agreement.

(c) So long as no Default or Event of Default has occurred and is continuing, Borrower may amend Schedule 2.6(a) to add or replace a Cash Management Bank or Cash Management Account; provided, however, that (i) such prospective Cash Management Bank shall be reasonably satisfactory to Agent and Agent shall have consented in writing in advance to the establishment of such Cash Management Account with the prospective Cash Management Bank, and (ii) prior to the time of the opening of such Cash Management Account, Borrower (or its Subsidiary, as applicable) and such prospective Cash Management Bank shall have executed and delivered to Agent a Cash Management Agreement. Borrower (or its Subsidiaries, as applicable) shall close any of its Cash Management Accounts (and establish replacement cash management accounts in accordance with the foregoing sentence) promptly and in any event within thirty (30) days of notice from Agent that the creditworthiness of any Cash Management Bank is no longer acceptable in Agent's reasonable judgment, or as promptly as practicable and in any event within sixty (60) days of notice from Agent that the operating performance, funds transfer, or availability procedures or performance of the Cash Management Bank with respect to Cash Management Accounts or Agent's liability under any Cash Management Agreement with such Cash Management Bank is no longer acceptable in Agent's reasonable judgment.

(d) The Cash Management Accounts shall be cash collateral accounts subject to Control Agreements, and Borrower hereby grants a Lien in all Cash Management Accounts to Agent to secure payment of the Obligations.

2.7 Crediting Payments. The receipt of any payment item by Agent (whether from transfers to Agent by the Cash Management Banks pursuant to the Cash Management Agreements or otherwise) shall not be considered a payment on account unless such payment item is a wire transfer of immediately available federal funds made to the Agent's Account (or made by a Cash Management Bank to the deposit account of Agent designated in the relevant Cash Management Agreement) or unless and until such payment item is honored when presented for payment. Should any payment item not be honored when presented for payment, then Borrower shall be deemed not to have made such payment and interest shall be calculated accordingly. Anything to the contrary contained herein notwithstanding, any payment item shall be deemed received by Agent only if it is received into the Agent's Account (or into the deposit account of Agent designated in the relevant Cash Management Agreement) on a Business Day on or before 2:00 p.m. (New York time). If any payment item is received into the Agent's Account (or into the deposit account of Agent designated in the relevant Cash Management Agreement) on a non-Business Day or after 2:00 p.m. (New York time) on a Business Day, it shall be deemed to have been received by Agent as of the opening of business on the immediately following Business Day.

2.8 Designated Account. Agent is authorized to make the Advances under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person or, without instructions, if pursuant to Section 2.5(c). Borrower agrees to establish and maintain the Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrower and made by Agent or the Lenders hereunder. Unless otherwise agreed by Agent and Borrower, any Advance requested by Borrower and made by Agent or the Lenders hereunder shall be made to the Designated Account.

2.9 Maintenance of Loan Account; Statements of Obligations. Agent shall maintain an account on its books in the name of Borrower (the "Loan Account") on which Borrower shall be charged with all Advances made by Agent or the Lenders to Borrower or for Borrower's account, and with all other payment Obligations hereunder or under the other Loan Documents, including, accrued interest, fees and expenses, and Lender Group Expenses. In accordance with Section 2.7, the Loan Account will be credited with all payments received by Agent from Borrower or for Borrower's account, including all amounts received from any Cash Management Bank in the deposit account of Agent designated in the relevant Cash Management Agreement. Agent shall render statements regarding the Loan Account to Borrower, including principal, interest, fees, and including an itemization of all charges and expenses constituting Lender Group Expenses owing, and such statements, absent manifest error, shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and the Lender Group unless, within thirty (30) days after receipt thereof by Borrower, Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

2.10 **Fees.** Borrower shall pay to Agent the following fees and charges, which fees and charges shall be non-refundable when paid (irrespective of whether this Agreement is terminated thereafter) and shall be apportioned among the Lenders in accordance with the terms of letter agreements between Agent and individual Lenders:

(a) **Unused Line Fee**. On the first day of each calendar quarter, Borrower shall pay an unused line fee (the "Unused Fee") equal to (i) the amount by which (A) the average daily amount of the aggregate Commitments of all Lenders during the immediately preceding calendar quarter (or portion thereof during which this Agreement is in effect), exceeds (B) the Average Daily Balance during such immediately preceding calendar quarter (or portion thereof during which this Agreement is in effect), multiplied by (ii) (1) three-eighths of one percent (0.375%) per annum, during (x) the Ramp-Up Period, (y) during any six month period following a take-out financing which does not terminate this Agreement and reduces Advances outstanding by more than fifty percent (50%) or (z) for any period when the Average Daily Balance is less than thirty-five percent (35%) of the average daily amount of the aggregate Commitments of all Lenders and (2) half of one percent (0.50%) otherwise.

(b) **Fees Under Fee Letters**. As and when due and payable under the terms of (i) the Agent Fee Letter, Borrower shall pay to Agent for the account of Agent the fees set forth in the Agent Fee Letter and (ii) the Fee Letter, Borrower shall pay to Agent for the account of the Lenders the fees set forth in the Fee Letter.

(c) **Audit, Appraisal, and Valuation Charges**. For the separate account of Agent, Borrower shall pay to or at the direction of Agent reasonable audit, appraisal, and valuation fees and charges incurred in connection with financial or collateral audits or appraisals of Borrower, or appraisals of the Collateral or any portion thereof; provided that (A) so long as no Default or Event of Default has occurred and is continuing, Borrower will not be charged for more than one (1) financial or collateral inspection, audit or appraisal during any calendar year, whether pursuant to this Agreement or the Sale and Servicing Agreement, and (B) so long as no Event of Default has occurred and is continuing, none of Borrower, Horizon nor Horizon Management will be charged for an aggregate amount in excess of $30,000 for fees and charges during any calendar year covering financial or collateral inspections, audits or appraisals pursuant to this Agreement or the Sale and Servicing Agreement.

2.11 Capital Requirements.

(a) If, after the date hereof, any Lender determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital or reserve requirements for banks or bank holding companies, or any change in the interpretation, implementation, or application thereof by any Governmental Authority charged with the administration thereof, or (ii) compliance by such Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on such Lender's or such holding company's capital as a consequence of such Lender's Commitments hereunder to a level below that which such Lender or such holding company could have achieved but for such adoption, change, or compliance (taking into consideration such Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Lender to be material, then such Lender may notify Borrower and Agent thereof. Following receipt of such notice, Borrower agrees to pay such Lender on demand the amount of such reduction of return of capital as and when such reduction is determined, payable within ninety (90) days after presentation by such Lender of a statement in the amount and setting forth in reasonable detail such Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error). In determining such amount, such Lender may use any reasonable averaging and attribution methods. Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; provided that Borrower shall not be required to compensate a Lender pursuant to this Section for any reductions in return incurred more than 180 days prior to the date that such Lender notifies Borrower of such law, rule, regulation or guideline giving rise to such reductions and of such Lender's intention to claim compensation therefor; provided further that if such claim arises by reason of the adoption of or change in any law, rule, regulation or guideline that is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

(b) If any Lender requests additional or increased costs referred to in Section 2.12(b)(i) or amounts under Section 2.11(a) or sends a notice under Section 2.12(b)(ii) relative to changed circumstances (any such Lender, an "Affected Lender"), then such Affected Lender shall use reasonable efforts to promptly designate a different one of its lending offices or to assign its rights and obligations hereunder to another of its offices or branches, if (i) in the reasonable judgment of such Affected Lender, such designation or assignment would eliminate or reduce amounts payable pursuant to Section 2.12(b)(i) or Section 2.11(a), as applicable, or would eliminate the illegality or impracticality of funding or maintaining LIBOR Rate Loans and (ii) in the reasonable judgment of such Affected Lender, such designation or assignment would not subject it to any material unreimbursed cost or expense and would not otherwise be materially disadvantageous to it. Borrower agrees to pay all reasonable out-of-pocket costs and expenses incurred by such Affected Lender in connection with any such designation or assignment. If, after such reasonable efforts, such Affected Lender does not so designate a different one of its lending offices or assign its rights to another of its offices or branches so as to eliminate Borrower's obligation to pay any future amounts to such Affected Lender pursuant to Section 2.12(b)(i) or Section 2.11(a), as applicable, or to enable Borrower to obtain LIBOR Rate Loans, then Borrower (without prejudice to any amounts then due to such Affected Lender under Section 2.12(b)(i) or Section 2.11(a), as applicable) may, unless prior to the effective date of any such assignment the Affected Lender withdraws its request for such additional amounts under Section 2.12(b)(i) or Section 2.11(a), as applicable, or indicates that it is no longer unlawful or impractical to fund or maintain LIBOR Rate Loans, may seek a substitute Lender reasonably acceptable to Agent to purchase the Obligations owed to such Affected Lender and such Affected Lender's Commitments hereunder (a " Replacement Lender"), and if such Replacement Lender agrees to such purchase, such Affected Lender shall assign to the Replacement Lender its Obligations and Commitments, pursuant to an Assignment and Acceptance Agreement, and upon such purchase by the Replacement Lender, such Replacement Lender shall be deemed to be a "Lender" for purposes of this Agreement and such Affected Lender shall cease to be a "Lender" for purposes of this Agreement.

2.12 LIBOR Rate Provisions.

(a) **Interest Rates**. Except as otherwise provided in Sections 2.5(b) and 2.11(b), interest on the Advances shall be charged at a rate equal to the lesser of (i) the LIBOR Rate plus the Applicable Margin or (ii) the maximum rate of interest allowable by Law.

(b) **Special Provisions Applicable to LIBOR Rate**.

(i) The LIBOR Rate may be adjusted by Agent with respect to any Lender on a prospective basis to take into account any additional or increased costs to such Lender of maintaining or obtaining any eurodollar deposits or increased costs, in each case, due to changes in applicable law occurring subsequent to the commencement of the then applicable Interest Period, including changes in tax laws (other than with respect to Excluded Taxes) and changes in the reserve requirements imposed by the Board of Governors of the Federal Reserve System (or any successor), which additional or increased costs would increase the cost of funding or maintaining loans bearing interest by reference to the LIBOR Rate. In any such event, the affected Lender shall give Borrower and Agent notice of such a determination and adjustment and Agent promptly shall transmit the notice to each other Lender and, upon its receipt of the notice from the affected Lender, Borrower may, by notice to such affected Lender (A) require such Lender to furnish to Borrower a statement setting forth the basis for adjusting such LIBOR Rate and the method for determining the amount of such adjustment, or (B) repay the LIBOR Rate Loans with respect to which such adjustment is made.

(ii) In the event that any change in market conditions or any law, regulation, treaty, or directive, or any change therein or in the interpretation of application thereof, shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to fund or maintain LIBOR Rate Loans or to continue such funding or maintaining, or to determine or charge interest rates by reference to the LIBOR Rate, such Lender shall give notice of such changed circumstances to Agent and Borrower, and Agent promptly shall transmit the notice to each other Lender and (A) in the case of any LIBOR Rate Loans of such Lender that are outstanding, the date specified in such Lender's notice shall be deemed to be the last day of the Interest Period of such LIBOR Rate Loans, and interest upon the LIBOR Rate Loans of such Lender thereafter shall accrue interest at the rate then applicable to Base Rate Loans, and (B) none of such Lender's Advances shall be LIBOR Rate Loans until such Lender determines that it would no longer be unlawful or impractical to do so.

(c) **No Requirement of Matched Funding.** Anything to the contrary contained herein notwithstanding, neither Agent, nor any Lender, nor any of their Participants, is required actually to acquire eurodollar deposits to fund or otherwise match fund any Advance as to which interest accrues by reference to the LIBOR Rate.

2.13 **Increase in Facility Amount**. Subject to the terms and conditions set forth herein, the Borrower shall have the right, at any time from the Restatement Effective Date until the Commitment Termination Date, to increase the Facility Amount by an amount up to $100,000,000 (for a total maximum Facility Amount of $150,000,000). The following terms and conditions shall apply to any such increase: (i) any such increase shall be obtained from existing Lenders or from other Persons with the consent of the Agent (each, an "Eligible Assignee"), in each case in accordance with the terms set forth below; (ii) the Commitment of any Lender may not be increased without the prior written consent of such Lender; (iii) any increase in the Facility Amount shall be in a minimum principal amount of (x) if such increase shall be obtained from existing Lenders, $5,000,000 and (y) if such increase shall be obtained from Eligible Assignees who are not Lenders hereunder, $10,000,000; (iv) the Borrower and Lenders shall execute an acknowledgement (or in the case of the addition of a bank or other financial institution not then a party to this Agreement, a joinder agreement) in form and content satisfactory to the Agent to reflect the revised Commitments and Facility Amount (the Lenders do hereby agree to execute such acknowledgement (or joinder agreement) without delay unless the acknowledgement purports to (i) increase the Commitment of a Lender without such Lender's consent or (ii) amend this Agreement or the other Loan Documents other than as provided for in this Section 2.13); (v) the Borrower shall execute such promissory notes as are necessary to reflect the increase in or creation of the Commitments; (vi) if any Advances are outstanding at the time of any such increase, the Borrower shall make such payments and adjustments on the Advances (including payment of any break funding amount owing in connection therewith) as necessary to give effect to the revised commitment percentages and outstandings of the Lenders; (vii) the Borrower may solicit commitments from Eligible Assignees that are not then a party to this Agreement so long as such Eligible Assignees are reasonably acceptable to the Agent and execute a joinder agreement in form and content satisfactory to the Agent; (viii) the conditions set forth in Section 3.2 shall be satisfied in all material respects; (ix) after giving effect to any such increase in the Facility Amount, no Default or Early Event of Default shall have occurred; (x) the Borrower shall have provided to the Agent, at least thirty (30) days prior to such proposed increase in the Facility Amount, written evidence demonstrating pro forma compliance with the Asset Quality Test and compliance with the Borrowing Base after giving effect to such proposed increase, such evidence to be satisfactory in the sole discretion of the Agent. The amount of any increase in the Facility Amount hereunder shall be offered first to the existing Lenders, and in the event the additional commitments which existing Lenders are willing to take shall exceed the amount requested by the Borrower, such excess shall be allocated in proportion to the commitments of such existing Lenders willing to take additional commitments. If the amount of the additional commitments requested by the Borrower shall exceed the additional commitments which the existing Lenders are willing to take, then the Borrower may invite other Eligible Assignees reasonably acceptable to the Agent to join this Agreement as Lenders hereunder for the portion of commitments not taken by existing Lenders, provided that such Eligible Assignees shall enter into such joinder agreements to give effect thereto as the Agent and the Borrower may reasonably request. Unless otherwise agreed by the Agent and the Lenders, the terms of any increase in the Facility Amount shall be the same as those in effect prior to any increase; provided, however, that should the terms of the increase agreed to be other than those in effect prior to the increase, then the Loan Documents shall, with the consent of the Agent and the Lenders, be amended to the extent necessary to incorporate any such different terms.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 Conditions Precedent to the Restatement Effective Date and Initial Extension of Credit. The obligation of each Lender to make its initial extension of credit under this Amended and Restated Loan and Security Agreement, is subject to the fulfillment, to the satisfaction of Agent and each Lender (the making of such initial extension of credit by a Lender being conclusively deemed to be its satisfaction or waiver of the following), of each of the following conditions precedent:

(a) Agent shall have received financing statements to be filed in such office or offices as may be necessary or, in the opinion of Agent, desirable to perfect the Agent's Liens in and to the Collateral, and Agent shall have received searches reflecting the filing of all such financing statements;

(b) Agent shall have received each of the following documents, in form and substance satisfactory to Agent, duly executed, and each such document shall be in full force and effect:

(i) the Cash Management Agreements,

(ii) the Closing Certificates,

(iii) the Control Agreements,

(iv) each of the Agent Fee Letter and the Fee Letter,

(v) the Sale and Servicing Agreement,

(vi) the Collateral Custodian Fee Letter,

(vii) the Backup Servicer Engagement Letter; and

(viii) a file-stamped copy of a UCC-1 financing statement naming Horizon as seller and Borrower as buyer, filed with the Delaware Secretary of State to perfect the transfer and sale of Notes Receivable to Borrower from time to time pursuant to the Sale and Servicing Agreement.

(c) Secretary's Certificates from the Secretary (or equivalent) of each of (a) Borrower, (b) Horizon, and (c) Horizon Management, dated as of the Restatement Effective Date, in form and substance satisfactory to Agent, certifying that (i) a copy of such Person's Certificate of Formation and Operating Agreement or Certificate or Articles of Incorporation (as applicable) and any other Governing Documents, as well as all amendments thereto, are attached, (ii) other than as reflected by the documents delivered pursuant to (i) above, no action or proceeding for the amendment of such Person's Governing Documents has been taken or is presently contemplated, (iii) attached is a complete and correct copy of an authorization by or resolution of such Person's members, managers or board of directors (as applicable) authorizing such Person's execution, delivery and performance of the Loan Agreement and the other Loan Documents to which it is a party and the transactions contemplated thereby, and (iv) a specimen signature of each manager, member or officer of such Person who is authorized to execute the Loan Documents on behalf of such Person is included and that each of such individuals is duly qualified as of the Restatement Effective Date;

(d) Agent shall have received copies of Borrower's, Horizon's and Horizon Management's Governing Documents, as amended, modified, or supplemented to the Restatement Effective Date, certified by the Secretary of such Person or the Manager of such Person, as applicable;

(e) Agent shall have received certificates of status with respect to Borrower, Horizon, and Horizon Management, dated within 10 days of the Restatement Effective Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Person, which certificate shall indicate that such Person is in good standing in such jurisdiction;

(f) Agent shall have received certificates of status with respect to Borrower, Horizon, and Horizon Management, each dated within thirty (30) days of the Restatement Effective Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Person) in which its failure to be duly qualified could reasonably be expected to result in a Material Adverse Change, which certificates shall indicate that such Person is in good standing in such jurisdictions;

(g) Agent shall have received an opinion or opinions of Borrower's, Horizon's, and Horizon Management's counsel in form and substance satisfactory to Agent;

(h) Agent shall have completed its business, legal, and collateral due diligence, including a review of the legal structure of Horizon, Horizon Management, Borrower and their Affiliates, the operating and accounting systems and controls of Horizon, Horizon Management, and Borrower, collateral audit and review of the books and records of Horizon, Horizon Management, and Borrower, a review of their collateral valuation methods, verification of each of such Person's representations and warranties to the Lender Group, and verification of third-party service providers, in each case, the results of which shall be satisfactory to Agent;

(i) Borrower shall pay all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement;

(j) with respect to each Eligible Note Receivable, Agent or the Collateral Custodian shall be in possession of all of the Required Asset Documents;

(k) Agent shall have received and approved the Required Procedures, which Required Procedures shall be consistent with those previously represented to Agent and shall be acceptable to Agent in its Permitted Discretion;

(l) Agent's counsel shall have received and reviewed all standard documentation evidencing, governing, securing and guaranteeing Notes Receivable, and been satisfied such documentation provides Borrower and Agent with appropriate rights and remedies to enforce any necessary collection actions with respect to such Notes Receivable;

(m) Agent shall have received evidence satisfactory to Agent either that any Person having a Lien (except for Permitted Liens, if any) with respect to the assets of Borrower shall have released such Lien or that such Lien shall be automatically terminated upon the funding of the Advances to be made on the Restatement Effective Date;

(n) Borrower, Horizon and Horizon Management shall have received all licenses, approvals or evidence of other actions required by any Governmental Authority in connection with the execution and delivery by Borrower, Horizon or Horizon Management of the Loan Documents or with the consummation of the transactions contemplated thereby;

(o) Agent shall have received evidence satisfactory to Agent that as of the date of, and after giving effect to, the initial Advance, (i) Borrower has a Tangible Net Worth (based upon the capital contribution by Horizon of cash or the unfinanced portion of Eligible Notes Receivable) of not less than the Minimum Equity Requirement, (ii) Horizon has a Tangible Net Worth of not less than $100,000,000, and (iii) Horizon Management has a Tangible Net Worth of not less than $500,000;

(p) Agent shall have received and reviewed a copy of the finalized disaster recovery plan for Horizon and Horizon Management's, the results of which shall be satisfactory to Agent;

(q) Agent shall have received evidence satisfactory to Agent that as of the Restatement Effective Date, the Borrower has made the deposit to the Indemnity Reserve contemplated by Section 2.1(b); and

(r) All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Agent.

3.2 Conditions Subsequent to the Initial Extension of Credit. The obligation of the Lender Group (or any member thereof) to continue to make Advances (or otherwise extend credit hereunder) is subject to the fulfillment, on or before the date applicable thereto, of each of the following conditions subsequent (any failure by Borrower to satisfy or cause the satisfaction of each of such conditions subsequent constituting an Event of Default):

(a) within ninety (90) days after the Restatement Effective Date, Agent and Borrower shall have delivered a notice pursuant to that certain Collateral Access Agreement with respect to the principal location(s) where Horizon and Borrower maintain the Books relating to the Notes Receivable and other Collateral (i.e. 312 Farmington Avenue, Farmington, Connecticut 06032), notifying the other parties thereto of the resignation of the former agent and appointment of the Agent;

(b) (i) within ninety (90) days after the Restatement Effective Date, Agent shall have received certificates of insurance verifying that Borrower and Servicer have increased the amount of their existing fidelity coverage as of the Restatement Effective Date to an amount not less than $1,500,000, with an insurance company(ies) reasonably satisfactory to Agent, and (ii) within thirty (30) days after the aggregate Commitments first equal or exceed $100,000,000, Agent shall have received lender's loss payee endorsements in favor of Agent meeting the requirements of Section 6.8 with respect to all such policies; and

(c) prior to depositing any assets into the Securities Account listed on Schedule 5.17 as of the Restatement Effective Date, and in any case no later than sixty (60) days after the Restatement Effective Date, Borrower shall deliver to Agent an executed Control Agreement acceptable to Agent in its Permitted Discretion with respect to such Securities Account.

3.3 Conditions Precedent to all Extensions of Credit. The obligation of the Lender Group (or any member thereof) to make any Advances hereunder at any time (or to extend any other credit hereunder), including the initial Advance, shall be subject to the following conditions precedent:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof;

(c) no injunction, writ, restraining order, or other order of any nature restricting or prohibiting, directly or indirectly, the extending of such Advance shall have been issued and remain in force by any Governmental Authority against Borrower, Agent, any Lender, or any of their respective Affiliates;

(d) no Material Adverse Change shall have occurred,

(e) on or before the day preceding the date of such Advance, Borrower shall have delivered to the Collateral Custodian each of the Required Asset Documents with respect to each Note Receivable to be acquired or funded with any portion of such Advance; provided that if Borrower is funding the acquisition of such Note Receivable with the proceeds of Advances being requested with respect to such Note Receivable, then this condition shall be satisfied if the Collateral Custodian and Agent are in possession of .pdf copies of each of the Required Asset Documents and the originals are delivered to the Collateral Custodian no later than five (5) Business Days thereafter;

(f) before and after giving effect to such Advance and to the application of proceeds therefrom the Asset Quality Test shall be satisfied, as calculated on such date;

(g) before and after giving effect to such Advance and to the application of proceeds therefrom, the Minimum Equity Requirement shall be maintained;

(h) before and after giving effect to such advance and to the application of proceeds therefrom, (a) the lesser of (i) the Borrowing Base and (ii) the Facility Amount shall be equal to or greater than (b) the outstanding Advances;

(i) the end of the Revolving Credit Availability Period shall not have occurred (other than with respect to a Post-Termination Revolving Note Receivable Funding); and

(j) Agent shall have received a current Borrowing Base Certificate.

3.4 Term. This Agreement shall continue in full force and effect for a term commencing on the Restatement Effective Date and ending at the conclusion of the Amortization Period (the "Maturity Date"). The foregoing notwithstanding, the Lender Group, upon the election of the Required Lenders, shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5 Effect of Termination. On the Maturity Date or earlier termination of this Agreement in accordance with its terms, all Obligations immediately shall become due and payable without notice or demand and Borrower shall be required to repay all of the Obligations in full. No termination of the obligations of the Lender Group (other than payment in full of the Obligations and termination of the Commitments) shall relieve or discharge Borrower or any of its Affiliates of its duties, obligations, or covenants hereunder or under any other Loan Document and Agent's Liens in the Collateral shall continue to secure the Obligations and shall remain in effect until all Obligations have been paid in full and the Commitments have been terminated. When all of the Obligations have been paid in full and the Lender Group's obligations to provide additional credit under the Loan Documents have been terminated irrevocably, Agent will, at Borrower's sole expense, execute and deliver any termination statements, lien releases, discharges of security interests, and other similar discharge or release documents (and, if applicable, in recordable form) as are reasonably necessary to release, as of record, Agent's Liens and all notices of security interests and liens previously filed by Agent.

3.6 Early Termination of Commitments by Borrower. Borrower has the option, at any time upon sixty (60) days prior written notice to Agent (or such lesser period as may be acceptable to the Required Lenders), to terminate this Agreement and terminate the Commitments hereunder (if still in effect) by repaying to Agent, for the benefit of the Lender Group, all of the Obligations in full, together with all sums payable under the Agent Fee Letter and the Fee Letter, including, without limitation, the Prepayment Make-Whole Amount associated with such termination. In the event of the termination of this Agreement and repayment of the Obligations at any time prior to the Maturity Date, for any other reason, including (a) termination upon the election of the Required Lenders to terminate after the occurrence and during the continuation of an Event of Default, (b) foreclosure by Agent or Lenders and sale of Collateral, (c) sale of the Collateral in any Insolvency Proceeding of Borrower, or (d) restructure, reorganization, or compromise of the Obligations by the confirmation of a plan of reorganization or any other plan of compromise, restructure, or arrangement in any Insolvency Proceeding of Borrower, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of damages to the Lender Group or profits lost by the Lender Group as a result of such early termination, and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of the Lender Group, Borrower shall pay to Agent any fees provided for in the Agent Fee Letter and the Fee Letter, as applicable.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower hereby grants to Agent, for the benefit of the Lender Group and the Bank Product Providers, a continuing security interest in all of Borrower's right, title, and interest in all currently existing and hereafter acquired or arising Borrower Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. The Agent's Liens in and to the Borrower Collateral shall attach to all Borrower Collateral without further act on the part of Agent or Borrower. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions, Borrower has no authority, express or implied, to dispose of any item or portion of the Collateral.

4.2 Negotiable Collateral. In the event that any Borrower Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral other than Notes Receivable previously delivered to and being held by the Agent or the Collateral Custodian, and if and to the extent that Agent determines that perfection or priority of Agent's security interest is dependent on or enhanced by possession, Borrower, promptly upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral and all agreements and documents related thereto to Agent or the Collateral Custodian. All Notes Receivable shall be delivered to Agent or the Collateral Custodian pursuant to this Agreement and the Sale and Servicing Agreement to hold for the benefit of Agent and Lenders, duly endorsed in blank or as follows on the back of the signature page thereof or on a separate allonge affixed thereto:

"Pay to the Order of _____, without recourse

HORIZON CREDIT II LLC

By: _____

Name:

Its: [Authorized Person]."

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. At any time after the occurrence and during the continuation of an Event of Default, Agent or Agent's designee may (a) notify Account Debtors of Borrower and makers of Notes Receivable that the Accounts, Notes Receivable, chattel paper, or General Intangibles have been assigned to Agent or that Agent has a security interest therein, (b) cause a replacement servicer to take possession of, and collect, Borrower's Accounts, or (c) collect Borrower's Accounts, Notes Receivable, chattel paper, or General Intangibles directly and charge the collection costs and expenses to the Loan Account. Borrower agrees that it will hold in trust for the Lender Group, as the Lender Group's trustee, any of its Collections that it receives and immediately will deliver such Collections to Servicer pursuant to the Sale and Servicing Agreement or, at the request of Agent, to Agent or a Cash Management Bank, in each case in their original form as received by Borrower.

4.4 Filing of Financing Statements; Commercial Tort Claims; Delivery of Additional Documentation Required.

(a) Borrower authorizes Agent to file any financing statement necessary or desirable to effectuate the transactions contemplated by the Loan Documents, and any continuation statement or amendment with respect thereto, in any appropriate filing office without the signature of Borrower where permitted by applicable law. Borrower hereby ratifies the filing of any financing statement filed without the signature of Borrower prior to the date hereof.

(b) If Borrower acquires any commercial tort claims after the date hereof, Borrower shall promptly (but in any event within three (3) Business Days after such acquisition) deliver to Agent a written description of such commercial tort claim and shall deliver a written agreement, in form and substance satisfactory to Agent, pursuant to which Borrower shall grant a perfected security interest in all of its right, title and interest in and to such commercial tort claim to Agent, as security for the Obligations (a "Commercial Tort Claim Assignment").

(c) At any time upon the request of Agent, Borrower shall execute or deliver to Agent, and shall cause its Subsidiaries to execute or deliver to Agent, any and all fixture filings, security agreements, pledges, assignments, Commercial Tort Claim Assignments, endorsements of certificates of title, and all other documents (collectively, the "Additional Documents") that Agent may request in its Permitted Discretion, in form and substance satisfactory to Agent, to create, perfect, and continue perfected or to better perfect the Agent's Liens in the assets of Borrower (whether now owned or hereafter arising or acquired, tangible or intangible, real or personal), to create and perfect Liens in favor of Agent in any owned Real Property acquired after the Closing Date, and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents. To the maximum extent permitted by applicable law, Borrower authorizes Agent to execute any such Additional Documents in Borrower's name and authorizes Agent to file such executed Additional Documents in any appropriate filing office. In addition, on such periodic basis as Agent shall require, Borrower shall (i) provide Agent with a report of all new material patentable, copyrightable, or trademarkable materials acquired or generated by Borrower during the prior period, (ii) cause all material patents, copyrights, and trademarks acquired or generated by Borrower that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of Borrower's or the applicable Subsidiary's ownership thereof, and (iii) cause to be prepared, executed, and delivered to Agent supplemental schedules to the applicable Loan Documents to identify such patents, copyrights, and trademarks as being subject to the security interests created thereunder; provided, however, that neither Borrower nor any of its Subsidiaries shall register with the U.S. Copyright Office any unregistered copyrights (whether in existence on the Closing Date or thereafter acquired, arising, or developed) unless (i) the Borrower provides Agent with written notice of its intent to register such copyrights not less than thirty (30) days prior to the date of the proposed registration, and (ii) prior to such registration, the applicable Person executes and delivers to Agent a copyright security agreement in form and substance satisfactory to Agent, supplemental schedules to any existing copyright security agreement, or such other documentation as Agent reasonably deems necessary in order to perfect and continue perfected Agent's Liens on such copyrights following such registration.

(d) Borrower hereby assigns to Agent any and all rights of Borrower to access any and all storage facilities where any Collateral or information relating to Collateral may be stored and Borrower hereby authorizes Agent, at any time after the occurrence and during the continuation of an Event of Default, to enter upon any such storage facilities and remove any contents thereof in connection with Agent's exercise of its remedies hereunder.

4.5 Power of Attorney. Borrower hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as Borrower's true and lawful attorney, with power to (a) if Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of Borrower on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing, sign Borrower's name on any invoice or bill of lading relating to the Collateral, drafts against Account Debtors, or notices to Account Debtors, (c) send requests or make telephone inquiries for verification of Borrower's Accounts or Notes Receivable, (d) endorse Borrower's name on any of its payment items (including all of its Collections) that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under Borrower's policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting Borrower's Accounts, Notes Receivable, chattel paper, or General Intangibles directly with Account Debtors or makers of Notes Receivable, for amounts and upon terms that Agent determines to be reasonable, in Agent's Permitted Discretion, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as Borrower's attorney, and each and every one of its rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligations to extend credit hereunder are terminated.

4.6 Right to Inspect and Verify. Agent (through any of its officers, employees, or agents) shall have the right, from time to time hereafter, and so long as no Default or Event of Default has occurred and in continuing, upon reasonable notice and during normal business hours (i) to inspect the Books and make copies or abstracts thereof, (ii) to communicate directly with any and all Account Debtors and makers of Notes Receivable to verify the existence and terms thereof, and (iii) to check, test, and appraise the Collateral, or any portion thereof, in order to verify Borrower's and its Subsidiaries' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral; and Borrower shall permit any designated representative of Agent to visit and inspect any of the properties of the Borrower to inspect and to discuss its finances and properties and Collateral, upon reasonable notice and at such reasonable times during normal business hours ; provided that (A) so long as no Default or Event of Default has occurred and is continuing, Borrower will not be charged for more than one (1) financial or collateral inspection, audit or appraisal during any calendar year, whether pursuant to this Agreement or the Sale and Servicing Agreement, and (B) so long as no Event of Default has occurred and is continuing, none of Borrower, Horizon nor Horizon Management will be charged for an aggregate amount in excess of $30,000 for fees and charges during any calendar year covering financial or collateral inspections, audits or appraisals pursuant to this Agreement or the Sale and Servicing Agreement.

4.7 **Control Agreements**. Borrower agrees that it will take any or all reasonable steps in order for Agent to obtain control in accordance with Sections 8-106, 9-104, 9-105, 9-106, and 9-107 of the Code with respect to all of its or their Securities Accounts, Deposit Accounts, electronic chattel paper, Investment Property, and letter-of-credit rights. Upon the occurrence and during the continuance of an Event of Default, Agent may notify any bank or securities intermediary to liquidate the applicable Deposit Account or Securities Account or any related Investment Property maintained or held thereby and remit the proceeds thereof to Agent's Account or the deposit account of Agent designated in the relevant Control Agreement.

4.8 **Servicing of Notes Receivable**. Until such time as Agent shall notify the Borrower of the revocation of such right after the occurrence and during the continuation of an Event of Default, the Borrower (a) shall, at its own expense (including through the application of available funds pursuant to Section 2.4), cause the Servicer to service all of the Notes Receivable, including, without limitation, (i) the billing, posting and maintaining complete records applicable thereto, and (ii) taking of such action with respect to the Notes Receivable as the Borrower may deem advisable, and (b) may grant, in the ordinary course of business, to any maker of a Note Receivable, any adjustment to which such maker may be lawfully entitled, and may take such other actions relating to the settling of any such maker's claims as may be commercially reasonable, but in each case in accordance with the Required Procedures. Agent may, at its option, at any time or from time to time, after the occurrence and during the continuation of an Event of Default hereunder, revoke the collection and servicing rights given to Borrower herein by giving notice to Borrower in accordance with the terms of the Sale and Servicing Agreement.

4.9 **Borrower's Perfection**. Borrower represents to the Lender Group that: (a) all necessary financing statements and (b) all related financing statement amendments or assignments in order to cause Borrower to be properly noted as secured party of record with respect thereto, have been filed in all filing locations as may be required to perfect and protect in favor of Borrower all security interests, liens and rights evidenced by all Note Receivable Documents with respect to all personal property securing Borrower's Notes Receivable existing as of the Closing Date, and that such filings remain effective as of the Restatement Effective Date. Unless otherwise expressly agreed by Agent, Borrower covenants that it will take all action necessary to maintain the effectiveness of such filings so long as Borrower has any commitment to extend credit under such Note Receivable or any sum remains owing under such Note Receivable. Agent is authorized to file any UCC-3 statements of continuation, assignment or amendment as it may determine in its Permitted Discretion to be necessary to enable it to protect and maintain Agent's Liens in Collateral. Borrower represents to the Lender Group that all filings and recordations, and all related assignments, with respect to Notes Receivable acquired by Borrower after the Closing Date have been and will be filed or recorded in all jurisdictions as may be required to perfect and protect in favor of Borrower all of Borrower's liens or interests evidenced by Note Receivable Documents acquired by Borrower after the Closing Date, and that Borrower will take all action necessary to maintain the effectiveness of such filings so long as Borrower has any commitment to extend credit under such Note Receivable or any sum remains owing under such Note Receivable.

4.10 **Note Receivable Documents**. Borrower or Servicer will maintain all Note Receivable Documents (other than Notes Receivable which have been delivered to Collateral Custodian pursuant to Section 4.2) in a secure manner in a location with fire, casualty and theft protection satisfactory to Agent. Borrower or Servicer will provide to Agent copies of any Note Receivable Documents as Agent may request.

4.11 **Release of Notes Receivable.**

(a) When a Note Receivable that is in the possession of Agent or the Collateral Custodian is repaid in its entirety, Agent shall return or shall authorize the Collateral Custodian to return such Note Receivable and any related original Required Asset Documents to Borrower to facilitate its payment and Agent shall release Agent's Liens in such Note Receivable and any Related Property promptly upon receipt of the final payment relating to such Note Receivable.

(b) When a Note Receivable is sold by Borrower in accordance with the terms of this Agreement, Agent shall release Agent's Liens in such Note Receivable and any Related Property and if such Note Receivable or any related original Required Asset Documents are in the possession of Agent or the Collateral Custodian, Agent shall transfer or shall authorize the Collateral Custodian to transfer such Note Receivable and such related original Required Asset Documents to the purchaser thereof or as otherwise directed by such purchaser against payment of the agreed amount therefor.

(c) In the event Borrower's collateral assignment to Agent of any mortgage and loan documents relating to a Note Receivable has been recorded and such Note Receivable is (i) repaid in its entirety, (ii) sold by Borrower in accordance with the terms of this Agreement or (iii) in default and Borrower is commencing foreclosure proceedings against the Note Receivable Collateral securing such Note Receivable, then Agent shall, at Borrower's sole expense, execute a reassignment or release of such mortgage and loan documents for the benefit of Borrower on forms prepared by Borrower and acceptable to Agent in its Permitted Discretion.

5. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender Group to enter into this Agreement, Borrower makes the following representations and warranties to the Lender Group which shall be true, correct, and complete, in all material respects, as of the date hereof, and shall be true, correct, and complete, in all material respects, as of the Restatement Effective Date, and as of the date of the making of each Advance (or other extension of credit) made thereafter, as though made on and as of the date of such Advance (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 **No Encumbrances.** Borrower has good and indefeasible title to, or a valid leasehold interest in, its personal property assets and good and marketable title to, or a valid leasehold interest in, its Real Property, in each case, free and clear of Liens except for Permitted Liens.

5.2 **Eligible Notes Receivables.** As to each Note Receivable that is identified by Borrower as an Eligible Note Receivable in the most recent Borrowing Base Certificate submitted to Agent, as of the date of such certificate: (a) such Note Receivable is a bona fide existing payment obligation of the maker of such Note Receivable created in the ordinary course of business by Horizon or an Approved Third-Party Originator, (b) such Note Receivable has been transferred to Borrower by sale or contribution and is now owed to Borrower without any known defenses, disputes, offsets, counterclaims, or rights of cancellation, (c) such Note Receivable is not excluded as ineligible by virtue of one or more of the excluding criteria set forth in the definition of Eligible Notes Receivable, (d) the original amount of, the unpaid balance of, and the amount and dates of payments on such Note Receivable shown on the Books of Borrower and in the schedules of same delivered to Agent are true and correct, (e) Borrower has no knowledge of any fact (which shall not include general economic conditions) which is reasonably likely to impair the validity or collectability of such Note Receivable, (f) such Note Receivable is subject to a first-priority security interest in favor of Agent, (g) such Note Receivable complies with all applicable laws in all material respects, and (h) since delivery to Agent, such Note Receivable has not been amended nor any material requirements relating thereto waived without the prior written consent of Agent, other than an extension, modification or waiver in accordance with the Required Procedures then in effect. The portfolio of Notes Receivable held by Borrower, as opposed to Horizon or any other Subsidiary or Affiliate of Horizon, has not been selected in a manner adverse to Borrower or the Lender Group.

5.3 **Equipment.** All of the Equipment of Borrower is used or held for use in its business and is fit for such purposes.

5.4 **Location of Collateral.** The Borrower Collateral (other than the Collateral in the possession of Agent or the Collateral Custodian) is not stored with a bailee, warehouseman, or similar party and is located only at, or in-transit between, the locations identified on Schedule 5.4 (as such Schedule may be updated pursuant to Section 6.9); provided, that loan files that do not include original promissory notes, Lien instruments, or assignments of Lien instruments may be stored, from time to time, with Servicer or in a public warehouse, access to which has been assigned by Borrower to Agent.

5.5 **Records**. Borrower keeps complete, correct and accurate records of the Notes Receivable owned by Borrower and all payments thereon.

5.6 **State of Incorporation; Location of Chief Executive Office; Organizational Identification Number; Commercial Tort Claims.**

(a) The jurisdiction of organization of Horizon, Horizon Management, Borrower and each of their respective Subsidiaries is set forth on Schedule 5.6(a) (as such Schedule may be updated from time to time to reflect changes resulting from transactions not prohibited by this Agreement).

(b) The chief executive office of Horizon, Horizon Management, Borrower and each of their respective Subsidiaries is located at the address indicated on Schedule 5.6(b) (as such Schedule may be updated from time to time to reflect changes resulting from transactions not prohibited by this Agreement).

(c) The organizational identification numbers and federal employer identification numbers, if any, of Horizon, Horizon Management, Borrower and each of their respective Subsidiaries are identified on Schedule 5.6(c) (as such Schedule may be updated from time to time to reflect changes resulting from transactions not prohibited by this Agreement).

(d) As of the Restatement Effective Date, Borrower does not hold any commercial tort claims, except as set forth on Schedule 5.6(d).

5.7 Due Organization and Qualification; Subsidiaries.

(a) Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its organization and qualified to do business in any state where the failure to be so qualified reasonably could reasonably be expected to result in a Material Adverse Change.

(b) Set forth on Schedule 5.7(b) (as such Schedule may be updated from time to time to reflect changes resulting from transactions not prohibited by this Agreement) is a complete and accurate description of (i) the authorized capital Stock of Horizon, by class, and a description of the interests of each such class that are issued and outstanding as of the Closing Date, and (ii) the authorized capital Stock of Borrower, by class, and, a description of the interests of each such class that are issued and outstanding as of the Closing Date and at all times thereafter. Other than as described on Schedule 5.7(b), there are no subscriptions, options, warrants, or calls relating to any capital Stock of Borrower, including any right of conversion or exchange under any outstanding security or other instrument. Borrower is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital Stock or any security convertible into or exchangeable for any of its capital Stock.

(c) Set forth on Schedule 5.7(c) is a complete and accurate list of Horizon's direct and indirect Subsidiaries as of the Closing Date, showing: (i) the jurisdiction of their organization, (ii) the number of shares of each class of common and preferred Stock authorized for each of such Subsidiaries, and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by Horizon. The Borrower does not and will not, at any time, have any direct or indirect Subsidiaries.

(d) Except as set forth on Schedule 5.7(c), there are no subscriptions, options, warrants, or calls relating to any shares of capital Stock of Borrower, including any right of conversion or exchange under any outstanding security or other instrument.

5.8 Due Authorization; No Conflict.

(a) The execution, delivery, and performance by Borrower of this Agreement and the other Loan Documents to which it is a party have been duly authorized by all necessary action on the part of Borrower.

(b) The execution, delivery, and performance by Borrower of this Agreement and the other Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation applicable to Borrower, the Governing Documents of Borrower, or any order, judgment, or decree of any court or other Governmental Authority binding on Borrower, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of Borrower, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of Borrower, other than under this Agreement and the other Loan Documents, or (iv) require any approval of the holders of Borrower's Stock or any approval or consent of any Person under any material contractual obligation of Borrower, other than consents or approvals that have been obtained and that are still in force and effect.

(c) Other than the filing of financing statements, the execution, delivery, and performance by Borrower of this Agreement and the other Loan Documents to which Borrower is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority or other Person, other than consents or approvals that have been obtained and that are still in force and effect.

(d) This Agreement and the other Loan Documents to which Borrower is a party, and all other documents contemplated hereby and thereby, when executed and delivered by Borrower will be the legally valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Agent's Liens are validly created, perfected, and first priority Liens, subject only to Permitted Liens.

5.9 Litigation. Other than those matters disclosed on Schedule 5.9, as of the Restatement Effective Date there are no actions, suits, or proceedings pending or, to the best knowledge of Borrower, threatened, against Borrower or Horizon or Horizon Management. There are no actions, suits, or proceedings pending or, to the actual knowledge of Borrower, threatened, against Borrower or Horizon or Horizon Management, that either individually or in the aggregate could reasonably be expected to result in a Material Adverse Change.

5.10 No Material Adverse Change. All financial statements relating to Horizon, Horizon Management, or Borrower and their respective Subsidiaries that have been delivered by Horizon, Horizon Management, or Borrower to the Lender Group have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and present fairly in all material respects, the financial condition of Horizon, Horizon Management, Borrower, and their respective Subsidiaries as of the date thereof and results of operations for the period then ended. There has not been a Material Adverse Change with respect to Borrower or Horizon or Horizon Management, since the date of the latest financial statements submitted to the Lender Group on or before the Restatement Effective Date.

5.11 Fraudulent Transfer.

(a) Borrower is Solvent.

(b) No transfer of property is being made by Borrower and no obligation is being incurred by Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrower.

5.12 Employee Benefits. None of Borrower or any of its ERISA Affiliates maintains or contributes to any Benefit Plan.

5.13 Environmental Condition. Except as set forth on Schedule 5.13, (a) to Borrower's knowledge, none of Borrower's properties or assets has ever been used by Borrower or by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such use, production, storage, handling, treatment, release or transport was in violation, in any material respect, of any applicable Environmental Law, (b) to Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) Borrower has not received notice that a Lien arising under any Environmental Law has attached to any revenues or to any Real Property owned or operated by Borrower, and (d) Borrower has not received a summons, citation, notice, or directive from the United States Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

5.14 Brokerage Fees. Neither Borrower nor any of its Affiliates has utilized the services of any broker or finder in connection with Borrower's obtaining financing from the Lender Group under this Agreement, and any brokerage commission or finders fee payable in connection herewith shall be the sole responsibility of Borrower or its Affiliates.

5.15 Intellectual Property. Borrower owns, or holds licenses in, all trademarks, trade names, copyrights, patents, patent rights, and licenses that are necessary to the conduct of its business as currently conducted, and attached hereto as Schedule 5.15 (as updated from time to time) is a true, correct, and complete listing of all material patents, patent applications, trademarks, trademark applications, copyrights, and copyright registrations as to which Borrower is the owner or is an exclusive licensee, other than shrink wrap and other similar licenses generally available to the public.

5.16 Leases. Borrower enjoys peaceful and undisturbed possession under all leases material to their business and to which they are parties or under which they are operating, and all of such leases are valid and subsisting and no material default by Borrower exists under any of them.

5.17 Deposit Accounts and Securities Accounts. Set forth on Schedule 5.17 (as such Schedule may be updated by written notice to the Agent from time to time to reflect changes resulting from transactions not prohibited by this Agreement) is a listing of all of Borrower's Deposit Accounts and, Securities Accounts, including, with respect to each bank or securities intermediary (a) the name and address of such Person, and (b) the account numbers of the Deposit Accounts or Securities Accounts maintained with such Person.

5.18 **Complete Disclosure**. All factual information (taken as a whole) furnished by or on behalf of Horizon, Horizon Management, Borrower or their respective Subsidiaries in writing to Agent or any Lender (including all information contained in the Schedules hereto or in the other Loan Documents) for purposes of or in connection with this Agreement, the other Loan Documents, or any transaction contemplated herein or therein is, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of Horizon, Horizon Management, Borrower or their respective in writing to Agent or any Lender will be, true and accurate, in all material respects, on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which such information was provided.

5.19 **Indebtedness**. Set forth on Schedule 5.19 is a true and complete list of all Indebtedness of Borrower outstanding immediately prior to the Restatement Effective Date that is to remain outstanding after the Restatement Effective Date and such Schedule accurately reflects the aggregate principal amount of such Indebtedness and describes the principal terms thereof.

5.20 **Compliance**. The standard forms and documents evidencing and executed in connection with Notes Receivable and all actions and transactions by Borrower in connection therewith comply in all material respects with all applicable laws. Such standard forms and documents are commensurate with forms and documentation used by prudent lenders in the same or similar circumstances as Borrower, and, without limiting the foregoing, are sufficient to create valid, binding and enforceable obligations of each Account Debtor named therein.

5.21 **Servicing**. Borrower has entered into the Sale and Servicing Agreement, pursuant to which Borrower has engaged Horizon Management, as the initial Servicer and as Borrower's agent, to monitor, manage, enforce and collect the Notes Receivables as provided by the Sale and Servicing Agreement, subject to this Agreement. Horizon Management has, and any replacement Servicer proposed by Borrower will have, the requisite knowledge, experience, expertise and capacity to service the Notes Receivables.

5.22 **Permits, Licenses, Etc.**. Each of Borrower, Horizon, Horizon Management, has, and is in compliance in all material respects with, all permits, licenses, authorizations, approvals, entitlements and accreditations required for such Person lawfully to own, lease, manage or operate, or to acquire, each business and the Real Property currently owned, leased, managed or operated, or to be acquired, by such Person, except for such permits, licenses, authorizations, approvals, entitlements and accreditations the absence of which could not reasonably be expected to result in a Material Adverse Change. To Borrower's knowledge, no condition exists or event has occurred which, in itself or with the giving of notice or lapse of time or both, would result in the suspension, revocation, impairment, forfeiture or non-renewal of any such permit, license, authorization, approval, entitlement or accreditation, the loss of which could reasonably be expected to result in a Material Adverse Change, and, to Borrower's knowledge, there is no claim that any thereof is not in full force and effect. Schedule 5.22 (as such Schedule may be updated from time to time to reflect changes resulting from transactions not prohibited by this Agreement) lists all of the licenses, franchises, approvals or consents of any Governmental Authority or other Person that is required for Borrower to conduct its business as currently conducted or proposed to be conducted except for such licenses, franchises, approvals, or consents the absence of which could not reasonably be expected to result in a Material Adverse Change.

5.23 **Margin Stock**. The Borrower is not engaged in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin security," as such terms are defined in Regulation U of the Federal Reserve Board as now and from time to time hereafter in effect (such securities being referred to herein as "Margin Stock"). The Borrower owns no Margin Stock, and no portion of the proceeds of any Advance hereunder will be used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any Indebtedness that was originally incurred to purchase or carry any Margin Stock or for any other purpose that might cause any portion of such proceeds to be considered a "purpose credit" within the meaning of Regulation T, U or X of the Federal Reserve Board. The Borrower will not take or permit to be taken any action that might cause any Note Receivable Document or any Loan Document to violate any regulation of the Federal Reserve Board.

5.24 **Government Regulation**. Borrower is not required to register as an investment company under the Investment Company Act of 1940 and is not subject to regulation under any other federal or state statute or regulation which may limit its ability to incur Indebtedness or which may otherwise render all or any portion of the Obligations unenforceable. Borrower is not a "registered investment company" or a "principal underwriter" of a "registered investment company" as such terms are defined in the Investment Company Act of 1940. The business and other activities of the Borrower, including but not limited to, the making of the Advances by the Lenders, the application of the proceeds and repayment thereof by the Borrower and the consummation of the transactions contemplated by the Loan Documents to which the Borrower is a party do not now and will not at any time result in any violations, with respect to the Borrower, of the provisions of the 1940 Act or any rules, regulations or orders issued by the SEC thereunder.

5.25 **OFAC**. Borrower is not in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC. Borrower (a) is not a Sanctioned Person or a Sanctioned Entity, (b)does not have its assets located in Sanctioned Entities, or (c) derives no revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. No proceeds of any loan made hereunder will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

5.26 **Patriot Act**. To the extent applicable, Borrower is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the " Patriot Act"). No part of the proceeds of the loans made hereunder will be used by Borrower or any of its Affiliates, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

6. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that, until termination of all of the Commitments and payment in full of the Obligations, Borrower shall do all of the following:

6.1 **Accounting System**. Maintain a system of accounting that enables Servicer to produce financial statements in accordance with GAAP and maintain records pertaining to the Collateral that contain information as from time to time reasonably may be requested by Agent. Borrower also shall keep a reporting system that shows all additions, fees, payments, claims, and write-downs with respect to the Notes Receivable.

6.2 **Collateral Reporting**. Provide or cause Servicer to provide Agent (and if so requested by Agent, with copies for each Lender) with the following documents at the following times in form satisfactory to Agent:

Promptly after occurrence	(a) notice of all claims, offsets, or disputes asserted by Account Debtors with respect to any of Borrower's Notes Receivables;
Date of each Advance and at least monthly (not later than the 10th day of each month)	(b) a Borrowing Base Certificate which includes (i) a detailed calculation of the Borrowing Base as of the date of the requested Advance, (ii) detail regarding Notes Receivables that are not Eligible Notes Receivables, and (iii) Borrower's Risk Rating for each Note Receivable;
Monthly (not later than the tenth (10th) day of each month), calculated or determined as of the last day of the preceding month	(c) the Data Tape;
	(d) a summary report of categories of non-Eligible Notes Receivable;
	(e) Borrower's credit watch list;
	(f) a schedule listing all Notes Receivable that have been modified during the preceding calendar quarter, including information regarding the exact nature of any modifications sufficient for Agent to determine whether such modifications affect the status of any Eligible Notes Receivable;
	(g) a schedule listing all Collections and proposed distributions of cash;
	(h) a Borrowing Base Certificate, after giving effect to all of the distributions and payments to be made on the next Remittance Date.

Quarterly (not later than forty-five (45) days after the end of each calendar quarter	(i) a report, which includes (i) the Cash Runway Analysis and (ii) for all Notes Receivable, (A) Account Debtor status, (B) current actual and effective cash out, net exposure, enterprise value, method of determination and date of determination, and (C) the ratio of enterprise value to debt;
Promptly upon request by Agent	(j) a summary aging, by vendor, of Borrower's accounts payable and any book overdraft; and
	(k) such other reports as to the Collateral, or the financial condition of Borrower, as Agent may request.

In connection with the foregoing reports, (i) Borrower shall maintain and utilize accounting and reporting systems acceptable to Agent in its Permitted Discretion and (ii) to the extent required by Agent, an Authorized Person or other representative acceptable to Agent will meet with Agent from time to time as requested by Agent to review and discuss all Notes Receivable then owned by Borrower.

6.3 **Financial Statements, Reports, Certificates**. Deliver to Agent, with copies to each Lender:

(a) as soon as available, but in any event within thirty (30) days after the end of each fiscal month of Borrower,

(i) an unaudited consolidated balance sheet, income statement and statement of cash flow covering Borrower's operations during such period and the year-to-date period ending thereon, in each case setting forth in comparative form the figures for the corresponding periods in the prior year; and,

(ii) a Compliance Certificate demonstrating in reasonable detail such Person's compliance at the end of such period with the applicable financial and portfolio covenants contained therein that are measured as of the end of the month then ended;

(b) as soon as available, but in any event within forty-five (45) days after the end of each fiscal quarter of Horizon and Horizon Management,

(i) an unaudited consolidated balance sheet, income statement and statement of cash flow covering such Person's and its Subsidiaries' operations during such period and the year-to-date period ending thereon, in each case setting forth in comparative form the figures for the corresponding periods in the prior year; and,

(ii) a Compliance Certificate demonstrating in reasonable detail such Person's compliance at the end of such period with the applicable financial and portfolio covenants contained therein that are measured as of the end of the quarter then ended;

(c) as soon as available, but in any event within ninety (90) days after the end of each fiscal year of Borrower and Horizon,

(i) consolidated annual financial statements of Horizon and its Subsidiaries for such fiscal year, audited by McGladrey LLP or other independent certified public accountants reasonably acceptable to Agent and certified by such accountants to have been prepared in accordance with GAAP, together with any accountants' letter to management in connection therewith;

(ii) consolidating financial statements of Horizon and its Subsidiaries for such fiscal year, prepared by Horizon based on its audited consolidated financial statements for such year, in form acceptable to Agent in its Permitted Discretion; and

(iii) a Compliance Certificate demonstrating in reasonable detail Borrower's and Horizon's compliance at the end of such period with the applicable financial and portfolio covenants contained therein;

(d) as soon as available, but in any event within one hundred fifty (150) days after the end of each fiscal year of Horizon Management,

(i) consolidated annual financial statements of Horizon Management and its Subsidiaries for such fiscal year, audited by McGladrey LLP or other independent certified public accountants reasonably acceptable to Agent and certified by such accountants to have been prepared in accordance with GAAP, together with any accountants' letter to management in connection therewith; and

(ii) a Compliance Certificate demonstrating in reasonable detail Horizon Management's compliance at the end of such period with the applicable financial and portfolio covenants contained therein;

(e) if and when filed by Borrower or Horizon;

(i) Form 10-Q quarterly reports, Form 10-K annual reports, and Form 8-K current reports,

(ii) any other filings made by Borrower or Horizon with the SEC, and

(iii) copies of Borrower's or Horizon's federal income tax returns, and any amendments thereto, filed with the Internal Revenue Service (but only to the extent that Borrower or Horizon is treated other than as an entity that is not itself subject to federal income tax on operating income, a partnership or a disregarded entity for federal income tax purposes),

(f) promptly notify Agent of the following regarding each Note Receivable and Note Receivable Collateral which secures such Note Receivable:

(i) the occurrence of any event which could reasonably be expected to materially impair the prospect of payment of such Note Receivable;

(ii) the sending by Servicer or Borrower of any notice of default, recordation by Servicer or Borrower of any notice of foreclosure and the date of any scheduled foreclosure sale thereon, or filing by Servicer or Borrower of any lawsuit (including case number and court) on a Note Receivable or related Note Receivable Collateral;

(iii) the consummation of any foreclosure sale or any deed or bill of sale in lieu of foreclosure, retention of collateral in satisfaction of debt or similar transaction, and deliver to Agent true and complete copies of all documentation executed in respect thereof (in the case of notices, postings and the like, and in the case of deeds, bills of sale or retention of collateral transactions, all documents related to consummation of such transaction or transfer of such property); and

(iv) the receipt by Servicer or Borrower of a notice by any Person of (x) a default with respect to any agreement evidencing or governing a Lien on any Note Receivable Collateral or (y) any foreclosure sale with respect to any Note Receivable Collateral;

(g) promptly, but in any event within five (5) days after an Authorized Person has knowledge of any event or condition that constitutes a Default or an Event of Default, notice thereof and a statement of the curative action that Borrower proposes to take with respect thereto,

(h) promptly after the commencement thereof, but in any event within five (5) days after the service of process with respect thereto on Borrower, its Subsidiaries, Horizon or Horizon Management, notice of all actions, suits, or proceedings brought by or against Borrower, its Subsidiaries, Horizon or Horizon Management before any Governmental Authority which, if determined adversely to Borrower, such Subsidiary, Horizon or Horizon Management, could reasonably be expected to result in a Material Adverse Change, and

(i) upon the request of Agent, any other information reasonably requested relating to the financial condition of Borrower, its Subsidiaries, Horizon or Horizon Management.

In addition, Borrower agrees to deliver financial statements prepared on both a consolidated and consolidating basis to the extent required by this Section 6.3, and agrees that Borrower will not have a fiscal year different from that of Horizon or Horizon Management and that no Subsidiary of Borrower will have a fiscal year different from that of Borrower. Borrower also agrees to cooperate with Agent to allow Agent to (A) audit Borrower, Horizon and Horizon Management, and (B) consult with its and each such other Person's independent certified public accountants if Agent reasonably requests the right to do so. In such connection, Borrower authorizes, and will cooperate with Agent to cause its Subsidiaries, Horizon and Horizon Management to authorize, its independent certified public accountants to communicate with Agent and to release to Agent whatever financial information concerning such Person as Agent reasonably may request.

6.4 Notices Regarding Authorized Persons or Servicing and Accounting Staff. Provide Agent with (a) notice promptly (and in any case within two (2) Business Days) if any Authorized Person of Borrower, Horizon or Horizon Management ceases to continue to hold such position, and (b) notice promptly (and in any case within five (5) Business Days) if more than thirty percent (30%) of the employees of Borrower, Horizon or Horizon Management involved in the servicing of and accounting for the Notes Receivable cease, within any period of sixty (60) days to continue to hold such positions.

6.5 Collection of Notes Receivable. (a) Subject to Section 4.8, to use or cause Servicer to use commercially reasonable efforts, at Borrower's sole cost and expense (including through the application of available funds pursuant to Section 2.4), in accordance with industry standards and applicable laws, to promptly and diligently collect and enforce payment of all Notes Receivable to the extent that it is commercially reasonable to do so and in a commercially reasonable manner, and defend and hold Lender Group harmless from any and all loss, damage, penalty, fine or expense arising from such collection or enforcement, (b) in accordance with the Required Procedures, maintain at its chief executive office, and, upon the request of Agent, make available to Agent copies of its Notes Receivable and all related documents and instruments, and all files, surveys, certificates, correspondence, appraisals, computer programs, accounting records and other information and data relating to the Collateral, and (c) permit Agent or its representatives to discuss with Borrower's officers or with appraisers furnishing appraisals of property securing any Note Receivable the procedures for preparation, review and retention of, and to review and obtain copies of, such appraisals.

6.6 Maintenance of Properties. Maintain and preserve all of its properties which are necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted, and comply at all times with the provisions of all material leases to which it is a party as lessee so as to prevent any loss or forfeiture thereof or thereunder.

6.7 Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrower, its Subsidiaries or any of their respective assets to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest or the failure to pay such tax could not reasonably be expected to result in a Material Adverse Change. Subject to Permitted Protests, Borrower will and will cause its Subsidiaries to make timely payment or deposit of all tax payments and withholding taxes required of it and them by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, except to the extent that the failure to pay such tax could not reasonably be expected to result in a Material Adverse Change, and will, upon request, furnish Agent with proof satisfactory to Agent indicating that Borrower has made such payments or deposits.

6.8 Insurance.

(a) At Borrower's expense, maintain insurance respecting its and its Subsidiaries' assets wherever located covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. Borrower also shall maintain general liability insurance, as well as insurance against fraud, larceny, embezzlement, and criminal misappropriation. All such policies of insurance shall be in such amounts and with such insurance companies as are reasonably satisfactory to Agent. Borrower shall deliver copies of all such policies to Agent with an endorsement naming Agent as the sole loss payee (under a satisfactory lender's loss payable endorsement) or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than thirty (30) days prior written notice to Agent in the event of cancellation of the policy for any reason whatsoever. Borrower shall also ensure that Servicer maintains similar insurance coverages for the benefit of Borrower under the Sale and Servicing Agreement.

(b) Borrower shall give Agent prompt notice of any loss covered by such insurance. Borrower shall use commercially reasonable efforts to collect any claims under any such insurance policies and shall give Agent prompt notice of any material development with respect to such claim, including any proposed compromise or settlement of such claim. After the occurrence and during the continuation of an Event of Default, Agent shall have the exclusive right to give notice of, adjust and compromise claims under any such insurance policies, in accordance with Agent's Permitted Discretion. Any monies received as payment for any loss under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall be paid over to Agent to be applied at the option of the Required Lenders either to the prepayment of the Obligations or shall be disbursed to Borrower under staged payment terms reasonably satisfactory to the Required Lenders for application to the cost of repairs, replacements, or restorations. Any such repairs, replacements, or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items of property destroyed prior to such damage or destruction.

(c) Borrower will not and will not suffer or permit its Subsidiaries to take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.8, unless Agent is included thereon as an additional insured or loss payee under a lender's loss payable endorsement. Borrower promptly shall notify Agent whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and copies of such policies promptly shall be provided to Agent.

6.9 Location of Collateral. Keep the Collateral only at the locations identified on Schedule 5.4, or at the Agent or at the Collateral Custodian in the case of Notes Receivable, and maintain the chief executive offices of Borrower only at the locations identified on Schedule 5.6(b); provided, however, that Borrower may amend Schedules 5.4 and 5.6 so long as such amendment occurs by written notice to Agent not less than thirty (30) days prior to the date on which such Collateral is moved to such new location or such chief executive office is relocated, so long as such new location is within the continental United States, and so long as, at the time of such written notification, Borrower provides to Agent a Collateral Access Agreement with respect thereto.

6.10 Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Change.

6.11 Leases. Pay when due all rents and other amounts payable under any leases to which Borrower or any of its Subsidiaries is a party or by which Borrower's or any such its Subsidiaries' properties and assets are bound, unless such payments are the subject of a Permitted Protest.

6.12 Existence. At all times preserve and keep in full force and effect Borrower's and its Subsidiaries' valid existence and good standing and any rights and franchises material to their businesses. Borrower acknowledges that the Lender Group is entering into the Loan Documents in reliance upon Borrower's identity as a separate legal entity from each of its Affiliates. From and after the Restatement Effective Date, Borrower shall conduct its own business in its own name and take all reasonable steps, including, without limitation, all steps that Agent may from time to time reasonably request, to maintain Borrower's identity and existence as a separate legal entity and to make it manifest to third parties that Borrower is an entity with assets and liabilities distinct from those of its Affiliates. Without limiting the generality of the foregoing and in addition to the other covenants set forth herein, Borrower shall:

(a) except to the extent otherwise permitted by Sections 7.10 or 7.13 of this Agreement, conduct all transactions with its Affiliates strictly on an arm's-length basis and allocate all overhead expenses (including, without limitation, telephone and other utility charges) for items shared between such Affiliates and Borrower on the basis of actual use to the extent practicable and, to the extent such allocation is not practicable, on a basis reasonably related to actual use;

(b) observe all limited liability company formalities as a distinct entity, and ensure that all actions relating to the dissolution or liquidation of Borrower or the initiation or participation in, acquiescence in, or consent to any bankruptcy, insolvency, reorganization, or similar proceeding involving Borrower, are duly authorized by unanimous vote of its directors;

(c) maintain Borrower's Books separate from those of its Affiliates and otherwise readily identifiable as its own assets rather than assets of its Affiliates;

(d) except as herein specifically otherwise provided, not commingle funds or other assets of Borrower with those of its Affiliates and, except for the Cash Management Accounts, not maintain bank accounts or other depository accounts to which Borrower is an account party, into which Borrower makes deposits or from which Borrower has the power to make withdrawals; and

(e) not permit Borrower to pay or finance any of its Affiliates' operating expenses not properly allocable to Borrower.

6.13 Environmental. (a) Keep any property owned or operated by Borrower free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens, (b) comply, in all material respects, with Environmental Laws and provide to Agent documentation of such compliance which Agent reasonably requests, (c) promptly notify Agent of any release of a Hazardous Material in any reportable quantity from or onto property owned or operated by Borrower and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, and (d) promptly, but in any event within 5 days of its receipt thereof, provide Agent with written notice of any of the following: (i) notice that an Environmental Lien has been filed against any of the real or personal property of Borrower, (ii) commencement of any Environmental Action or notice that an Environmental Action will be filed against Borrower, and (iii) notice of a violation, citation, or other administrative order which could reasonably be expected to result in a Material Adverse Change.

6.14 **Disclosure Updates**. Promptly and in no event later than five (5) Business Days after an Authorized Person obtains knowledge thereof, notify Agent if any written information, exhibit, or report (when taken as a whole) furnished to Agent or the Lenders contained, at the time it was furnished, any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein not misleading in any material respect in light of the circumstances in which made. The foregoing to the contrary notwithstanding, any notification pursuant to the foregoing provision will not cure or remedy the effect of the prior untrue statement of a material fact or omission of any material fact nor shall any such notification have the effect of amending or modifying this Agreement or any of the Schedules hereto.

6.15 **Formation of Subsidiaries.** Not form or acquire any Subsidiary of Borrower on or after the Restatement Effective Date without the prior written consent of Agent, and at the time that Borrower forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Restatement Effective Date with the prior written consent of the Agent, Borrower shall, if and to the extent required by Agent, (a) cause such new Subsidiary to provide to Agent a joinder to this Agreement, together with such other security documents (including mortgages with respect to any Real Property of such new Subsidiary), as well as appropriate financing statements (and with respect to all property subject to a mortgage, fixture filings), all in form and substance reasonably satisfactory to Agent (including being sufficient to grant Agent a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Agent a pledge agreement and appropriate certificates and powers or financing statements, hypothecating all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Agent, and (c) provide to Agent all other documentation, including one or more opinions of counsel satisfactory to Agent, if requested by Agent, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above (including policies of title insurance or other documentation with respect to all property subject to a mortgage). Any document, agreement, or instrument executed or issued pursuant to this Section 6.15 shall be a Loan Document.

6.16 **Required Asset Documents.** Immediately upon receipt, deliver to Agent or the Collateral Custodian all of the Required Asset Documents related to such Note Receivable.

6.17 **Sale and Servicing Agreement**. Cause Servicer to promptly provide Agent with true and complete copies of all notices sent or received by Servicer under the Sale and Servicing Agreement.

6.18 **Escrow Deposits**. Deposit into a Deposit Account that is subject to a perfected Agent's Lien all amounts advanced by Borrower into escrow and all amounts delivered to Borrower to be held in escrow, including, without limitation, construction funds, insurance premiums and proceeds, taxes, and other funds delivered to Borrower to be held on behalf of any Account Debtor.

6.19 Hedge Agreements.

(a) If at any time the aggregate outstanding note receivable balances of variable rate Note Receivables is less than 20% of the Aggregate Outstanding Note Receivable Balance for a period of five (5) consecutive Business Days, the Borrower shall, within five (5) Business Days, with respect only to the Outstanding Note Receivable Balance of fixed rate Notes Receivable, enter into and maintain a Hedge Transaction with a Hedge Provider which Hedge Transaction shall be (i) in form and substance as shall be reasonably approved by the Agent and (ii) shall provide for payments to the Borrower to the extent that the LIBOR Rate shall exceed a rate agreed upon between the Agent and the Borrower.

(b) As additional security hereunder, the Borrower hereby assigns to the Agent, as agent for the Secured Parties, all right, title and interest of the Borrower in any and all Hedge Agreements, any and all Hedge Transactions, and any and all present and future amounts payable by a Hedge Provider to the Borrower under or in connection with its respective Hedge Agreement and Hedge Transaction(s) (collectively, the "Hedge Collateral"), and grants a security interest to the Agent, as agent for the Secured Parties, in the Hedge Collateral. Nothing herein shall have the effect of releasing the Borrower from any of its obligations under any Hedge Agreement or any Hedge Transaction, nor be construed as requiring the consent of the Agent or any Secured Party for the performance by the Borrower of any such obligations.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees that, until termination of all of the Commitments and full and final payment of the Obligations, Borrower will not do any of the following:

7.1 Indebtedness. Create, incur, assume, suffer to exist, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement and the other Loan Documents,

(b) Subordinated Debt,

(c) other Indebtedness set forth on Schedule 5.19,

(d) refinancings, renewals, or extensions of Indebtedness permitted under clause (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not, in Agent's judgment, materially impair the prospects of repayment of the Obligations by Borrower or materially impair Borrower's creditworthiness, (ii) such refinancings, renewals, or extensions do not result in an increase in the principal amount of, or interest rate with respect to, the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, nor are they on terms or conditions that, taken as a whole, are materially more burdensome or restrictive to Borrower, (iv) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Obligations, then the terms and conditions of the refinancing, renewal, or extension Indebtedness must include subordination terms and conditions that are at least as favorable to the Lender Group as those that were applicable to the refinanced, renewed, or extended Indebtedness, and (v) the Indebtedness that is refinanced, renewed, or extended is non-recourse to any Person that is liable on account of the Obligations other than those Persons which were obligated with respect to the Indebtedness that was refinanced, renewed, or extended, and

(e) endorsement of instruments or other payment items for deposit.

7.2 Liens. Create, incur, assume, or suffer to exist, directly or indirectly, any Lien on or with respect to any of its assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced, renewed, or extended under Section 7.1(d) and so long as the replacement Liens only encumber those assets that secured the refinanced, renewed, or extended Indebtedness).

7.3 Restrictions on Fundamental Changes.

(a) Enter into any merger, consolidation, reorganization, or recapitalization, or amend in any material respect any of its Governing Documents as in effect on the Restatement Effective Date.

(b) Liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution).

(c) Suspend or go out of a substantial portion of its or their business.

(d) Convey, sell, lease, license, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its assets, other than through Permitted Dispositions.

7.4 Disposal of Assets. Other than Permitted Dispositions, convey, sell, lease, license, assign, transfer, or otherwise dispose of (or enter into an agreement to convey, sell, lease, license, assign, transfer, or otherwise dispose of) any of Borrower's assets.

7.5 Change Name. Change Borrower's or any of its Subsidiaries' name, organizational identification number, state of organization or organizational identity; provided, however, that Borrower or any of its Subsidiaries may change their names upon at least thirty (30) days prior written notice to Agent of such change and so long as, at the time of such written notification, Borrower provides any financing statements necessary to perfect and continue perfected the Agent's Liens.

7.6 Nature of Business. Make any material change in the nature of its or their business, or acquire any properties or assets that are not reasonably related to the conduct of such business activities, including without limitation, making a material change in its underwriting, approval, or servicing operations. Without limiting the generality of the foregoing, Borrower shall not permit Horizon to cause the portfolio of Notes Receivable held by Borrower, as opposed to Horizon or any other Subsidiary or Affiliate of Horizon, to be selected in a manner adverse to Borrower or Lender.

7.7 Prepayments and Amendments. Except in connection with a refinancing permitted by Section 7.1(d), or a Restricted Payment or other payment permitted by Section 7.10,

(a) optionally prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of Borrower, other than the Obligations in accordance with this Agreement,

(b) make any payment on account of Indebtedness that has been contractually subordinated in right of payment if such payment is not permitted at such time under the subordination terms and conditions, or

(c) directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning any Subordinated Debt or any Indebtedness permitted under Sections 7.1(c) or (d), except as permitted by Sections 7.1(d).

7.8 [Intentionally Omitted].

7.9 Required Procedures. Make any changes or revisions to the Required Procedures except in the manner permitted by the definition of Required Procedures.

7.10 Restricted Payments. Make any Restricted Payment; provided, however, that so long as no Event of Default shall have occurred and be continuing or would occur as a result thereof and Agent and Lenders shall have received the financial statements required by Section 6.3(a) for the most recently completed fiscal month, then Borrower may make distributions to the holders of its Stock to the extent permitted by applicable law.

7.11 Accounting Methods. Modify or change its fiscal year or its method of accounting (other than as may be required to conform to GAAP) or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrower's accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or Borrower's and its Subsidiaries' financial condition.

7.12 Investments. Except for Permitted Investments, directly or indirectly, make or acquire any Investment or incur any liabilities (including contingent obligations) for or in connection with any Investment.

7.13 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any transaction with any Affiliate of Borrower except for transactions that (a)(i) are in the ordinary course of Borrower's business, (ii) are upon fair and reasonable terms, (iii) are fully disclosed to Agent, and (iv) are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-Affiliate or (b) are otherwise permitted under this Agreement.

7.14 Use of Proceeds. Use the proceeds of the Advances for any purpose other than to finance Borrower's acquisition of Eligible Notes Receivable and to pay transactional fees, costs, and expenses incurred in connection with this Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, to make Restricted Payments permitted under Section 7.10 and for any other purpose not expressly prohibited by this Agreement.

7.15 **Collateral with Bailees**. Store any Collateral at any time now or hereafter with a bailee, warehouseman, or similar party, other than Agent or Collateral Custodian; provided, that loan files that do not include original promissory notes, Lien instruments, or assignments of Lien instruments may be stored, from time to time, in a public warehouse, access to which has been assigned by Borrower to Agent.

7.16 **Sale and Servicing Agreement**.

(a) With respect to the Sale and Servicing Agreement (i) amend or modify the Sale and Servicing Agreement in any manner that (A) causes or allows the aggregate amount of the servicing fees payable under the Sale and Servicing Agreement to exceed, as of any time of determination, an amount equal to the amount of the servicing fees as determined pursuant to the Sale and Servicing Agreement on the Restatement Effective Date, (B) except as allowed by clause (A) preceding, obligates Borrower for payment of any professional costs or court costs incurred by Servicer in servicing under the Sale and Servicing Agreement, (C) causes or allows the requirements applicable to Servicer's standards of conduct, compliance with laws or licensing requirements to be less restrictive than exist on the Restatement Effective Date, (D) releases any indemnity obligations of Servicer or modifies any such obligations in any manner that is less restrictive than exist on the Restatement Effective Date, (E) relieves Servicer of its obligation to perform under the Sale and Servicing Agreement, or (ii) terminate the Sale and Servicing Agreement, or allow the Sale and Servicing Agreement to be terminated, in any such case without the prior written consent of Agent.

(b) Allow Servicer to delegate any of its duties or functions under the Sale and Servicing Agreement to any Person, or otherwise engage any such Person to perform any such duties or functions for or on behalf of Servicer or Borrower, in any such case without the prior written consent of Agent.

(c) Transfer the duties and functions of Servicer under the Sale and Servicing Agreement to any other Person without the prior written consent of Agent.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If Borrower (i) fails to pay when due and payable, or when declared due and payable, all or any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Agent or any Lender, reimbursement of Lender Group Expenses, or other amounts constituting Obligations), each of which remains unpaid for a period of greater than two (2) days, or (ii) fails to repay all Obligations on or prior to the Maturity Date; or

8.2 If an Insolvency Proceeding is commenced by Borrower or Horizon; or

8.3 If a Servicer Default shall occur under Section 9.01(a)(1), (2), (7), (9) or (16) of the Sale and Servicing Agreement shall occur; or

8.4 If Borrower (a) fails to perform, keep, or observe any covenant or other provision contained in Sections 2.6, 6.2, 6.3, 6.4, 6.5, 6.8, 6.12, 6.14, 6.19, or Article VII of this Agreement or any comparable provision contained in any of the other Loan Documents, or (b) fails to perform, keep, or observe any covenant or other provision contained in any Section of this Agreement (other than a Section that is expressly dealt with elsewhere in this Section 8.2), including failure to satisfy a condition subsequent set forth in Section 3.2 within the period stated, or the other Loan Documents, and such failure continues for a period of fifteen (15) Business Days after the date on which such failure first occurs; or

8.5 If any representation or warranty made or deemed made this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, shall prove to be incorrect in any material respect as of the time when the same shall have been made or deemed to have been made; or

8.6 If the Agent, as agent for the Secured Parties, shall fail for any reason to have a valid and perfected first priority security interest in any of the Collateral, or any material portion of the assets of Borrower, or of Horizon, is attached, seized, subjected to a writ or distress warrant, levied upon, or comes into the possession of any third Person; or

8.7 If an Insolvency Proceeding is commenced against Borrower, or any of its Subsidiaries, or Horizon, and any of the following events occur: (a) such Person consents to the institution of such Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted; provided, however, that, during the pendency of such period, Agent (including any successor agent) and each other member of the Lender Group shall be relieved of their obligations to extend credit hereunder, (c) the petition commencing the Insolvency Proceeding is not dismissed within forty-five (45) calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Agent (including any successor agent) and each other member of the Lender Group shall be relieved of their obligations to extend credit hereunder, (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of such Person, or (e) an order for relief shall have been entered therein; or

8.8 If the Borrower shall become an "investment company" subject to registration under the 1940 Act; or

8.9 If the Minimum Equity Requirement shall not be maintained; or

8.10 If, as of any date, the outstanding Advances exceed the Maximum Availability, and the same remains unremedied for more than two (2) Business Days; or

8.11 If the Borrower shall fail in its obligation to satisfy its obligations with regard to Hedge Transactions pursuant to Section 6.19; or

8.12 If, without the prior written consent of the Agent, the Servicer agrees or consents to, or otherwise permits to occur, any amendment, modification, change, supplement or rescission of or to the Servicer's Required Procedures in any manner that would have a material adverse effect on the Note Receivables; or

8.13 If Borrower or Horizon, is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs; or

8.14 If a notice of Lien, levy, or assessment is filed of record with respect to any assets of Borrower or any of its Subsidiaries, or any assets of Horizon Management, having an aggregate value in excess of $500,000, or of any assets of Horizon having an aggregate value in excess of $5,000,000**,** by the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien upon any assets of Borrower or any of its Subsidiaries, or any assets of Horizon Management, having an aggregate value in excess of $500,000, or of any assets of Horizon having an aggregate value in excess of $5,000,000, and in any such case the same is not paid before such payment is delinquent; or

8.15 If a judgment or other claim becomes a Lien or encumbrance upon any assets of Borrower or any of its Subsidiaries, or any assets of Horizon Management, having an aggregate value in excess of $500,000, or of any of the assets of Horizon having an aggregate value in excess of $5,000,000, and in any such case either (a) enforcement of such judgment or claim remains unstayed or unsatisfied for a period of thirty (30) consecutive days and is not fully covered (subject to standard deductibles) by insurance coverage under which the insurer has accepted liability, or (b) the judgment creditor or claimant begins enforcement proceedings of such judgment or Lien; or

8.16 If there is a default by Borrower or any of its Subsidiaries under any Subordinated Debt or under any Indebtedness (other than the Obligations) having an aggregate principal amount in excess of $500,000, or a default by Horizon Management under any Indebtedness having an aggregate principal amount in excess of $500,000, or a default by Horizon under any Indebtedness having an aggregate principal amount in excess of $5,000,000, and in any such case such default (a) occurs at the final maturity of the obligations thereunder, or (b) results in a right by the other party thereto, irrespective of whether exercised, to accelerate the maturity of the obligations thereunder of Borrower or any of its Subsidiaries, or Horizon, or Horizon Management, as the case may be, to terminate such agreement, or to refuse to renew such agreement in accordance with any automatic renewal right therein; or

8.17 If the obligations of any Guarantor under its Guaranty is limited or terminated by operation of law or by such Guarantor thereunder; or

8.18 If any two of the three of Robert D. Pomeroy Jr., Gerald A. Michaud or Christopher M. Mathieu shall cease to be actively involved in the business of Borrower, Horizon, or Horizon Management (as applicable) in such capacity, and such individuals have not been replaced by individuals of like qualifications and experience within ninety (90) days and with respect to whom Agent has completed a background check with the results of such background check being acceptable to Agent in its Permitted Discretion; or

8.19 A Change of Control shall occur; or

8.20 Any provision of any Loan Document that Agent in its Permitted Discretion deems to be material shall at any time for any reason be declared to be null and void, or the validity or enforceability thereof shall be contested by Borrower, or by Horizon or Horizon Management, or a proceeding shall be commenced by Borrower, or by Horizon or Horizon Management, or by any Governmental Authority having jurisdiction over Borrower or Horizon or Horizon Management seeking to establish the invalidity or unenforceability thereof, or Borrower, or Horizon or Horizon Management, shall deny that such Person has any liability or obligation purported to be created under any Loan Document to which it is a party.

9. THE LENDER GROUP'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence, and during the continuation, of an Event of Default, Agent may, and, at the instruction of the Required Lenders, shall (in each case under clauses (a) or (b) by written notice to Borrower), in addition to any other rights or remedies provided for hereunder or under any other Loan Document or by applicable law, do any one or more of the following:

(a) declare the Obligations (other than the Bank Product Obligations), whether evidenced by this Agreement or by any of the other Loan Documents immediately due and payable, whereupon the same shall become and be immediately due and payable and Borrower shall be obligated to repay all of such Obligations in full, without presentment, demand, protest, or further notice or other requirements of any kind, all of which are hereby expressly waived by Borrower;

(b) declare the Revolving Credit Availability Period and the Commitments terminated, whereupon the Revolving Credit Availability Period and the Commitments shall immediately be terminated together with any obligation of any Lender hereunder to make Advances;

(c) settle or adjust disputes and claims directly with Borrower's Account Debtors and makers of Notes Receivable for amounts and upon terms which Agent considers advisable, and in such cases, Agent will credit Borrower's Loan Account with only the net amounts received by Agent in payment of such disputed Accounts or Notes Receivable after deducting all Lender Group Expenses incurred or expended in connection therewith;

(d) exercise or assign any and all rights to collect, manage, and service the Notes Receivables, including the rights to (i) receive, process and account for all Collections in respect of Notes Receivables, (ii) terminate the Sale and Servicing Agreement and assign servicing responsibilities to any replacement servicer, (iii) without notice to or demand upon Borrower, make any payments as are reasonably necessary or desirable in connection with the Sale and Servicing Agreement or any other agreement that Agent enters into with any replacement servicer, and (iv) take all lawful actions and procedures which Agent or such assignee deems necessary to enforce any and all rights of Borrower under any Note Receivable Document or collect the amounts due to Borrower in connection with Notes Receivables (with all amounts incurred by Agent pursuant to this Section 9.1(d) being Lender Group Expenses);

(e) without notice to or demand upon Borrower or any other Person, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Borrower agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent at a place that Agent may designate which is reasonably convenient to both parties. Borrower authorizes Agent to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any Lien that in Agent's determination appears to conflict with the priority of Agent's Liens in and to the Collateral and to pay all expenses incurred in connection therewith and to charge Borrower's Loan Account therefor. With respect to any of Borrower's owned or leased premises, Borrower hereby grants Agent a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of the Lender Group's rights or remedies provided herein, at law, in equity, or otherwise;

(f) without notice to Borrower (such notice being expressly waived), and without constituting an acceptance of any collateral in full or partial satisfaction of an obligation (within the meaning of the Code), set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by the Lender Group (including any amounts received in the Cash Management Accounts), or (ii) Indebtedness at any time owing to or for the credit or the account of Borrower held by the Lender Group;

(g) hold, as cash collateral, any and all balances and deposits of Borrower held by the Lender Group, and any amounts received in the Cash Management Accounts, to secure the full and final repayment of all of the Obligations;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Borrower Collateral. Borrower hereby grants to Agent a license or other right to use, without charge, Borrower's labels, patents, copyrights, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Borrower Collateral, in completing production of, advertising for sale, and selling any Borrower Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to the Lender Group's benefit;

(i) sell the Borrower Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Agent determines is commercially reasonable. It is not necessary that the Borrower Collateral be present at any such sale;

(j) except in those circumstances where no notice is required under the Code, Agent shall give notice of the disposition of the Borrower Collateral as follows:

(i) Agent shall give Borrower a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Borrower Collateral, the time on or after which the private sale or other disposition is to be made; and

(ii) the notice shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12, at least 10 days before the earliest time of disposition set forth in the notice; no notice needs to be given prior to the disposition of any portion of the Borrower Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market;

(k) Agent, on behalf of the Lender Group, may credit bid and purchase at any public sale;

(l) Agent may seek the appointment of a receiver or keeper to take possession of all or any portion of the Borrower Collateral or to operate same and, to the maximum extent permitted by applicable law, may seek the appointment of such a receiver without the requirement of prior notice or a hearing;

(m) exercise any and all rights of Borrower under the Sale and Servicing Agreement or assume or assign any and all rights and responsibilities to collect, manage, and service the Notes Receivables, including (i) the responsibility for the receipt, processing and accounting for all payments on account of the Notes Receivables, (ii) periodically sending demand notices and statements to the Account Debtors or makers of Notes Receivable, (iii) enforcing legal rights with respect to the Notes Receivables, including hiring attorneys to do so to the extent Agent or such assignee deems such engagement necessary, and (iv) taking all lawful actions and procedures which Agent or such assignee deems necessary to collect the Notes Receivables (with all amounts incurred by Agent pursuant to this Section 9.1(m) being Lender Group Expenses); and

(n) exercise all other rights and remedies available to Agent or the Lenders under the Loan Documents or applicable law.

The foregoing to the contrary notwithstanding, upon the occurrence of any Event of Default described in Section 8.4 or Section 8.5, in addition to the remedies set forth above, without any notice to Borrower or any other Person or any act by the Lender Group, the Revolving Credit Availability Period and the Commitments shall automatically terminate and the Obligations (other than the Bank Product Obligations), inclusive of all accrued and unpaid interest thereon and all fees and all other amounts owing under this Agreement or under any of the other Loan Documents, shall automatically and immediately become due and payable and Borrower shall be obligated to repay all of such Obligations in full, without presentment, demand, protest, or notice of any kind, all of which are expressly waived by Borrower.

9.2 Special Rights of the Lender Group in Respect of Notes Receivable and Purchased Participations. Without limiting Section 9.1, upon the occurrence and during the continuation of an Event of Default involving the failure by Borrower, Servicer or any replacement servicer to perform its servicing obligations in respect of any Notes Receivable or purchased participations, or failure to take any action necessary to preserve the ongoing performance, enforceability or value thereof, Agent shall have the right to take such action as Agent may deem necessary in its Permitted Discretion to preserve the ongoing performance and enforceability of any such Note Receivable or purchased participation and preserve the value thereof, respectively, including without limitation, taking any action that Borrower or Servicer is required or authorized to take in respect thereof or to otherwise properly service same, or contract with any Person to take or perform any such actions. Borrower hereby grants to Agent, effective upon the occurrence and during the continuation of an Event of Default, a special power of attorney (which shall be irrevocable, coupled with an interest and include power of substitution) to take any action authorized in this paragraph until the earliest to occur of the waiver of such Event of Default, the cure of such Event of Default to Agent's satisfaction, or the payment in full of the Obligations. Any advances, payments or other costs or expenses made or incurred by Agent in taking any action authorized under this paragraph shall be Lender Group Expenses and included within the Obligations and reimbursed to Agent on demand or, at Agent's Permitted Discretion charged and treated as Advances. Agent's rights under this Section 9.2 are cumulative of all other rights of the Agent under the Loan Documents and may be exercised in whole or in part, in Agent's Permitted Discretion. Agent shall have no obligation to take any action under this Section 9.2, and no undertaking by Agent under this paragraph shall obligate Agent to continue any such action or to take any other or additional action under this Section 9.2. Nothing in this Section 9.2 shall be construed as authorizing or causing a replacement of the Servicer absent the occurrence and continuation of an Event of Default.

9.3 Remedies Cumulative. The rights and remedies of the Lender Group under this Agreement, the other Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES.

If Borrower fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, Agent, in its Permitted Discretion and without prior notice to Borrower, may do any or all of the following: (a) make payment of the same or any part thereof (provided that Agent shall not pay taxes that are the subject of a Permitted Protest and that Agent shall, in any event, consult with the Borrower prior to making any such payment), (b) set up such reserves against the Borrowing Base or the Maximum Revolver Amount as Agent deems necessary to protect the Lender Group from the exposure created by such failure, or (c) in the case of the failure to comply with Section 6.8 hereof, obtain and maintain insurance policies of the type described in Section 6.8 and take any action with respect to such policies as Agent deems prudent. Any such amounts paid by Agent shall constitute Lender Group Expenses and any such payments shall not constitute an agreement by the Lender Group to make similar payments in the future or a waiver by the Lender Group of any Event of Default under this Agreement. Agent need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which Borrower may in any way be liable.

11.2 The Lender Group's Liability for Borrower Collateral. Borrower hereby agrees that: (a) so long as Agent complies with its obligations, if any, under the Code, the Lender Group shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Borrower Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person, and (b) all risk of loss, damage, or destruction of the Borrower Collateral shall be borne by Borrower.

11.3 Indemnification. Borrower shall pay, indemnify, defend, and hold the Agent-Related Persons, the Lender-Related Persons with respect to each Lender (each, an "Indemnified Person") harmless (to the fullest extent permitted by applicable law) from and against any and all claims, demands, suits, actions, investigations, proceedings, liabilities, costs (but excluding for the avoidance of doubt any Excluded Taxes), penalties, and damages, and all reasonable fees and disbursements of attorneys, experts and consultants and other reasonable costs and expenses actually incurred in connection therewith or in connection with the enforcement of this indemnification (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them (a) in connection with or as a result of or related to the execution, delivery, enforcement, performance, or administration (including any restructuring or workout with respect hereto) of this Agreement, any of the other Loan Documents, or the transactions contemplated hereby or thereby or the monitoring of Borrower's and its Subsidiaries' compliance with the terms of the Loan Documents, (b) with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event, or circumstance in any manner related thereto, and (c) in connection with or arising out of any presence or release of Hazardous Materials at, on, under, to or from any assets or properties owned, leased or operated by Borrower or any of its Subsidiaries or any Environmental Actions, Environmental Liabilities or Remedial Actions related in any way to any such assets or properties of Borrower or any of its Subsidiaries (all the foregoing, collectively, the "Indemnified Liabilities"). The foregoing to the contrary notwithstanding, Borrower shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations. If any Indemnified Person makes any payment to any other Indemnified Person with respect to an Indemnified Liability as to which Borrower was required to indemnify the Indemnified Person receiving such payment, the Indemnified Person making such payment is entitled to be indemnified and reimbursed by Borrower with respect thereto. **WITHOUT LIMITATION, THE FOREGOING INDEMNITY SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO INDEMNIFIED LIABILITIES WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF ANY NEGLIGENT ACT OR OMISSION OF SUCH INDEMNIFIED PERSON OR OF ANY OTHER PERSON.**

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by Borrower or Agent to the other relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, electronic mail (at such email addresses as Borrower or Agent, as applicable, may designate to each other in accordance herewith), or telefacsimile to Borrower or Agent, as the case may be, at its address set forth below:

If to Borrower:	Horizon Credit II LLC c/o Horizon Technology Finance Corporation 312 Farmington Avenue Farmington, CT 06032 Attn: Jay Bombara Fax No. 860- 676-8655
with copies to:	Dickstein Shapiro LLP One Stamford Plaza 263 Tresser Boulevard, Suite 1400 Stamford, CT 06901 Attn: Even S. Seideman, Esq. Fax No. 203-547-7686
If to Agent:	Key Equipment Finance Inc. Specialty Finance and Syndications 1000 McCaslin Blvd. Superior, CO 80027 Attn: Richard Andersen Fax No. 216-370-9166

with copies to: Key Equipment Finance
120 Vantis, Suite 300
Aliso Viejo, CA. 92656
Attn: Rian Emmett
Fax No. (216) 357-6708

Agent and Borrower may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other party. All notices or demands sent in accordance with this Section 12, other than notices by Agent in connection with enforcement rights against the Borrower Collateral under the provisions of the Code, shall be deemed received on the earlier of the date of actual receipt or three (3) Business Days after the deposit thereof in the mail as provided herein, or if sent by facsimile when sent with receipt confirmed by the recipient. Borrower acknowledges and agrees that notices sent by the Lender Group in connection with the exercise of enforcement rights against Borrower Collateral under the provisions of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or any other method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

(a) **THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT IN RESPECT OF SUCH OTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(b) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE AGENT ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. BORROWER AND EACH MEMBER OF THE LENDER GROUP WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13(b).**

(c) **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND EACH MEMBER OF THE LENDER GROUP HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER AND EACH MEMBER OF THE LENDER GROUP REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.**

(d) **BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK AND THE STATE OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT AGENT MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.**

14. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

14.1 Assignments and Participations

(a) With (i) the prior written consent of Borrower, which consent of Borrower shall not be unreasonably withheld, delayed or conditioned, and shall not be required (A) if a Default or an Event of Default has occurred and is continuing, or (B) in connection with an assignment to a Person that is a Lender or an Affiliate (other than individuals) of a Lender (provided that Borrower shall be deemed to have consented to a proposed assignment unless it objects thereto by written notice to Agent within five (5) Business Days after having received notice thereof), and (ii) the prior written consent of Agent, which consent of Agent shall not be unreasonably withheld, delayed or conditioned, and shall not be required in connection with an assignment to a Person that is a Lender or an Affiliate (other than individuals) of a Lender, any Lender may assign and delegate to one or more assignees so long as in each case such prospective assignee is an Eligible Transferee (each, an "Assignee"; provided, however, that neither Borrower nor any Affiliate of Borrower shall be permitted to become an Assignee) all or any portion of the Obligations, the Commitments and the other rights and obligations of such Lender hereunder and under the other Loan Documents, in a minimum amount (unless waived by the Agent) of $5,000,000 (except such minimum amount shall not apply to (x) an assignment or delegation by any Lender to any other Lender or an Affiliate of any Lender or (y) a group of new Lenders, each of whom is an Affiliate of each other or a fund or account managed by any such new Lender or an Affiliate of such new Lender to the extent that the aggregate amount to be assigned to all such new Lenders is at least $5,000,000); provided, however, that Borrower and Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (I) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, have been given to Borrower and Agent by such Lender and the Assignee, (II) such Lender and its Assignee have delivered to Borrower and Agent an Assignment and Acceptance and Agent has notified the assigning Lender of its receipt thereof in accordance with Section 14.1(b), and (III) unless waived by the Agent, the assigning Lender or Assignee has paid to Agent for Agent's separate account a processing fee in the amount of $5,000.

(b) From and after the date that Agent notifies the assigning Lender (with a copy to Borrower) that it has received an executed Assignment and Acceptance and, if applicable, payment of the required processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assigning Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except with respect to Section 11.3 hereof) and be released from any future obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto), and such assignment shall effect a novation among Borrower, the assigning Lender, and the Assignee; provided, however, that nothing contained herein shall release any assigning Lender from obligations that survive the termination of this Agreement, including such assigning Lender's obligations under Section 16 and Section 17.9(a) of this Agreement.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto, (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance or observance by Borrower of any of its obligations under this Agreement or any other Loan Document furnished pursuant hereto, (iii) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (iv) such Assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, (v) such Assignee appoints and authorizes Agent to take such actions and to exercise such powers under this Agreement as are delegated to Agent, by the terms hereof, together with such powers as are reasonably incidental thereto, and (vi) such Assignee agrees that it will perform all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon Agent's receipt of the required processing fee, if applicable, and delivery of notice to the assigning Lender pursuant to Section 14.1(b), this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender *pro tanto*.

(e) Any Lender may at any time sell to one or more commercial banks, financial institutions, or other Persons (a "Participant") participating interests in all or any portion of its Obligations, its Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the Originating Lender shall remain a "Lender" for all purposes of this Agreement and the other Loan Documents and the Participant receiving the participating interest in the Obligations, the Commitments, and the other rights and interests of the Originating Lender hereunder shall not constitute a "Lender" hereunder or under the other Loan Documents and the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Borrower, Agent, and the Lenders shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Lender shall transfer or grant any participating interest under which the Participant has the right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating, (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating, (C) release all or substantially all of the Collateral or guaranties (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating, (D) postpone the payment of, or reduce the amount of, the interest or fees payable to such Participant through such Lender, or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums, and (v) all amounts payable by Borrower hereunder shall be determined as if such Lender had not sold such participation, except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement. The rights of any Participant only shall be derivative through the Originating Lender with whom such Participant participates and no Participant shall have any rights under this Agreement or the other Loan Documents or any direct rights as to the other Lenders, Agent, Borrower, the Collections, the Collateral, or otherwise in respect of the Obligations. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves. Each Participant shall be entitled to the benefits of Section 11.3 and Section 16.11 (subject to the requirements and limitations therein, under Section 15.2 and otherwise in this agreement, read as if a Participant were a Lender) to the same extent as if it were a Lender and had acquired its interest by assignment; provided, however, that a Participant shall not be entitled to receive any greater payment under Section 11.3 and Section 16.11 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may, subject to the provisions of Section 17.9, disclose all documents and information which it now or hereafter may have relating to Borrower and its business.

(g) Any other provision in this Agreement notwithstanding, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Bank or U.S. Treasury Regulation 31 CFR §203.24, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

14.2 Successors. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrower may not assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void *ab initio*. No consent to assignment by the Lenders shall release Borrower from its Obligations. A Lender may assign this Agreement and the other Loan Documents and its rights and duties hereunder and thereunder pursuant to Section 14.1 hereof and, except as expressly required pursuant to Section 14.1 hereof, no consent or approval by Borrower is required in connection with any such assignment.

15. AMENDMENTS; WAIVERS.

15.1 Amendments and Waivers.

(a) No amendment or waiver of any provision of this Agreement or any other Loan Document (other than Bank Product Agreements or the Fee Letter), and no consent with respect to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and Borrower and then any such waiver or consent shall be effective, but only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all of the Lenders directly affected thereby and Borrower, do any of the following:

(i) increase the amount of or extend the expiration date of any Commitment of any Lender,

(ii) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees, or other amounts due hereunder or under any other Loan Document,

(iii) reduce the principal of, or the rate of interest on, any loan or other extension of credit hereunder, or reduce any fees or other amounts payable hereunder or under any other Loan Document (except in connection with the waiver of applicability of Section 2.5(b), which waiver shall be effective with the written consent of the Required Lenders),

(iv) amend, modify, or eliminate this Section or any provision of this Agreement providing for consent or other action by all Lenders,

(v) amend, modify, or eliminate Section 16.12,

(vi) other than as permitted by Section 16.12, release Agent's Lien in and to any of the Collateral;

(vii) amend, modify, or eliminate the definition of "Required Lenders" or "Pro Rata Share",

(viii) contractually subordinate any of the Agent's Liens,

(ix) release Borrower or any Guarantor from any obligation for the payment of money, or consent to the assignment or transfer by Borrower or any Guarantor of any of its rights or duties under this Agreement or the other Loan Documents,

(x) amend, modify, or eliminate any of the provisions of Section 2.4(a) or (b)

(xi) amend, modify, or eliminate any of the provisions of Section 14.1(a) to permit Borrower or an Affiliate of Borrower to be permitted to become an Assignee,

(xii) amend, modify, or eliminate the definition of "Borrowing Base" or any of the defined terms (including the definition of Eligible Notes Receivable) that are used in such definition to the extent that any such change results in more credit being made available to Borrower based upon the Borrowing Base, but not otherwise, or the definitions of "Maximum Revolver Amount," or

(xiii) amend, modify, or eliminate the definition of "Revolving Credit Availability Period," "Amortization Commencement Date," "Amortization Period" or any of the provisions of Section 2.2.

(b) No amendment, waiver, modification, elimination, or consent shall amend, modify, or waive (i) the definition of, or any of the terms or provisions of, the Fee Letter, without the written consent of Agent and Borrower (and shall not require the written consent of any of the Lenders), and (ii) any provision of Section 16 pertaining to Agent, or any other rights or duties of Agent under this Agreement or the other Loan Documents, without the written consent of Agent, Borrower, and the Required Lenders,

(c) Anything in this Section 15.1 to the contrary notwithstanding, (i) any amendment, modification, elimination, waiver, consent, termination, or release of, or with respect to, any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of Borrower, shall not require consent by or the agreement of Borrower, and (ii) any amendment, waiver, modification, elimination, or consent of or with respect to any provision of this Agreement or any other Loan Document may be entered into without the consent of, or over the objection of, any Defaulting Lender.

15.2 Replacement of Certain Lenders.

(a) If any action to be taken by the Lender Group or Agent hereunder requires the unanimous consent, authorization, or agreement of all Lenders or all Lenders affected thereby and if such action has received the consent, authorization, or agreement of the Required Lenders but not of all Lenders or all Lenders affected thereby, or (ii) any Lender makes a claim for compensation under Section 16.11, then Borrower or Agent, upon at least 5 Business Days prior irrevocable notice, may permanently replace any Lender that failed to give its consent, authorization, or agreement (a "Holdout Lender") or any Lender that made a claim for compensation (a "Tax Lender") with one or more Replacement Lenders, and the Holdout Lender or Tax Lender, as applicable, shall have no right to refuse to be replaced hereunder. Such notice to replace the Holdout Lender or Tax Lender, as applicable, shall specify an effective date for such replacement, which date shall not be later than 15 Business Days after the date such notice is given.

(b) Prior to the effective date of such replacement, the Holdout Lender or Tax Lender, as applicable, and each Replacement Lender shall execute and deliver an Assignment and Acceptance, subject only to the Holdout Lender or Tax Lender, as applicable, being repaid in full its share of the outstanding Obligations (without any premium or penalty of any kind whatsoever, but including all interest, fees and other amounts that may be due in payable in respect thereof). If the Holdout Lender or Tax Lender, as applicable, shall refuse or fail to execute and deliver any such Assignment and Acceptance prior to the effective date of such replacement, Agent may, but shall not be required to, execute and deliver such Assignment and Acceptance in the name or and on behalf of the Holdout Lender or Tax Lender, as applicable, and irrespective of whether Agent executes and delivers such Assignment and Acceptance, the Holdout Lender or Tax Lender, as applicable, shall be deemed to have executed and delivered such Assignment and Acceptance. The replacement of any Holdout Lender or Tax Lender, as applicable, shall be made in accordance with the terms of Section 14.1. Until such time as one or more Replacement Lenders shall have acquired all of the Obligations, the Commitments, and the other rights and obligations of the Holdout Lender or Tax Lender, as applicable, hereunder and under the other Loan Documents, the Holdout Lender or Tax Lender, as applicable, shall remain obligated to make the Holdout Lender's or Tax Lender's, as applicable, Pro Rata Share of Advances.

15.3 No Waivers; Cumulative Remedies. No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement or any other Loan Document, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or any Lender on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Borrower of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy that Agent or any Lender may have.

16. AGENT; THE LENDER GROUP.

16.1 Appointment and Authorization of Agent. Each Lender hereby designates and appoints KEF as its agent under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to designate, appoint, and authorize) Agent to execute and deliver each of the other Loan Documents on its behalf and to take such other action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as agent for and on behalf of the Lenders (and the Bank Product Providers) on the conditions contained in this Section 16. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender (or Bank Product Provider), and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement or the other Loan Documents with reference to Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only a representative relationship between independent contracting parties. Each Lender hereby further authorizes (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent to act as the secured party under each of the Loan Documents that create a Lien on any item of Collateral. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions that Agent expressly is entitled to take or assert under or pursuant to this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Obligations, the Collateral, the Collections of Borrower, and related matters, (b) execute or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim, notices and other written agreements with respect to the Loan Documents, (c) make Advances, for itself or on behalf of Lenders, as provided in the Loan Documents, (d) exclusively receive, apply, and distribute the Collections of Borrower as provided in the Loan Documents, (e) open and maintain such bank accounts and cash management arrangements as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes with respect to the Collateral and the Collections of Borrower, (f) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to Borrower, the Obligations, the Collateral, the Collections of Borrower, or otherwise related to any of same as provided in the Loan Documents, and (g) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

16.2 **Delegation of Duties**. Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made without gross negligence or willful misconduct.

16.3 **Liability of Agent**. None of the Agent-Related Persons shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Lenders (or Bank Product Providers) for any recital, statement, representation or warranty made by Borrower or any of its Subsidiaries or Affiliates, or any officer or director thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lenders (or Bank Product Providers) to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the books and records or properties of Borrower.

16.4 **Reliance by Agent**. Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, telefacsimile or other electronic method of transmission, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrower or counsel to any Lender), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless Agent shall first receive such advice or concurrence of the Lenders as it deems appropriate and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by the Lenders (and, if it so elects, the Bank Product Providers) against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders (and Bank Product Providers).

16.5 **Notice of Default or Event of Default**. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of the Lenders and, except with respect to Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 16.4, Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Section 9; provided, however, that unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable.

16.6 **Credit Decision**. Each Lender (and Bank Product Provider) acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of Borrower or Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender (or Bank Product Provider). Each Lender represents (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to represent) to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such due diligence, documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower or any other Person party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower. Each Lender also represents (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to represent) that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower or any other Person party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender (or Bank Product Provider) with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Borrower or any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons. Each Lender acknowledges (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that Agent does not have any duty or responsibility, either initially or on a continuing basis (except to the extent, if any, that is expressly specified herein) to provide such Lender (or Bank Product Provider) with any credit or other information with respect to Borrower, its Affiliates or any of their respective business, legal, financial or other affairs, and irrespective of whether such information came into Agent's or its Affiliates' or representatives' possession before or after the date on which such Lender became a party to this Agreement (or such Bank Product Provider entered into a Bank Product Agreement).

16.7 **Costs and Expenses; Indemnification**. Agent may incur and pay Lender Group Expenses to the extent Agent reasonably deems necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including court costs, attorneys fees and expenses, fees and expenses of financial accountants, advisors, consultants, and appraisers, costs of collection by outside collection agencies, auctioneer fees and expenses, and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Borrower is obligated to reimburse Agent or Lenders for such expenses pursuant to this Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from the Collections of Borrower received by Agent to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders (or Bank Product Providers). In the event Agent is not reimbursed for such costs and expenses by Borrower, each Lender hereby agrees that it is and shall be obligated to pay to Agent such Lender's ratable thereof. Whether or not the transactions contemplated hereby are consummated, each of the Lenders, on a ratable basis, shall indemnify and defend the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so) from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct nor shall any Lender be liable for the obligations of any Defaulting Lender in failing to make an Advance or other extension of credit hereunder. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for such Lender's ratable share of any costs or out of pocket expenses (including attorneys, accountants, advisors, and consultants fees and expenses) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement or any other Loan Document to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

16.8 **Agent in Individual Capacity**. KEF and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, provide Bank Products to, acquire equity interests in, and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Borrower and its Affiliates and any other Person party to any Loan Document as though KEF were not Agent hereunder, and, in each case, without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, pursuant to such activities, KEF or its Affiliates may receive information regarding Borrower or its Affiliates or any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of Borrower or such other Person and that prohibit the disclosure of such information to the Lenders (or Bank Product Providers), and the Lenders acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall not be under any obligation to provide such information to them. The terms "Lender" and "Lenders" include KEF in its individual capacity.

16.9 **Successor Agent**. Agent may resign as Agent upon thirty (30) days prior written notice to the Lenders (unless such notice is waived by the Required Lenders) and Borrower (unless such notice is waived by Borrower) and without any notice to the Bank Product Providers. If Agent resigns under this Agreement, the Required Lenders shall be entitled, with (so long as no Event of Default has occurred and is continuing) the consent of Borrower (such consent not to be unreasonably withheld, delayed, or conditioned), appoint a successor Agent for the Lenders (and the Bank Product Providers). If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with the Lenders and Borrower, a successor Agent. If Agent has materially breached or failed to perform any material provision of this Agreement or of applicable law, the Required Lenders may agree in writing to remove and replace Agent with a successor Agent from among the Lenders with (so long as no Event of Default has occurred and is continuing) the consent of Borrower (such consent not to be unreasonably withheld, delayed, or conditioned). In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers, and duties of the retiring Agent and the term "Agent" shall mean such successor Agent and the retiring Agent's appointment, powers, and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 16 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is thirty (30) days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Lenders appoint a successor Agent as provided for above.

16.10 **Lender in Individual Capacity**. Any Lender and its respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, provide Bank Products to, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Borrower and its Affiliates and any other Person party to any Loan Documents as though such Lender were not a Lender hereunder without notice to or consent of the other members of the Lender Group (or the Bank Product Providers). The other members of the Lender Group acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, pursuant to such activities, such Lender and its respective Affiliates may receive information regarding Borrower or its Affiliates or any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of Borrower or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver such Lender will use its reasonable best efforts to obtain), such Lender shall not be under any obligation to provide such information to them.

16.11 Withholding Taxes.

(a) Unless otherwise required by any applicable law, all payments under any Loan Document shall be made free and clear of, and without deduction or withholding for, any present or future Taxes, and in the event any deduction or withholding of Taxes is required, Borrower shall comply with the next sentence of this Section 16.11(a). If any Taxes other than Excluded Taxes are so levied or imposed, Borrower agrees to pay the full amount of such Taxes and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, any note, or Loan Document, including any amount paid pursuant to this Section 16.11(a) after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein; provided, however, that Borrower shall not be required to increase any such amounts if the increase in such amount payable results from Agent's or such Lender's own willful misconduct or gross negligence (as finally determined by a court of competent jurisdiction). Borrower will furnish to Agent as promptly as possible after the date the payment of any Tax is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by Borrower.

(b) Borrower agrees to pay any present or future stamp, value added or documentary taxes or any other excise or property taxes, charges, or similar levies that arise from any payment made hereunder or from the execution, delivery, performance, recordation, or filing of, or otherwise with respect to this Agreement or any other Loan Document. For the avoidance of doubt, the obligation under this Section 16.11(b) shall not apply to any Excluded Taxes.

(c) Each Lender agrees with and in favor of Borrower and Agent, to deliver to Borrower and Agent one of the following before receiving its first payment under this Agreement, whenever a lapse in time or change in circumstances of such Person renders such documentation obsolete or inaccurate, at such other time or times prescribed by applicable laws or when otherwise reasonably requested by the Borrower or the Agent, such properly completed and executed documentation prescribed by applicable laws or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Agent, as the case may be, to determine (i) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (ii) if applicable, the required rate of withholding or deduction, and (iii) such Person's entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Person by the Borrower pursuant to this Agreement or otherwise to establish such Person's status for withholding Tax purposes in the applicable jurisdiction. Without limiting the generality of the foregoing, each Lender will comply with whichever of the following applies to it:

(i) if a Foreign Lender is entitled to claim an exemption from United States withholding tax pursuant to the portfolio interest exception, (A) a statement of the Lender or Participant, signed under penalty of perjury, that it is not a (I) a "bank" as described in Section 881(c)(3)(A) of the IRC, (II) a 10% shareholder of Borrower (within the meaning of Section 871(h)(3)(B) of the IRC), or (III) a controlled foreign corporation related to Borrower within the meaning of Section 864(d)(4) of the IRC, and (B) a properly completed and executed IRS Form W-8BEN or Form W-8IMY (with proper attachments);

(ii) if a Foreign Lender is entitled to claim an exemption from, or a reduction of, withholding tax under a United States tax treaty, a properly completed and executed copy of IRS Form W-8BEN;

(iii) if a Foreign Lender is entitled to claim that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, a properly completed and executed copy of IRS Form W-8ECI;

(iv) if a Foreign Lender is entitled to claim that interest paid under this Agreement is exempt from United States withholding tax because such Lender or Participant serves as an intermediary, a properly completed and executed copy of IRS Form W-8IMY (with proper attachments); or

(v) if the Lender is a United States person within the meaning of IRC section 7701(a)(30) (a "U.S. Lender"), a properly completed and executed copy of any other form or forms, including IRS Form W-9, as may be required under the IRC or other laws of the United States as a condition to exemption from, or reduction of, United States withholding or backup withholding tax.

Each Lender shall provide new forms (or successor forms) upon the expiration or obsolescence of any previously delivered forms and to promptly notify Borrower and Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(d) If a Lender claims an exemption from withholding tax in a jurisdiction other than the United States, such Lender agrees with and in favor of Borrower and Agent, to deliver to Borrower and Agent any such form or forms, as may be required under the laws of such jurisdiction as a condition to exemption from, or reduction of, foreign withholding or backup withholding tax before receiving its first payment under this Agreement, but only if such Lender or such Participant is legally able to deliver such forms, provided, however, that nothing in this Section 16.11(d) shall require a Lender or Participant to disclose any information that it deems to be confidential (including without limitation, its tax returns). Each Lender and each Participant shall provide new forms (or successor forms) upon the expiration or obsolescence of any previously delivered forms and to promptly notify Borrower and Agent (or, in the case of a Participant, to the Lender granting the participation only) of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that Borrower or Agent (or, in the case of a Participant, to the Lender granting the participation) did not properly withhold tax from amounts paid to or for the account of any Lender due to a failure on the part of the Lender or any Participant (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify Borrower or Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify and hold Borrower and Agent harmless for all amounts paid, directly or indirectly, by Borrower or Agent (or, in the case of a Participant, to the Lender granting the participation), as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Borrower or Agent (or, in the case of a Participant, to the Lender granting the participation only) under this Section 16.11, together with all costs and expenses (including attorneys fees and expenses). The obligation of the Lenders and the Participants under this subsection shall survive the payment of all Obligations and the resignation or replacement of Agent.

(f) If Agent or a Lender determines, in its sole discretion, that it has received a refund of any Taxes as to which it has been indemnified by Borrower or with respect to which Borrower has paid additional amounts pursuant to this Section 16.11, so long as no Default or Event of Default has occurred and is continuing, it shall pay over such refund to Borrower (but only to the extent of payments made, or additional amounts paid, by Borrower under this Section 16.11 with respect to Taxes giving rise to such a refund), net of all out-of-pocket expenses of Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such a refund); provided, that Borrower, upon the request of Agent or such Lender, agrees to repay the amount paid over to Borrower (plus any penalties, interest or other charges, imposed by the relevant Governmental Authority, other than such penalties, interest or other charges imposed as a result of the willful misconduct or gross negligence of Agent hereunder) to Agent or such Lender in the event Agent or such Lender is required to repay such refund to such Governmental Authority. Notwithstanding anything in this Agreement to the contrary, this Section 16.11 shall not be construed to require Agent or any Lender to make available its tax returns (or any other information which it deems confidential) to Borrower or any other Person.

(g) With respect to any claim for compensation for Taxes, the Borrower shall not be required to compensate the Agent or any Lender for any amount incurred more than one hundred and eighty (180) days prior to the date that the Agent or such Lender notifies the Borrower of the event that gives rise to such claim; provided that, if the circumstance giving rise to such increased cost or reduction is retroactive, then such 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

(h) Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 16.11(a) or Section 16.11(b) with respect to such Lender it will, if requested by the Borrower, use commercially reasonable efforts (subject to such Lender's overall internal policies of general application and legal and regulatory restrictions) to avoid the consequences of such event, including to designate another lending office for any Advances affected by such event or to assign its rights and obligations with respect to such Advances to another of its offices, branches or affiliates; provided that such efforts are made on terms that, in the reasonable judgment of such Lender, cause such Lender and its lending office(s) to suffer no material economic, legal or regulatory disadvantage, and provided further that nothing in this Section 16.11(h) shall affect or postpone any of the obligations of Borrower or the rights of such Lender pursuant to Section 16.11(a) and Section 16.11(b).

16.12 Collateral Matters

(a) The Lenders hereby irrevocably authorize Agent, (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent to release any Lien on any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by Borrower of all Obligations, (ii) constituting property being sold or disposed of if a release is required or desirable in connection therewith and if such sale or disposition is a Permitted Disposition or Borrower certifies to Agent that the sale or disposition is permitted under Section 7.4 of this Agreement or the other Loan Documents (and Agent may rely conclusively on any such certificate, without further inquiry), (iii) constituting property in which Borrower owned no interest at the time the Agent's Lien was granted nor at any time thereafter, or (iv) constituting property leased to Borrower under a lease that has expired or is terminated in a transaction permitted under this Agreement. Borrower and the Lenders hereby irrevocably authorize (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent, based upon the instruction of the Required Lenders, to (a) consent to, credit bid or purchase (either directly or through one or more acquisition vehicles) all or any portion of the Collateral at any sale thereof conducted under the provisions of the Bankruptcy Code, including under Section 363 of the Bankruptcy Code, (b) credit bid or purchase (either directly or through one or more acquisition vehicles) all or any portion of the Collateral at any sale or other disposition thereof conducted under the provisions of the Code, including pursuant to Sections 9-610 or 9-620 of the Code, or (c) credit bid or purchase (either directly or through one or more acquisition vehicles) all or any portion of the Collateral at any other sale or foreclosure conducted by Agent (whether by judicial action or otherwise) in accordance with applicable law. In connection with any such credit bid or purchase, the Obligations owed to the Lenders and the Bank Product Providers shall be entitled to be, and shall be, credit bid on a ratable basis (with Obligations with respect to contingent or unliquidated claims being estimated for such purpose if the fixing or liquidation thereof would not unduly delay the ability of Agent to credit bid or purchase at such sale or other disposition of the Collateral and, if such claims cannot be estimated without unduly delaying the ability of Agent to credit bid, then such claims shall be disregarded, not credit bid, and not entitled to any interest in the asset or assets purchased by means of such credit bid) and the Lenders and the Bank Product Providers whose Obligations are credit bid shall be entitled to receive interests (ratably based upon the proportion of their Obligations credit bid in relation to the aggregate amount of Obligations so credit bid) in the asset or assets so purchased (or in the Stock of the acquisition vehicle or vehicles that are used to consummate such purchase). Except as provided above, Agent will not execute and deliver a release of any Lien on any Collateral without the prior written authorization of (y) if the release is of all or substantially all of the Collateral, all of the Lenders (without requiring the authorization of the Bank Product Providers), or (z) otherwise, the Required Lenders (without requiring the authorization of the Bank Product Providers). Upon request by Agent or Borrower at any time, the Lenders will (and if so requested, the Bank Product Providers will) confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 16.12; provided, however, that (1) Agent shall not be required to execute any document necessary to evidence such release on terms that, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (2) such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of Borrower in respect of) all interests retained by Borrower, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral. The Lenders further hereby irrevocably authorize (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent, at its option and in its sole discretion, to subordinate any Lien granted to or held by Agent under any Loan Document to the holder of any Permitted Lien on such property.

(b) Agent shall have no obligation whatsoever to any of the Lenders (or the Bank Product Providers) to assure that the Collateral exists or is owned by Borrower or is cared for, protected, or insured or has been encumbered, or that Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, or that any particular items of Collateral meet the eligibility criteria applicable in respect thereof or whether to impose, maintain, reduce, or eliminate any particular reserve hereunder or whether the amount of any such reserve is appropriate or not, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission, or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender (or Bank Product Provider) as to any of the foregoing, except as otherwise provided herein.

16.13 Restrictions on Actions by Lenders; Sharing of Payments

(a) Each of the Lenders agrees that it shall not, without the express written consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the written request of Agent, set off against the Obligations, any amounts owing by such Lender to Borrower or any deposit accounts of Borrower now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so in writing by Agent, take or cause to be taken any action, including, the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral.

(b) If, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent in excess of such Lender's Pro Rata Share of all such distributions by Agent, such Lender promptly shall (A) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in immediately available funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (B) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that to the extent that such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

16.14 Agency for Perfection. Agent hereby appoints each other Lender (and each Bank Product Provider) as its agent (and each Lender hereby accepts (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to accept) such appointment) for the purpose of perfecting Agent's Liens in assets which, in accordance with Article 8 or Article 9, as applicable, of the Code can be perfected by possession or control. Should any Lender obtain possession or control of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver possession or control of such Collateral to Agent or in accordance with Agent's instructions.

16.15 **Payments by Agent to the Lenders**. All payments to be made by Agent to the Lenders (or Bank Product Providers) shall be made by bank wire transfer or internal transfer of immediately available funds pursuant to such wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents principal, premium, fees, or interest of the Obligations.

16.16 **Concerning the Collateral and Related Loan Documents**. Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents. Each member of the Lender Group agrees (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to agree) that any action taken by Agent in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders (and such Bank Product Provider).

16.17 **Field Audits and Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information**. By becoming a party to this Agreement, each Lender:

(a) is deemed to have requested that Agent furnish such Lender, promptly after it becomes available, a copy of each field audit or examination report (each a "Report") prepared by or at the request of Agent, and Agent shall so furnish each Lender with such Reports,

(b) expressly agrees and acknowledges that Agent does not (i) make any representation or warranty as to the accuracy of any Report, and (ii) shall not be liable for any information contained in any Report,

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or other party performing any audit or examination will inspect only specific information regarding Borrower and will rely significantly upon the Books, as well as on representations of Borrower's personnel,

(d) agrees to keep all Reports and other material, non-public information regarding Borrower and its operations, assets, and existing and contemplated business plans in a confidential manner in accordance with Section 17.9, and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold Agent and any other Lender preparing a Report harmless from any action the indemnifying Lender may take or fail to take or any conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to Borrower, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Borrower, and (ii) to pay and protect, and indemnify, defend and hold Agent, and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including, attorneys fees and costs) incurred by Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

In addition to the foregoing: (x) any Lender may from time to time request of Agent in writing that Agent provide to such Lender a copy of any report or document provided by Borrower to Agent that has not been contemporaneously provided by Borrower to such Lender, and, upon receipt of such request, Agent promptly shall provide a copy of same to such Lender, (y) to the extent that Agent is entitled, under any provision of the Loan Documents, to request additional reports or information from Borrower, any Lender may, from time to time, reasonably request Agent to exercise such right as specified in such Lender's notice to Agent, whereupon Agent promptly shall request of Borrower the additional reports or information reasonably specified by such Lender, and, upon receipt thereof from Borrower, Agent promptly shall provide a copy of same to such Lender, and (z) any time that Agent renders to Borrower a statement regarding the Loan Account, Agent shall send a copy of such statement to each Lender.

16.18 Several Obligations; No Liability. Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to make any credit available hereunder shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Commitments, to make an amount of such credit not to exceed, in principal amount, at any one time outstanding, the amount of their respective Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible for notifying its Participants of any matters relating to the Loan Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 16.7, no member of the Lender Group shall have any liability for the acts of any other member of the Lender Group. No Lender shall be responsible to Borrower or any other Person for any failure by any other Lender (or Bank Product Provider) to fulfill its obligations to make credit available hereunder, nor to advance for such Lender (or Bank Product Provider) or on its behalf, nor to take any other action on behalf of such Lender (or Bank Product Provider) hereunder or in connection with the financing contemplated herein.

17. GENERAL PROVISIONS.

17.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrower, Agent, and each Lender whose signature is provided for on the signature pages hereof.

17.2 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

17.3 **Interpretation**. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against the Lender Group or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

17.4 **Severability of Provisions**. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

17.5 **Bank Product Providers**. Each Bank Product Provider shall be deemed a third party beneficiary hereof and of the provisions of the other Loan Documents for purposes of any reference in a Loan Document to the parties for whom Agent is acting. Agent hereby agrees to act as agent for such Bank Product Providers and, by virtue of entering into a Bank Product Agreement, the applicable Bank Product Provider shall be automatically deemed to have appointed Agent as its agent and to have accepted the benefits of the Loan Documents; it being understood and agreed that the rights and benefits of each Bank Product Provider under the Loan Documents consist exclusively of such Bank Product Provider's being a beneficiary of the Liens and security interests (and, if applicable, guarantees) granted to Agent and the right to share in payments and collections out of the Collateral as more fully set forth herein. In addition, each Bank Product Provider, by virtue of entering into a Bank Product Agreement, shall be automatically deemed to have agreed that Agent shall have the right, but shall have no obligation, to establish, maintain, relax, or release reserves in respect of the Bank Product Obligations and that if reserves are established there is no obligation on the part of Agent to determine or insure whether the amount of any such reserve is appropriate or not. In connection with any such distribution of payments or proceeds of Collateral, Agent shall be entitled to assume no amounts are due or owing to any Bank Product Provider unless such Bank Product Provider has provided a written certification (setting forth a reasonably detailed calculation) to Agent as to the amounts that are due and owing to it and such written certification is received by Agent a reasonable period of time prior to the making of such distribution. Agent shall have no obligation to calculate the amount due and payable with respect to any Bank Products, but may rely upon the written certification of the amount due and payable from the relevant Bank Product Provider. In the absence of an updated certification, Agent shall be entitled to assume that the amount due and payable to the relevant Bank Product Provider is the amount last certified to Agent by such Bank Product Provider as being due and payable (less any distributions made to such Bank Product Provider on account thereof). Borrower may obtain Bank Products from any Bank Product Provider, although Borrower is not required to do so. Borrower acknowledges and agrees that no Bank Product Provider has committed to provide any Bank Products and that the providing of Bank Products by any Bank Product Provider is in the sole and absolute discretion of such Bank Product Provider. Notwithstanding anything to the contrary in this Agreement or any other Loan Document, no provider or holder of any Bank Product shall have any voting or approval rights hereunder (or be deemed a Lender) solely by virtue of its status as the provider or holder of such agreements or products or the Obligations owing thereunder, nor shall the consent of any such provider or holder be required (other than in their capacities as Lenders, to the extent applicable) for any matter hereunder or under any of the other Loan Documents, including as to any matter relating to the Collateral or the release of Collateral or Guarantors.

17.6 **Debtor-Creditor Relationship**. The relationship between the Lenders and Agent, on the one hand, and Borrower, on the other hand, is solely that of creditor and debtor. No member of the Lender Group has (or shall be deemed to have) any fiduciary relationship or duty to Borrower arising out of or in connection with the Loan Documents or the transactions contemplated thereby, and there is no agency or joint venture relationship between the members of the Lender Group, on the one hand, and the Borrower, on the other hand, by virtue of any Loan Document or any transaction contemplated therein.

17.7 **Counterparts; Electronic Execution**. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document *mutatis mutandis*.

17.8 **Revival and Reinstatement of Obligations**. If the incurrence or payment of the Obligations by Borrower or any Guarantor or the transfer to the Lender Group of any property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (each, a "Voidable Transfer"), and if the Lender Group is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender Group is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Lender Group related thereto, the liability of Borrower or such Guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

17.9 Confidentiality.

(a) Agent and the Lenders each individually (and not jointly or jointly and severally) agree that material, non-public information regarding Borrower and its Affiliates, their operations, assets, and existing and contemplated business plans ("Confidential Information") shall be treated by Agent and the Lenders in a confidential manner, and shall not be disclosed by Agent and the Lenders to Persons who are not parties to this Agreement, except: (i) to attorneys for and other advisors, accountants, auditors, and consultants to any member of the Lender Group and to employees, directors and officers of any member of the Lender Group (the Persons in this clause (i), "Lender Group Representatives") on a "need to know" basis in connection with this Agreement and the transactions contemplated hereby and on a confidential basis, (ii) to Subsidiaries and Affiliates of any member of the Lender Group (including the Bank Product Providers), provided that any such Subsidiary or Affiliate shall have agreed to receive such information hereunder subject to the terms of this Section 17.9, (iii) as may be required by regulatory authorities so long as such authorities are informed of the confidential nature of such information, (iv) as may be required by statute, decision, or judicial or administrative order, rule, or regulation; provided that (x) prior to any disclosure under this clause (iv), the disclosing party agrees to provide Borrower with prior notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior notice to Borrower pursuant to the terms of the applicable statute, decision, or judicial or administrative order, rule, or regulation and (y) any disclosure under this clause (iv) shall be limited to the portion of the Confidential Information as may be required by such statute, decision, or judicial or administrative order, rule, or regulation, (v) as may be agreed to in advance in writing by Borrower, (vi) as requested or required by any Governmental Authority pursuant to any subpoena or other legal process, provided, that, (x) prior to any disclosure under this clause (vi) the disclosing party agrees to provide Borrower with prior written notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior written notice to Borrower pursuant to the terms of the subpoena or other legal process and (y) any disclosure under this clause (vi) shall be limited to the portion of the Confidential Information as may be required by such Governmental Authority pursuant to such subpoena or other legal process, (vii) as to any such information that is or becomes generally available to the public (other than as a result of prohibited disclosure by Agent or the Lenders or the Lender Group Representatives), (viii) in connection with any assignment, participation or pledge of any Lender's interest under this Agreement, provided that prior to receipt of Confidential Information any such assignee, participant, or pledgee shall have agreed in writing to receive such Confidential Information hereunder subject to the terms of this Section, (ix) in connection with any litigation or other adversary proceeding involving parties hereto which such litigation or adversary proceeding involves claims related to the rights or duties of such parties under this Agreement or the other Loan Documents; provided, that, prior to any disclosure to any Person (other than Borrower, Agent, any Lender, any of their respective Affiliates, or their respective counsel) under this clause (ix) with respect to litigation involving any Person (other than Borrower, Agent, any Lender, any of their respective Affiliates, or their respective counsel), the disclosing party agrees to provide Borrower with prior written notice thereof, and (x) in connection with, and to the extent reasonably necessary for, the exercise of any secured creditor remedy under this Agreement or under any other Loan Document.

(b) Anything in this Agreement to the contrary notwithstanding, Agent may (i) provide customary information concerning the terms and conditions of this Agreement and the other Loan Documents to loan syndication and pricing reporting services, and (ii) use the name, logos, and other insignia of Borrower and Horizon and the total Commitments provided hereunder in any "tombstone" or comparable advertising, on its website or in other marketing materials of Agent; provided, however, that Agent must first provide Horizon with an opportunity to review and approve any such use. Anything in this Agreement to the contrary notwithstanding, Borrower, Horizon and Horizon Management may use the name, logos, and other insignia of Agent and members of the Lender Group, along with the total Commitments provided hereunder, in any "tombstone" or comparable advertising, on its website or in other marketing materials of Borrower, Horizon or Horizon Management; provided, however, that Borrower, Horizon or Horizon Management, as the case may be, must first provide Agent and each member of the Lender Group with an opportunity to review and approve any such use.

17.10 **Lender Group Expenses.** Borrower agrees to pay the Lender Group Expenses on the earlier of (a) the first day of the month following the date on which such Lender Group Expenses were first incurred or (b) the date on which demand therefor is made by Agent. Borrower agrees that its obligations contained in this Section 17.10 shall survive payment or satisfaction in full of all other Obligations.

17.11 **Survival.** All representations and warranties made by Borrower or its Affiliates in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that Agent or any Lender may have had notice or knowledge of any Default or Event of Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any loan or any fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not expired or terminated.

17.12 **Patriot Act.** Each Lender that is subject to the requirements of the Patriot Act hereby notifies Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow such Lender to identify Borrower in accordance with the Patriot Act. In addition, if Agent is required by law or regulation or internal policies to do so, it shall have the right to periodically conduct (a) Patriot Act searches, OFAC/PEP searches, and customary individual background checks for Borrower and its Affiliates and (b) OFAC/PEP searches and customary individual background checks for the senior management and key principals of Borrower and its Affiliates, and Borrower agrees to cooperate in respect of the conduct of such searches and further agrees that the reasonable costs and charges for such searches shall constitute Lender Expenses hereunder and be for the account of Borrower.

17.13 **Integration.** This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof. The foregoing to the contrary notwithstanding, all Bank Product Agreements, if any, are independent agreements governed by the written provisions of such Bank Product Agreements, which will remain in full force and effect, unaffected by any repayment, prepayments, acceleration, reduction, increase, or change in the terms of any credit extended hereunder, except as otherwise expressly provided in such Bank Product Agreement.

[Remainder of page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

HORIZON CREDIT II LLC,
a Delaware limited liability company, as Borrower

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

KEY EQUIPMENT FINANCE INC.,
as Agent and as a Lender

By: /s/Richard Andersen
Name: Richard Andersen
Title: VP

SIGNATURE PAGE TO
LOAN AND SECURITY AGREEMENT

EXHIBIT 10.15

Execution Version

AMENDED AND RESTATED SALE AND SERVICING AGREEMENT

among

HORIZON CREDIT II LLC,
as the Buyer,

and

HORIZON TECHNOLOGY FINANCE CORPORATION,
as the Originator and the Servicer,

and

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC,
as the Sub-Servicer,

and

U.S. BANK NATIONAL ASSOCIATION,
as the Collateral Custodian and Backup Servicer,

and

KEY EQUIPMENT FINANCE INC.,

as the Agent

Dated as of November 4, 2013

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

AMENDED AND RESTATED SALE AND SERVICING AGREEMENT

This Amended and Restated Sale and Servicing Agreement is entered into as of November 4, 2013, by and among Horizon Credit II LLC, a Delaware limited liability company, as the Buyer, Horizon Technology Finance Corporation, a Delaware corporation, as the Originator and the Servicer, Horizon Technology Finance Management LLC, a Delaware limited liability company, as the Sub-Servicer, U.S. Bank National Association, a national banking association, as the Collateral Custodian and the Backup Servicer, and Key Equipment Finance Inc., a Delaware limited liability company, as the Agent for Lenders under the Loan Agreement (as hereinafter defined).

WITNESSETH:

In consideration of the mutual agreements herein contained, the parties hereto hereby agree as follows for the benefit of each of them and for the benefit of the Agent and Lenders:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions.

Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the meanings specified in this Article. Capitalized terms used herein but not specifically defined herein shall, to the extent defined in the Loan Agreement, have the respective meanings ascribed to them in the Loan Agreement.

"1940 Act": The Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

"Accepted Servicing Practices": The servicing practices and collection procedures of the Servicer that are in accordance with the Required Procedures, the applicable Note Receivable Documents and Applicable Law and which are consistent with the higher standard of (i) customary servicing practices of prudent institutions which service loans or other financial assets similar to the Transferred Notes Receivable for their own account or for the account of others and (ii) the same care, skill, prudence and diligence with which the Servicer services and administers loans or other financial assets which are similar to the Transferred Notes Receivable serviced or administered pursuant to this Agreement, for its own account or for the account of others; provided, however, that if the Backup Servicer becomes the Successor Servicer, "Accepted Servicing Practices" shall mean the servicing and collection practices of the Successor Servicer with respect to similar collateral owned by itself or serviced for others.

"Advance": Has the meaning set forth in Section 2.01(b) hereof.

"Advances Outstanding: As of any date of determination, the aggregate principal amount of Advances outstanding on such date, after giving effect to all repayments of Advances and makings of new Advances on such date.

"Affiliate": Has the meaning set forth in the Loan Agreement.

"Agent": Key Equipment Finance Inc., a Michigan corporation, as Agent for the Lenders under the Loan Agreement, or any successor Agent under the Loan Agreement.

"Agent's Account": Has the meaning set forth in the Loan Agreement.

"Agreement": This Amended and Restated Sale and Servicing Agreement, as it may be amended and supplemented from time to time.

"Applicable Law": For any Person or property of such Person, all existing and future applicable laws, rules, regulations (including proposed, temporary and final income tax regulations), statutes, treaties, codes ordinances, permits, certificates, orders and licenses of and interpretations by any Governmental Authority (including, without limitation, usury laws, predatory lending laws, the Federal Truth in Lending Act, and Regulation Z and Regulation B of the Federal Reserve Board), and applicable judgments, decrees, injunctions, writs, orders, or line action of any court, arbitrator or other administrative, judicial, or quasi-judicial tribunal or agency of competent jurisdiction.

"Available Amount": Has the meaning set forth in the Loan Agreement.

"Backup Servicer": U.S. Bank, acting in its capacity as Backup Servicer, as set forth in that certain Backup Servicer Engagement Letter.

"Backup Servicer Engagement Letter": The letter agreement dated as of November 1, 2013, by and among U.S. Bank and Horizon Management.

"Bankruptcy Code": Title 11 of the United States Code, as in effect from time to time.

"Bankruptcy Event": With respect to a Person, shall be deemed to have occurred if either:

(a) a case or other proceeding shall be commenced, without the application or consent of such Person, in any court seeking the liquidation, reorganization, debt arrangement, dissolution, winding up, or composition or readjustment of debts of such Person, the appointment of a trustee, receiver, custodian, liquidator, assignee, sequestrator or the like for such Person or for all or substantially all of its assets, or any similar action with respect to such Person under any law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, and such case or proceeding shall continue undismissed or unstayed, and in effect, for a period of sixty (60) consecutive days; or an order for relief in respect of such Person shall be entered in an involuntary case or proceeding under any such law now or hereafter in effect; or

(b) such Person shall commence a voluntary case or other proceeding under any applicable bankruptcy, insolvency, reorganization, debt arrangement, dissolution or other similar law now or hereafter in effect, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) for such Person or for any substantial part of its assets, or shall make any general assignment for the benefit of creditors, or shall fail to, or admit in writing its inability to, pay its debts generally as they become due, or, if a corporation or similar entity, its board of directors shall vote to implement any of the foregoing.

"Bankruptcy Laws": The Bankruptcy Code and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, suspension of payments, composition or adjustment of debts or similar debtor relief laws from time to time in effect affecting the rights of creditors generally.

"Bankruptcy Proceeding": Any case, action or proceeding before any Governmental Authority relating to a Bankruptcy Event.

"Borrowing Base": Has the meaning set forth in the Loan Agreement.

"Borrowing Base Certificate": Has the meaning set forth in the Loan Agreement.

"Business Day": Any day that is not a Saturday, Sunday, or other day on which banks are authorized or required to close in the State of Minnesota, the State of New York, the State of Connecticut, the State of California, or the State of Texas.

"Buyer": Horizon Credit II LLC, a Delaware limited liability company.

"Cash Management Agreement": Has the meaning set forth in the Loan Agreement.

"Closing Date": July 14, 2011.

"Code": The Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated by the United States Treasury thereunder.

"Collateral": Has the meaning provided in the Loan Agreement.

"Collateral Custodian": U.S. Bank, as the Collateral Custodian under this Agreement, or any successor collateral custodian under this Agreement.

"Collateral Custodian Fee": Means the fee identified as such in the Collateral Custodian Fee Letter.

"Collateral Custodian Fee Letter": Means the fee letter, dated as of July 6, 2011, among the Buyer, the Servicer, and U.S. Bank, and any fee letter entered into with the consent of the Agent by the Buyer and any successor collateral custodian appointed pursuant to this Agreement.

"Collection Period": Has the meaning set forth in the Loan Agreement.

"Collection Account": Has the meaning set forth in the Loan Agreement.

"Collections": (a) All cash collections or other cash proceeds received by the Buyer or by the Servicer or the Originator on behalf of the Buyer from any source in payment of any amounts owed in respect of a Transferred Note Receivable, including, without limitation, interest, principal, Insurance Proceeds, and all Recoveries, (b) all amounts received by the Buyer in connection with the removal of a Transferred Note Receivable from the Collateral pursuant to Section 3.05 and (c) any other funds received by or on behalf of the Buyer with respect to any Transferred Note Receivable or Related Property, but excluding, in the case of (a), (b) or (c), as applicable, amounts in respect of any Retained Interest and Excluded Amounts.

"Commitments": Has the meaning set forth in Loan Agreement.

"Continued Errors": Has the meaning set forth in Section 9.02(f) hereof.

"Data Tape": Has the meaning set forth in the Loan Agreement.

"Default": Any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Defaulted Note Receivable": Has the meaning set forth in the Loan Agreement.

"Dollars" or "$" refers to lawful money of the United States.

"Eligible Note Receivable": On any date of determination, any Transferred Note Receivable that both (a) complies with the representations and warranties set forth in Section 3.03 and (b) is an Eligible Note Receivable under the Loan Agreement.

"Errors": Has the meaning set forth in Section 9.02(f) hereof.

"Event of Default": Either a Servicer Default or an "Event of Default" under the Loan Agreement.

"Exchange Act": The Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Excluded Amounts": Any Collections received with respect to Notes Receivable which have been removed from the Collateral pursuant to Section 3.05 to the extent such Collections are attributable to a time after the effective date of the applicable substitution, repurchase or release.

"Fair Market Value": With respect to a Transferred Note Receivable, if such Transferred Note Receivable has been reduced in value on such date of determination below the original principal amount (other than as a result of the allocation of a portion of the original principal amount to warrants or other equity entitlements), the fair market value of such Transferred Note Receivable as determined by the Board of Directors of the Originator and reviewed by its auditors and communicated to the Servicer.

"Fee Letter": Has the meaning provided in the Loan Agreement.

"Final Collateral Certification": The certification in the form of Exhibit D-2 hereto prepared by the Collateral Custodian.

"GAAP": Has the meaning provided in the Loan Agreement.

"Governmental Authority": Has the meaning set forth in the Loan Agreement.

"Horizon": Horizon Technology Finance Corporation, a Delaware corporation.

"Horizon Management": Horizon Technology Finance Management LLC, a Delaware limited liability company.

"Horizon Indemnified Party": Has the meaning set forth in Section 8.01(c) hereof.

"Indebtedness": Has the meaning set forth in the Loan Agreement.

"Indemnified Parties": Has the meaning set forth in Section 8.01(c) hereof.

"Indemnifying Parties": Has the meaning set forth in Section 8.01(d) hereof.

"Ineligible Note Receivable": Any Note Receivable or portion thereof that is not an Eligible Note Receivable.

"Initial Collateral Certification": The certification in the form of Exhibit D-1 hereto prepared by the Collateral Custodian.

"Insurance Policy": With respect to any Transferred Note Receivable, an insurance policy covering physical damage to or loss to any assets or Related Property of the Obligor securing such Transferred Note Receivable.

"Insurance Proceeds": Any amounts payable or any payments made to the Buyer or to the Servicer on its behalf under any Insurance Policy.

"Intangible Assets": With respect to any Person, that portion of the book value of all of such Person's assets that would be treated as intangibles under GAAP.

"Lender": Has the meaning set forth in the Loan Agreement.

"Lender Group": Has the meaning set forth in the Loan Agreement.

"Lien": With respect to any asset, (a) any mortgage, lien, pledge, charge, security interest, hypothecation, option or encumbrance of any kind in respect of such asset or (b) the interest of a vendor or lessor under any conditional sale agreement, financing lease or other title retention agreement relating to such asset.

"Loan Agreement": The Amended and Restated Loan and Security Agreement among the Agent, the Lenders, and the Buyer, dated as of November 4, 2013, as it may be amended or supplemented from time to time.

"Loan Documents": This Agreement, the Loan Agreement, each S&SA Assignment, the Fee Letter, the Collateral Custodian Fee Letter, the Backup Servicer Engagement Letter, any UCC financing statements filed pursuant to the terms of this Agreement or the Loan Agreement, and any additional document, letter, fee letter, certificate, opinion, agreement or writing the execution of which is necessary or incidental to carrying out the terms of the foregoing documents.

"Material Adverse Change": Has the meaning set forth in the Loan Agreement.

"Material Adverse Effect": With respect to any event or circumstance, means a material adverse effect on, as applicable, (a) the business, condition (financial or otherwise), operations, performance, or properties of the Originator, the Servicer, the Buyer, or the Collateral Custodian, (b) the validity, enforceability or collectability of this Agreement, any other Loan Document or the Purchased Assets, (c) the rights and remedies of the Agent or any member of the Lender Group under this Agreement or any Loan Document or (d) the ability of any of the Originator, the Servicer, the Buyer, or the Collateral Custodian to perform its obligations under this Agreement or any other Loan Document, or (e) the status, existence, perfection, priority, or enforceability of the interest of the Buyer in the Purchased Assets or of the Agent on behalf of the Lender Group in the Collateral.

"Note Receivable" A promissory note evidencing a commercial loan made or purchased by Originator in accordance with the Required Procedures and secured by a Lien on property owned by the maker of such note.

"Note Receivable Checklist": With respect to any Transferred Note Receivable, the list delivered to the Agent and the Collateral Custodian pursuant to Section 2.04 that identifies the related Note Receivable Documents that are Required Asset Documents, in the form of Exhibit G hereto.

"Note Receivable Documents": With respect to any Transferred Note Receivable, the Note Receivable and all other material loan or collateral documentation executed or delivered in connection therewith.

"Notes Receivable Schedule": The schedule of Notes Receivable conveyed to the Buyer on each Transfer Date and delivered to the Agent and the Collateral Custodian in connection with each Advance or as new Notes Receivable are contributed to the Buyer, initially as set forth in Exhibit C hereto.

"Obligations": Has the meaning set forth in the Loan Agreement.

"Obligor": With respect to any Note Receivable, the Person or Persons obligated to make payments pursuant to such Note Receivable, including any guarantor thereof.

"Officer's Certificate": A certificate signed by a Responsible Officer of the Person delivering such certificate, in each case as required by this Agreement.

"One Time Successor Servicer Engagement Fee" means $75,000, payable to the Backup Servicer if it becomes Successor Servicer.

"Opinion of Counsel": A written opinion of counsel who may be employed by the Servicer, the Buyer, the Originator or any of their respective Affiliates, in form and substance satisfactory to the Agent.

"Originator": Horizon, in its capacity as the Originator hereunder, and its permitted successors and assigns.

"Outstanding Loan Balance": With respect to any Note Receivable, as of any date of determination, the lesser of (i) the Fair Market Value of such Note Receivable and (ii) the total remaining amounts of principal payable by the Obligor thereof.

"Permitted Discretion": A determination made in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Permitted Liens": Has the meaning set forth in the Loan Agreement.

"Person": Any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, national banking association, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Servicer Work Product": Has the meaning set forth in Section 9.02(f) hereof.

"Proceeding": Any suit in equity, action at law or other judicial or administrative proceeding.

"Purchased Assets": All right, title and interest, whether now owned or hereafter received, acquired or arising, and wherever located, of the Originator in and to the property described in clauses (i) through (ix) below and all accounts, cash and currency, chattel paper, tangible chattel paper, electronic chattel paper, copyrights, copyright licenses, other intellectual property rights, equipment, fixtures, contract rights, general intangibles, instruments, certificates of deposit, certificated securities, uncertificated securities, financial assets, securities entitlements, commercial tort claims, deposit accounts, inventory, investment property, letter-of-credit rights, software, supporting obligations, accessions, and other property consisting of, arising out of, or related to any of the following (in each case excluding the Retained Interest and the Excluded Amounts):

(i) the Transferred Notes Receivable, and all monies due or to become due in payment of such Notes Receivable on and after the related Transfer Date, including but not limited to all Collections and all obligations owed to the Originator in connection with the Transferred Notes Receivable;

(ii) any Related Property securing or purporting to secure the Transferred Notes Receivable (to the extent the Originator has been granted a Lien thereon) including the related security interest granted by the Obligor under the Transferred Notes Receivable, all proceeds from any sale or other disposition of such Related Property;

(iii) all security interests, Liens, guaranties, warranties, letters of credit, accounts, bank accounts, mortgages or other encumbrances and property subject thereto from time to time purporting to secure payment of any Transferred Note Receivable, together with all UCC financing statements or similar filings relating thereto;

(iv) all claims (including "claims" as defined in Bankruptcy Code § 101(5)), suits, causes of action, and any other right of the Originator, whether known or unknown, against the related Obligors, if any, or any of their respective Affiliates, agents, representatives, contractors, advisors, or any other Person that in any way is based upon, arises out of or is related to any of the foregoing, including, to the extent permitted to be assigned under applicable law, all claims (including contract claims, tort claims, malpractice claims, and claims under any law governing the purchase and sale of, or indentures for, securities), suits, causes of action, and any other right of the Originator against any attorney, accountant, financial advisor, or other Person arising under or in connection with the related Note Receivable Documents;

(v) all cash, securities, or other property, and all setoffs and recoupments, received or effected by or for the account of the Originator under such Transferred Notes Receivable (whether for principal, interest, fees, reimbursement obligations, or otherwise) after the related Transfer Date, including all distributions obtained by or through redemption, consummation of a plan of reorganization, restructuring, liquidation, or otherwise of any related Obligor or the related Note Receivable Documents, and all cash, securities, interest, dividends, and other property that may be exchanged for, or distributed or collected with respect to, any of the foregoing;

(vi) all Insurance Policies;

(vii) the Note Receivable Documents with respect to such Transferred Notes Receivable;

(viii) all Supplemental Interests with respect to Transferred Notes Receivable; and

(ix) the proceeds of each of the foregoing.

"Record Date": With respect to each Remittance Date, the third Business Day prior to each Remittance Date.

"Recoveries": With respect to any Defaulted Note Receivable, proceeds of the sale of any Related Property, proceeds of any related Insurance Policy, and any other recoveries with respect to such Transferred Note Receivable and Related Property, and amounts representing late fees and penalties, net of Liquidation Expenses and amounts, if any, received that are required to be refunded to the Obligor on such Transferred Note Receivable.

"Related Property": With respect to any Transferred Note Receivable, any property or other assets of the Obligor thereunder pledged or purported to be pledged as collateral or in which a Lien has been granted or purported to be granted to secure the repayment of such Transferred Note Receivable and including, without limitation, intellectual property rights.

"Released Amounts": With respect to any payment or Collection received with respect to any Transferred Note Receivable on any Business Day (whether such payment or Collection is received by the Servicer, the Originator or the Buyer), an amount equal to that portion of such payment or collection constituting Excluded Amounts or Retained Interest.

"Remittance Date": The tenth day of each calendar month, or if any such day is not a Business Day, the first Business Day following such day, commencing on November 10, 2013.

"Replaced Note Receivable": Has the meaning set forth in Section 3.05(a) hereof.

"Required Asset Documents": Has the meaning provided in the Loan Agreement.

"Required Procedures": Has the meaning set forth in the Loan Agreement.

"Repurchase Price": Has the meaning set forth in Section 3.05(a) hereof.

"Responsible Officer": When used with respect to:

(a) the Collateral Custodian, any officer within the Corporate Trust Office of such Person, including any Vice President, Assistant Vice President, Secretary, Assistant Secretary or any other officer of such Person customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject and, in each case, responsible for the performance of the Collateral Custodian under this Agreement;

(b) the Agent, or any Affiliate of the Agent, any Vice President of such Person; and

(c) the Buyer, the Servicer, the Sub-Servicer, the Originator or any of them, any individual who is an "Authorized Person" (as defined in the Loan Agreement) for such entity.

"Restatement Effective Date": November 4, 2013.

"Retained Interest": With respect to each Transferred Note Receivable, the following interests, rights and obligations in such Transferred Note Receivable and under the associated Note Receivable Documents, which are being retained by the Originator: (a) all of the obligations, if any, to provide additional funding with respect to such Transferred Note Receivable, (b) all of the rights and obligations, if any, of the agent(s) under the documentation evidencing such Transferred Note Receivable, (c) the applicable portion of the interests, rights and obligations under the documentation evidencing such Transferred Note Receivable that relate to such portion(s) of the indebtedness that is owned by another lender or is being retained by the Originator, (d) any unused, commitment or similar fees associated with the additional funding obligations that are not being transferred in accordance with clause (a) of this definition, (e) any agency or similar fees associated with the rights and obligations of the agent that are not being transferred in accordance with clause (b) of this definition, and (f) any advisory, consulting or similar fees due from the Obligor associated with services provided by the agent that are not being transferred in accordance with clause (b) of this definition.

"Review Criteria": Has the meaning set forth in Section 2.05(c) hereof.

"Revolving Credit Availability Period": Has the meaning provided in the Loan Agreement.

"S&SA Assignment": An assignment of Purchased Assets from the Originator to the Buyer pursuant to this Agreement, in the form of Exhibit B hereto.

"Sales Price": Has the meaning set forth in Section 2.01(b) hereof.

"Scheduled Payment": On any Record Date, with respect to any Transferred Note Receivable, each monthly or quarterly payment (whether principal, interest or principal and interest) scheduled to be made by the related Obligor after such Record Date under the terms of such Transferred Note Receivable.

"Securities Act": The Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Servicer": Horizon Management, in its capacity as the Servicer hereunder, or any successor servicer appointed as provided in the Loan Agreement (including the Backup Servicer) or otherwise herein provided.

"Servicer Default": Has the meaning set forth in Section 9.01(a) hereof.

"Servicer Indemnified Party": Has the meaning set forth in Section 8.01(a) hereof.

"Servicer Report": A report substantially in the form of Exhibit A hereto, to be delivered as contemplated by Section 4.14(a) hereof.

"Servicer's Certificate": Has the meaning set forth in Section 4.14(b) hereof.

"Servicing Fee": For each Remittance Date, an amount equal to the product of (a) the average daily Aggregate Outstanding Note Receivable Balance during the related Collection Period, *multiplied by* (b) the Servicing Fee Rate for such Collection Period, m*ultiplied by* (c) a fraction, the numerator of which is the number of days in such Collection Period and the denominator of which is 360; provided, however, if the Backup Servicer is then the Successor Servicer, the Servicing Fee shall be subject to a monthly minimum fee of $8,500.

"Servicing Fee Rate": A rate equal to one and a half percent (1.50%) *per annum.*

"Servicing Records": All documents, books, records and other information (including, without limitation, computer programs, tapes, disks, data processing software and related property rights) prepared and maintained by the Servicer with respect to the Transferred Notes Receivable, any item of Related Property and the related Obligors, other than the Note Receivable Documents.

"Solvent": Has the meaning provided in the Loan Agreement.

"Subsidiary": Has the meaning provided in the Loan Agreement.

"Substitute Note Receivable": Has the meaning set forth in Section 3.05(a) hereof.

"Successor Servicer": Has the meaning set forth in Section 9.02(a) hereof.

"Supplemental Interest": Has the meaning provided in the Loan Agreement.

"Tangible Net Worth" Has the meaning provided in the Loan Agreement.

"Third Party Claim": Has the meaning set forth in Section 8.01(d) hereof.

"Transfer": Has the meaning set forth in Section 2.07 hereof.

"Transfer Date": With respect to each Transferred Note Receivable, the date specified as the "Transfer Date" in the related S&SA Assignment, on and after which Collections on such Transferred Note Receivable shall be property of the Buyer.

"Transferred Notes Receivable": Each Note Receivable and corresponding Supplemental Interest, if any, that is sold or contributed or purported to be sold or contributed to the Buyer hereunder.

"UCC": The Uniform Commercial Code as in effect in the State of New York.

"UCC Financing Statement": A financing statement meeting the requirements of the UCC of the relevant jurisdiction.

"United States": The United States of America.

"U.S. Bank": U.S. Bank National Association, a national banking association.

Section 1.02. Other Definitional Provisions.

(a) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

(b) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(c) As used in this Agreement and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in this Agreement or in any such certificate or other document, and accounting terms partly defined in this Agreement or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under GAAP. To the extent that the definitions of accounting terms in this Agreement or in any such certificate or other document are inconsistent with the meanings of such terms under GAAP, the definitions contained in this Agreement or in any such certificate or other document shall control.

(d) The words "hereof," "herein," "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule and Exhibit references contained in this Agreement are references to Articles, Sections, Schedules and Exhibits in or to this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation."

(e) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

ARTICLE II

CONVEYANCE OF THE PURCHASED ASSETS;
BORROWINGS UNDER LOAN AGREEMENT

Section 2.01. Conveyance of the Purchased Assets; Payment of Sales Price.

(a) Conveyance of the Purchased Assets.

(i) On each Transfer Date, in consideration of the payment of the Sales Price therefor and subject to the satisfaction of the conditions to each Transfer set forth in Section 2.07 hereof, the Originator hereby sells to the Buyer, without recourse, but subject to the other terms and provisions of this Agreement, all of the right, title and interest of the Originator in and to the Purchased Assets identified in the applicable S&SA Assignment and the related Note Receivable Schedule, and all proceeds of the foregoing.

(ii) On each Transfer Date, the Buyer hereby purchases, and acknowledges the sale to it, of the Purchased Assets identified in the applicable S&SA Assignment and the related Note Receivable Schedule, receipt of which is hereby acknowledged by the Buyer. Concurrently with such delivery, as of the applicable Transfer Date, the Buyer automatically grants a security interest in the Purchased Assets identified in the applicable S&SA Assignment and the related Note Receivable Schedule (a copy of which has or will concurrently therewith be delivered to the Agent) to the Agent pursuant to the Loan Agreement as security for the Buyer's Obligations under the Loan Agreement and the other Loan Documents.

(iii) Notwithstanding anything to the contrary herein, in no event shall the Buyer be required to purchase the Purchased Assets identified in any S&SA Assignment and the related Note Receivable Schedule on any Transfer Date if the conditions precedent to the applicable Transfer set forth in Section 2.07 have not been fulfilled.

(iv) The Servicer shall, at its own expense, within one (1) Business Day following each Transfer Date, indicate in its computer files that the Purchased Assets identified in the applicable S&SA Assignment and the related Note Receivable Schedule have been sold to the Buyer pursuant to this Agreement.

(v) The parties hereto intend that the conveyances contemplated hereby be sales from the Originator to the Buyer of the Purchased Assets identified in each S&SA Assignment and related Note Receivable Schedule. In the event the transactions with respect to the Purchased Assets set forth herein are deemed not to be a sale, the Originator hereby grants to the Buyer a security interest in all of the Originator's right, title and interest in, to and under such Purchased Assets, to secure all of the Originator's obligations hereunder, and this Agreement shall constitute a security agreement under Applicable Law.

(b) Payment of the Sales Price. The purchase price for each Purchased Asset sold to Buyer under this Agreement (each, a "Sales Price") shall be the then-outstanding principal balance of the related Note Receivable calculated as of the related Transfer Date. The Sales Price for each Transferred Note Receivable shall be paid by the Buyer on the related Transfer Date by means of (i) cash in the amount then available as an advance by the Lender Group to Buyer with respect to such Transferred Note Receivable under the Loan Agreement and Section 2.07 (each, an "Advance"), and (ii) a capital contribution by the Originator to the Buyer of the remaining amount.

(c) Acknowledgment of Buyer. The Buyer acknowledges and agrees that with respect to any Transferred Note Receivable, the Buyer may ultimately receive from the Originator an amount less than the Sales Price paid by the Buyer to the Originator therefor, and that the Buyer shall have no recourse against the Originator for such deficiency of the principal, interest, fees, expenses or any other amounts owing under such Transferred Note Receivable, or under or pursuant to any of the related Note Receivable Documents or any other document executed in connection therewith; provided that the foregoing shall not be deemed to release the Originator from liability for its express representations, warranties and covenants under this Agreement.

Section 2.02. Ownership and Possession of Note Receivable Documents.

With respect to each Transferred Note Receivable, as of the related Transfer Date, the ownership of the related Note Receivable Documents shall be vested in the Buyer as part of the Collateral to secure the Obligations, and a security interest in the related Note Receivable Documents shall be granted and pledged by the Buyer to the Agent pursuant to the Loan Agreement, and the Collateral Custodian shall take possession of the related Note Receivable Documents as contemplated in Section 2.04 hereof.

Section 2.03. Books and Records; Intention of the Parties.

On or prior to the Restatement Effective Date, the Originator shall, at such party's sole expense, cause to be filed UCC Financing Statements naming the Buyer as "buyer" and describing the Purchased Assets being sold by the Originator to the Buyer with the office of the Secretary of State of the state in which the Originator is "located" for purpose of the applicable UCC and in any other jurisdictions as shall be necessary to perfect a security interest in the Purchased Assets.

Section 2.04. Delivery of Required Asset Documents.

(a) The Originator shall, with respect to each Note Receivable subject to a Transfer, as of the related Transfer Date, (i) no later than 2:00 p.m. New York City time two (2) Business Days prior to the related Transfer Date, deliver or cause to be delivered to the Collateral Custodian and the Agent, by facsimile transmission or in an electronic format mutually agreed to by the Originator, the Collateral Custodian and the Agent, the Note Receivable Schedule, Note Receivable Checklist and copies of all Required Asset Documents with respect to such Note Receivable, and (ii) within five (5) Business Days after such Transfer Date, deliver (or caused to be delivered) to the Collateral Custodian a copy of the Note Receivable Checklist (on which the Collateral Custodian shall rely) and the originals or copies, as applicable, of all Required Asset Documents with respect to such Note Receivable.

(b) In taking possession of the Required Asset Documents delivered to it by the Originator, the Collateral Custodian shall act solely as agent for the Agent, on behalf of the Lender Group, in accordance with the terms hereof and the Loan Agreement, and not as agent for the Originator, the Servicer, the Buyer or any other party.

Section 2.05. Acceptance by the Agent of the Required Asset Documents; Certification by the Collateral Custodian.

(a) Based on the Final Collateral Certification received by the Agent from the Collateral Custodian and as of the date of delivery thereof, the Agent acknowledges the Collateral Custodian's receipt of the Note Receivable Documents delivered to the Collateral Custodian on behalf of the Agent pursuant to Section 2.04 and declares that such Note Receivable Documents and any amendments, replacements or supplements thereto and all other assets constituting the Collateral that are delivered to the Collateral Custodian pursuant to this Agreement are being held for the use and benefit of the Lender Group.

(b) No later than 4:00 p.m. New York City time on the Business Day prior to the related Transfer Date, the Collateral Custodian will deliver to the Agent, with a copy to the Buyer, the Originator, and the Servicer, an Initial Collateral Certification, confirming whether or not the Collateral Custodian has received a copy of each Required Asset Document (as indicated on the related Note Receivable Checklist) for each Note Receivable identified on the Note Receivable Schedule to the S&SA Assignment with respect to such Transfer Date.

(c) Within three (3) Business Days after its receipt of the Required Asset Documents for each such Transferred Note Receivable, the Collateral Custodian shall review such Required Asset Documents to confirm that: (A) each Required Asset Document has been properly executed and has no obviously missing or mutilated pages, (B) file-stamped copies of UCC Financing Statements and other filings required to be made as part of the Required Asset Documents as indicated on the related Note Receivable Checklist are in the possession of the Collateral Custodian, and (C) the original principal balance and Obligor name with respect to such Transferred Note Receivable is accurately reflected on the related Note Receivable Schedule (collectively, the "Review Criteria"). Upon completion of such review, the Collateral Custodian will deliver a Final Collateral Certification to the Agent, with a copy to the Buyer, the Originator, and the Servicer, confirming its receipt of such Required Asset Documents. Such certification will also contain an exception report attached as Attachment A thereto which will identify any Transferred Notes Receivable for which (i) the Collateral Custodian has not received a Required Asset Document or (ii) any Review Criteria is not satisfied.

(d) The Originator shall have five (5) Business Days to deliver any missing Required Asset Documents or correct any non-compliance with any Review Criteria. If the Collateral Custodian has not received all of the Required Asset Documents with respect to any Transferred Note Receivable prior to the expiration of such five (5) Business Days, or the Originator has not corrected any non-compliance with any Review Criteria with respect to any Transferred Note Receivable prior to the expiration of such five (5) Business Days, then such Transferred Note Receivable shall be deemed to be an Ineligible Note Receivable and the Originator shall repurchase such Transferred Note Receivable pursuant to Section 3.05(b) within one (1) Business Day after notice thereof at the Repurchase Price thereof by depositing such Repurchase Price directly in the Agent's Account or the Collection Account; *provided* that in lieu of such a repurchase, the Originator may comply with the substitution provisions of Section 3.05(a).

(e) It is understood and agreed that the obligation of the Originator to repurchase or substitute any such Transferred Note Receivable pursuant to this Section 2.05 and Section 3.05 shall constitute the sole remedy against Originator with respect to such failure to comply with the foregoing delivery requirements.

(f) In performing its reviews of the Required Asset Documents, the Collateral Custodian shall have no responsibility to determine the genuineness of any document contained therein and any signature thereon. The Collateral Custodian shall not have any responsibility for determining whether any document is valid and binding, whether the text of any assignment or endorsement is in proper or recordable form, whether any document has been recorded in accordance with the requirements of any applicable jurisdiction or whether a blanket assignment is permitted in any applicable jurisdiction.

Section 2.06. Conditions Precedent to Closing. The effectiveness of this Agreement shall be subject to the satisfaction of the following conditions precedent as of the initial extension of credit under the Loan Agreement:

(a) all conditions precedent to the initial Advance under Section 3.1 of the Loan Agreement shall have been fulfilled;

(b) the Originator shall have delivered to the Agent evidence of a UCC-1 filing filed with the Delaware Secretary of State naming Originator as seller and Buyer as buyer, to evidence the transfer of the Transferred Notes Receivable and other Purchased Assets pursuant to this Agreement, in form and substance reasonably satisfactory to the Agent; and

(c) the Originator shall have taken any action reasonably requested by the Agent or the Buyer required to maintain or evidence the ownership interest of the Buyer in the Purchased Assets and the security interest of the Agent in the Collateral.

Section 2.07. Conditions to Transfers of Notes Receivables. On the Closing Date, the Restatement Effective Date and on any Business Day during the Revolving Credit Availability Period, the Originator may sell Notes Receivable to the Buyer (each such sale, a "Transfer"). Any Transfer (including any Transfer made on the Closing Date or the Restatement Effective Date) shall be subject to the following conditions:

(a) At least two (2) Business Days prior to the proposed Transfer Date, the Servicer shall give notice to the Agent of such proposed Transfer Date and provide an estimate of the number of Notes Receivable and aggregate Outstanding Loan Balance of such Notes Receivable proposed to be conveyed to the Buyer on such Transfer Date.

(b) At least one (1) Business Day prior to the proposed Transfer Date, the Buyer shall deliver to the Agent a final Note Receivable Schedule setting forth the Notes Receivable proposed to be transferred on such Transfer Date.

(c) On the applicable Transfer Date, the Buyer shall deliver to the Agent a fully-executed S&SA Assignment and a final Note Receivable Schedule setting forth the Notes Receivable transferred on such Transfer Date.

(d) If the Buyer will obtain an Advance on such Transfer Date in connection with the applicable Transfer, the conditions precedent or subsequent to such Advance set forth Sections 3.1, 3.2, and 3.3 of the Loan Agreement shall be satisfied.

(e) As of the applicable Transfer Date, neither the Originator nor the Buyer shall have reason to believe that its insolvency is imminent.

(f) The Originator shall have taken any action reasonably requested by the Agent or the Buyer required to maintain or evidence the ownership interest of the Buyer in the Purchased Assets and the security interest of the Agent in the Collateral.

(g) Each of the representations and warranties made by the Originator contained in Section 3.03 shall be true and correct with respect to each Transferred Note Receivable sold or contributed to the Buyer on such Transfer Date, and each of the Buyer and the Originator shall have performed all obligations to be performed by it under the Loan Documents on or prior to such Transfer Date; *provided* that, if any representation or warranty made by the Originator pursuant to Section 3.03 shall be incorrect as of any Transfer Date with respect to any Notes Receivable to be purchased on such date, the Buyer shall only be relieved of its obligation to purchase such Transferred Note Receivable affected by such breach and, assuming satisfaction or waiver of the other conditions set forth in this clause (g), the Buyer shall nonetheless be obligated to purchase all Notes Receivable to be purchased on such date that are unaffected by such breach.

(h) On or prior to the date of the first Transfer following the Restatement Effective Date, the Buyer shall cause the Collateral Custodian to prepare and deliver a Final Collateral Certification with respect to any Note Receivable Documents delivered to the Collateral Custodian prior to the date of such Transfer which are still in the possession of the Collateral Custodian on such date.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.01. Representations and Warranties of the Buyer.

The Buyer hereby represents, warrants and covenants to the other parties hereto and the Lenders that as of each Transfer Date:

(a) The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has, and had at all relevant times, full power to own its property, to carry on its business as currently conducted and to enter into and perform its obligations under this Agreement and each Loan Document to which it is a party;

(b) The execution and delivery by the Buyer of this Agreement and its performance of and compliance with all of the terms hereof will not violate the Buyer's organizational documents or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, or result in the breach or acceleration of, any material contract, agreement or other instrument to which the Buyer is a party or which are applicable to the Buyer or any of its assets;

(c) The Buyer has the full power and authority to enter into and consummate the transactions contemplated by this Agreement, has duly authorized the execution, delivery and performance hereof, and has duly executed and delivered this Agreement; this Agreement, assuming due authorization, execution and delivery by the other party or parties thereto, constitutes a valid, legal and binding obligation of the Buyer, enforceable against it in accordance with the terms thereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other similar laws relating to or affecting the rights of creditors generally, and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) The Buyer is not in violation of, and the execution and delivery by the Buyer of this Agreement and its performance and compliance with the terms of this Agreement will not constitute a violation with respect to any order or decree of any court or any order or regulation of any federal, state, municipal or governmental agency having jurisdiction over it or its business, which violation would materially and adversely affect the financial condition or operations of the Buyer or any of its properties or materially and adversely affect the performance of any of its duties hereunder;

(e) There are no actions or proceedings against, or investigations of, the Buyer currently pending with regard to which the Buyer has received service of process, and no action or proceeding against, or investigation of, the Buyer is, to the knowledge of the Buyer, threatened or otherwise pending before any court, administrative agency or other tribunal that (A) would prohibit its entering into this Agreement or render its obligations hereunder invalid, (B) seeks to prevent the consummation of any of the transactions contemplated hereby, or (C) would prohibit or materially and adversely affect the performance by the Buyer of its obligations hereunder;

(f) No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by the Buyer of, or compliance by the Buyer with, this Agreement, or for the consummation of the transactions contemplated hereby, except for such consents, approvals, authorizations and orders, if any, that have been obtained prior to such date;

(g) The Buyer is Solvent, is able to pay its debts as they become due and has capital sufficient to carry on its business and its obligations hereunder; it will not be rendered insolvent by the execution and delivery of this Agreement or the assumption of any of its obligations hereunder; no petition of bankruptcy (or similar Bankruptcy Proceeding) has been filed by or against the Buyer;

(h) The Buyer will be the sole owner of each item in the Purchased Assets transferred by the Originator, free and clear of any Lien other than Permitted Liens, and, subject to the Loan Agreement, the Agent will have a first priority perfected security interest in each item of Collateral, in each case free and clear of any Lien other than Permitted Liens;

(i) The Buyer acquired title to the Purchased Assets in good faith, without notice of any adverse claim;

(j) The Buyer is not required to be registered as an "investment company," under the 1940 Act;

(k) The Buyer covenants that during the continuance of this Agreement it will comply in all respects with the provisions of its organizational documents in effect from time to time; and

(l) Except with respect to the representations and warranties of the Originator set forth in this Agreement and in each SS&A Assignment, the Buyer has, independently and without reliance on the Originator, and based upon such documents and information as it has deemed appropriate, made its own evaluation and decision to enter into the purchase of the Transferred Note Receivables and other Purchased Assets being purchased by the Buyer on such Transfer Date.

Section 3.02. Representations and Warranties of the Originator.

The Originator hereby represents and warrants to the other parties hereto and the Lenders that as of the Closing Date, the Restatement Effective Date and as of each Transfer Date:

(a) The Originator is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, is duly qualified, in good standing and licensed to carry on its business in each state where the conduct of its business requires it to be so qualified and licensed and has corporate power and authority to own its property, to carry on its business as currently conducted and to enter into and perform its obligations under each Loan Document to which it is a party;

(b) The execution and delivery by the Originator of each Loan Document to which it is a party and its performance of and compliance with the terms thereof will not violate the Originator's organizational documents or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, or result in the breach or acceleration of, any material contract, agreement or other instrument to which the Originator is a party or which may be applicable to the Originator or any of its assets, in each case that is likely to affect materially and adversely its ability to carry out the transactions contemplated hereby;

(c) The Originator has the full power and authority to enter into and consummate all transactions contemplated by the Loan Documents to be consummated by it, has duly authorized the execution, delivery and performance of each Loan Document to which it is a party and has duly executed and delivered each Loan Document to which it is a party; each Loan Document to which it is a party, assuming due authorization, execution and delivery by each of the other parties thereto, constitutes a valid, legal and binding obligation of the Originator, enforceable against it in accordance with the terms hereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other similar laws relating to or affecting the rights of creditors generally, and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) The Originator is not in violation of, and the execution and delivery of each Loan Document to which it is a party by the Originator and its performance and compliance with the terms of each Loan Document to which it is a party will not constitute a violation with respect to, any order or decree of any court or any order or regulation of any federal, state, municipal or governmental agency having jurisdiction over it or its business, which violation would materially and adversely affect the financial condition, business or operations of the Originator or its properties or materially and adversely affect the performance of its duties under any Loan Document to which it is a party;

(e) There are no actions or proceedings against, or investigations of, the Originator currently pending with regard to which the Originator has received service of process, and no action or proceeding against, or investigation of, the Originator is, to the Originator's knowledge, threatened or otherwise pending before any court, administrative agency or other tribunal that (A) would prohibit its entering into any Loan Document to which it is a party or render its obligations thereunder invalid, (B) seeks to prevent the consummation of any of the transactions contemplated by any Loan Document to which it is a party or (C) would prohibit or materially and adversely affect the sale and contribution of the Purchased Assets to the Buyer, the performance by the Originator of its obligations under, or the validity or enforceability of, any Loan Document to which it is a party;

(f) No consent, approval, authorization or order of any court or governmental agency or body is required for: (1) the execution, delivery and performance by the Originator of, or compliance by the Originator with, any Loan Document to which it is a party, (2) the sale and contribution of the Purchased Assets to the Buyer, or (3) the consummation of the transactions required of it by any Loan Document to which it is a party, except such as shall have been obtained before such date, other than: (A) the filing or recording of financing statements, instruments of assignment and other similar documents necessary in connection with the sale of the Purchased Assets to the Buyer, (B) such consents, approvals, authorizations, qualifications, registrations, filings or notices as have been obtained or made and (C) where the lack of such consent, approval, authorization, qualification, registration, filing or notice is unlikely to have a Material Adverse Effect;

(g) Immediately prior to the sale of the Purchased Assets to the Buyer, the Originator had good and valid title to the Purchased Assets sold by it on such date free and clear of all Liens other than Permitted Liens;

(h) The Originator is Solvent, is able to pay its debts as they become due and has capital sufficient to carry on its business and its obligations under each Loan Document to which it is a party; it will not be rendered insolvent by the execution and delivery of this Agreement or by the performance of its obligations under each Loan Document to which it is a party; no petition of bankruptcy (or similar Bankruptcy Proceeding) has been filed by or against the Originator prior to the date hereof;

(i) The Originator has transferred the Purchased Assets transferred by it on each Transfer Date without any intent to hinder, delay or defraud any of its creditors;

(j) The Originator has received fair consideration and reasonably equivalent value in exchange for the Purchased Assets sold and contributed by it on each Transfer Date to the Buyer;

(k) The Originator has not dealt with any broker or agent or other Person who might be entitled to a fee, commission or compensation in connection with the transaction contemplated by this Agreement;

(l) The Originator's principal place of business and chief executive offices are located at 312 Farmington Avenue, Farmington, Connecticut 06032, or at such other address as shall be designated by such party in a prior written notice to the other parties hereto; and

(m) The Originator and the Servicer acknowledge and agree that the Servicing Fee represents reasonable compensation for the performance of the servicing duties hereunder and that the entire Servicing Fee shall be treated by the Servicer and the Originator, for accounting purposes, as compensation for the servicing and administration of the Transferred Notes Receivable pursuant to this Agreement.

It is understood and agreed that the representations and warranties set forth in this Section 3.02 shall survive delivery of the respective Required Asset Documents to the Collateral Custodian as the agent of the Agent, and shall inure to the benefit of the Agent, the Lenders, the Servicer, and the Buyer. Upon discovery by the Originator, the Servicer, the Buyer, or the Agent of a breach of any of the foregoing representations and warranties that materially and adversely affects the value of any item of Collateral or the interests of the Lender Group in any item of Collateral, the party discovering such breach shall give prompt written notice to the other parties. The fact that Agent or any Lender has conducted or has failed to conduct any partial or complete due diligence investigation of the Note Receivable Documents shall not affect any rights of the Lender Group under this Agreement.

Section 3.03. Representations and Warranties Regarding the Notes Receivable.

The Originator hereby represents and warrants to the Agent, for the benefit of the Lender Group, that as of the Closing Date and Restatement Effective Date with respect to each Note Receivable sold or contributed to the Buyer on the Closing Date and Restatement Effective Date, if any, and as of each Transfer Date with respect to each Note Receivable sold or contributed to the Buyer on such Transfer Date:

(a) the Note Receivable is in full force and effect and constitutes the legal, valid and binding obligation of the Obligor of such Note Receivable to pay the stated amount of the Note Receivable and interest thereon, and the related Note Receivable Documents are enforceable against such Obligor in accordance with their respective terms;

(b) the Note Receivable was originated, documented and closed, or was acquired, by the Originator in accordance with the terms of the Required Procedures in effect at the time of such origination or acquisition and arose in the ordinary course of the Originator's business from the lending of money to the related Obligor;

(c) the Note Receivable and the Note Receivable Documents related thereto are "general intangibles," "instruments," "payment intangibles," "accounts," or "chattel paper" within the meaning of the UCC of all jurisdictions that govern the perfection of the Transfer thereof to the Buyer;

(d) all material consents, licenses, approvals or authorizations of, or registrations or declarations with, any Governmental Authority required to be obtained, effected or given in connection with the making of such Note Receivable have been duly obtained, effected or given and are in full force and effect;

(e) any applicable taxes in connection with the transfer of such Note Receivable have been paid;

(f) the Note Receivable, together with the related Note Receivable Documents, was originated in accordance with, and does not contravene in any material respect any Applicable Laws (including, without limitation, laws, rules and regulations relating to usury, predatory lending, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy);

(g) the Note Receivable, together with the related Note Receivable Documents, is fully assignable without consent of the applicable Obligor or any agent with respect to the Note Receivable (except for such consents which have been obtained prior to the related Transfer Date);

(h) all filings and other actions required to perfect the Transfer to the Buyer hereunder of the Originator's interest in the Note Receivable and the Note Receivable Documents have been made or taken;

(i) no right of rescission, set off, counterclaim, defense or other material dispute has been asserted with respect to such Note Receivable;

(j) such Note Receivable meets all criteria to be an Eligible Note Receivable under the Loan Agreement; and

(k) all information on the Note Receivable Schedule delivered to the Collateral Custodian and the Agent with respect to such Note Receivable is true and correct.

It is understood and agreed that the representations and warranties set forth herein shall survive delivery of the related Note Receivable Documents to the Buyer and/or the Collateral Custodian, and shall inure to the benefit of the Buyer, the Agent and Lender Group, as applicable, and their successors and assigns, notwithstanding any restrictive or qualified endorsement or assignment.

Section 3.04. Notice of Breach of Representations and Warranties. It is understood and agreed that the representations and warranties set forth in Section 3.03 shall survive the conveyance of the Purchased Assets to the Buyer and the grant by the Buyer of a security interest in the Collateral to the Agent, as applicable. Upon discovery by the Servicer, the Originator, the Buyer, or the Agent of a breach of any of such representations and warranties or the representations and warranties of the Originator set forth in Section 3.02 or 3.03, which breach materially and adversely affects the value or enforceability of all or any portion of the Purchased Assets or the interests of the Lender Group in all or any portion of the Collateral, the party discovering such breach shall give prompt written notice to the others.

Section 3.05. Repurchase or Substitutions of Transferred Notes Receivable.

(a) If any Transferred Note Receivable becomes or turns out to be an Ineligible Note Receivable in whole or in part (including pursuant to Section 2.05), then Originator, with the consent of the Buyer, may repurchase from Buyer such Transferred Note Receivable and the related Purchased Assets either by (i) paying to Buyer an amount equal to the outstanding principal balance thereof plus any accrued and unpaid interest thereon (collectively, the "Repurchase Price"), which amount shall be used by Buyer to repay Advances Outstanding and shall be paid directly to the Collection Account or another Cash Management Account designated by Agent, or (ii) transferring to Buyer in substitution for such Ineligible Note Receivable one or more Eligible Notes Receivable (each a "Substitute Note Receivable") provided that the following conditions are met as of the date of such substitution:

(i) the Buyer has recommended to the Agent in writing that the Transferred Notes Receivable to be replaced (each a "Replaced Note Receivable") should be replaced;

(ii) each Substitute Note Receivable is an Eligible Note Receivable on the date of substitution;

(iii) the aggregate Outstanding Loan Balance of such Substitute Notes Receivable shall be equal to or greater than the aggregate Outstanding Loan Balance of the Replaced Notes Receivable;

(iv) as of the date of substitution of any such Substitute Note Receivable, all representations and warranties contained in Section 3.03 shall be true and correct with respect to such Substitute Notes Receivable;

(v) the substitution of any Substitute Notes Receivable does not cause a Default or an Event of Default to occur;

(vi) the selection of such Substitute Notes Receivable from the Originator's portfolio does not cause the portfolio of Transferred Notes Receivable held by the Buyer, as opposed to Horizon or any other Subsidiary of Horizon, to have been selected in a manner adverse to the Buyer or the Lender Group;

(vii) all actions or additional actions (if any) necessary to perfect the assignment of such Substitute Notes Receivable and Related Property to the Buyer and the grant by the Buyer of a security interest therein to the Agent shall have been taken as of or prior to the date of substitution; and

(viii) the Originator shall deliver to the Buyer and the Agent on the date of such substitution (i) a certificate of a Responsible Officer certifying that each of the foregoing is true and correct as of such date and (ii) a Borrowing Base Certificate (including a calculation of the Available Amount after giving effect to such substitution).

(b) Except as provided in Section 3.05(c), if a Transferred Note Receivable is or becomes an Ineligible Note Receivable due to a breach of any representation or warranty set forth in Section 3.03 with respect to a Transferred Note Receivable (or the Related Property and other related collateral constituting part of the Purchased Assets related to such Transferred Note Receivable), then no later than thirty (30) days after the earlier of (x) knowledge of such breach on the part of the Originator or the Servicer and (y) receipt by the Originator or the Servicer of written notice thereof given by the Buyer or the Agent, the Originator shall repurchase such Ineligible Note Receivable to which such breach relates on the terms and conditions set forth below; *provided*, that no such repurchase shall be required to be made with respect to any Ineligible Note Receivable (and such Transferred Note Receivable shall cease to be an Ineligible Note Receivable) if, on or before the expiration of such thirty (30) day period, the representations and warranties in Section 3.03 with respect to such Ineligible Note Receivable shall be made true and correct in all material respects with respect to such Ineligible Note Receivable as if such Ineligible Note Receivable had become a Transferred Note Receivable on such day or such Ineligible Note Receivable is replaced with a Substitute Note Receivable in accordance with Section 3.05(a).

(c) Notwithstanding anything contained in this Section 3.05 to the contrary, in the event that (i) the applicable Transferred Note Receivable is identified for repurchase pursuant to Section 2.05, or (ii) a Transferred Note Receivable is determined to be an Ineligible Note Receivable by reason of a breach of any representation and warranty set forth in Section 3.03 as a result of a failure of such Transferred Note Receivable to be (A) conveyed to the Buyer free and clear of any Lien of any Person claiming through or under the Originator or (B) in compliance, in all material respects, with all Applicable Law, then within one (1) Business Day after the earlier to occur of the discovery of such breach by the Buyer or receipt by the Buyer of written notice of such breach given by the Agent, the Originator shall repurchase such Ineligible Note Receivable on the terms and conditions set forth below.

(d) The Originator will deposit the Repurchase Price, in immediately available funds, for any Ineligible Note Receivable required to be repurchased hereunder into the Collection Account or the Agent's Account on the date provided in Section 3.05(b) or Section 3.05(c), as applicable. On and after the date of payment of the Repurchase Price, the applicable Ineligible Note Receivable and the Related Property and other related collateral constituting part of the Purchased Assets with respect to such Ineligible Note Receivable shall cease being included in the Collateral. Upon each such repayment, the Agent, on behalf of the Lenders, shall automatically and without further action be deemed to return to the Buyer, and the Buyer shall automatically and without further action be deemed to return to the Originator, all the right, title and interest of the Agent on behalf of the Lenders (and all right, title and interest of the Buyer) in, to and under such Ineligible Notes Receivable and all monies due or to become due with respect thereto, all proceeds thereof and all rights to any related Related Property, and all proceeds and products of the foregoing. The Buyer and the Agent shall, at the sole expense of the Buyer, execute such documents and instruments of transfer as may be prepared by the Buyer and the Originator (or the Servicer on their behalf) and take such other actions as shall reasonably be requested by the Buyer to effect the transfer of such Ineligible Notes Receivable pursuant to this Section 3.05.

(e) Notwithstanding anything contained in this Section 3.05 to the contrary, Buyer may, with the consent of the Agent, sell any Transferred Note Receivable and the related Purchased Assets to Originator for (i) the Repurchase Price, which amount shall be used by Buyer to repay Advances Outstanding and shall be paid directly to the Collection Account or another Cash Management Account designated by Agent, or (ii) receipt of a Substitute Note Receivable in substitution for such Transferred Note Receivable (provided that the substitution conditions contained in Section 3.05(a)(ii) through (viii) are met as of the date of such substitution); provided, that, in each case, (i) no Default or Event of Default has occurred and is continuing, (ii) no such sale or substitution would cause a Default or an Event of Default to occur, and (iii) the opinions received by Agent pursuant to Section 3.1(h) of the Loan Agreement would not be violated by such sale or substitution.

ARTICLE IV

ADMINISTRATION AND SERVICING OF TRANSFERRED NOTES RECEIVABLE

Section 4.01. Appointment of the Servicer.

(a) The Buyer hereby appoints Horizon as the Servicer hereunder to service the Transferred Notes Receivable and enforce its respective rights and interests in and under each Transferred Note Receivable in accordance with the terms and conditions of this Article IV and to serve in such capacity until the termination of its responsibilities pursuant to Section 9.01(b). Horizon hereby accepts such appointment and agrees to perform the duties and obligations with respect thereto set forth herein. The Servicer and the Buyer hereby acknowledge that the Agent and the Lender Group are third party beneficiaries of the obligations undertaken by the Servicer hereunder.

(b) The Buyer hereby appoints U.S. Bank as the Backup Servicer and to serve in such capacity pursuant to the terms of this Agreement. U.S. Bank hereby accepts such appointment and agrees to perform the duties and obligations with respect thereto set forth herein. The Backup Servicer and the Buyer hereby acknowledge that the Agent and the Lender Group are third party beneficiaries of the obligations undertaken by the Backup Servicer hereunder and under the Backup Servicer Engagement Letter.

Section 4.02. Duties and Responsibilities of the Servicer.

(a) The Servicer shall conduct the servicing, administration and collection of the Transferred Notes Receivable and shall take, or cause to be taken, all such actions as may be necessary or advisable to service, administer and collect Transferred Notes Receivable from time to time on behalf of the Buyer and as the Buyer's agent in accordance with the Accepted Servicing Practices. The Backup Servicer shall conduct the following activities:

(i) on a monthly basis, the Backup Servicer shall accept the delivery from the Servicer of the electronic transmission sent by the Servicer pursuant to Section 4.02(b);

(ii) the Backup Servicer will ensure that such transmission is readable and will retain such information until it receives the next transmission from the Servicer.

The Backup Servicer shall not be required to review the information set forth in any such electronic transmission. The Backup Servicer acknowledges that prior to the date hereof it performed a review of the Servicer and its servicing practices.

(b) The duties of the Servicer, as the Buyer's agent, shall include, without limitation:

(i) preparing and submitting of claims to, and post-billing liaison with, Obligors on Transferred Notes Receivable;

(ii) maintaining all necessary Servicing Records with respect to the Transferred Notes Receivable and providing such reports to the Buyer, the Agent and the Lender Group in respect of the servicing of the Transferred Notes Receivable (including information relating to its performance under this Agreement) as may be required hereunder, under the Loan Agreement, or as the Buyer or the Agent may reasonably request;

(iii) maintaining and implementing administrative and operating procedures (including, without limitation, an ability to re-create Servicing Records evidencing the Transferred Notes Receivable in the event of the destruction of the originals thereof) and keeping and maintaining all documents, books, records and other information reasonably necessary or advisable for the collection of the Transferred Notes Receivable (including, without limitation, records adequate to permit the identification of each new Transferred Note Receivable and all Collections of and adjustments to each existing Transferred Note Receivable); *provided*, that any successor Servicer shall only be required to re-create the Servicing Records of each prior Servicer to the extent such records have been delivered to it in a format reasonably acceptable to such successor Servicer;

(iv) promptly delivering to the Buyer, the Collateral Custodian, the Agent, and the Lender Group, from time to time, such information and Servicing Records (including information relating to its performance under this Agreement) as the Buyer, the Collateral Custodian, or the Agent may from time to time reasonably request;

(v) identifying each Transferred Note Receivable clearly and unambiguously in its Servicing Records to reflect that such Transferred Note Receivable is owned by the Buyer and pledged to the Agent, for the benefit of the Lender Group;

(vi) complying in all material respects with the Required Procedures in regard to each Transferred Note Receivable;

(vii) complying in all material respects with all Applicable Laws with respect to it, its business and properties and all Transferred Notes Receivable and Collections with respect thereto;

(viii) preserving and maintaining its existence, rights, licenses, franchises and privileges as a limited liability company in the jurisdiction of its organization, and qualifying and remaining qualified in good standing as a foreign limited liability company and qualifying to and remaining authorized and licensed to perform obligations as Servicer (including enforcement of collection of Transferred Notes Receivable on behalf of the Buyer and the Agent) in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification would materially adversely affect (A) the rights or interests of the Buyer, the Agent, and the Lender Group in the Transferred Notes Receivable, (B) the collectability of any Transferred Note Receivable, or (C) the ability of the Servicer to perform its obligations hereunder;

(ix) notifying the Buyer and the Agent of any material legal action, suit, proceeding, dispute, offset deduction, defense or counterclaim that (1) is or is threatened to be asserted by an Obligor with respect to any Transferred Note Receivable; or (2) could reasonably be expected to have a Material Adverse Effect;

(x) delivering to the Backup Servicer on each Record Date an electronic transmission (in a format acceptable to the Servicer and the Backup Servicer) containing the information that the Servicer used to prepare the Servicer Report for such Record Date together with any additional information reasonable requested by the Backup Servicer; and

(c) The Buyer and Servicer hereby acknowledge that none of the Agent or the Lender Group shall have any obligation or liability with respect to the servicing of any Transferred Notes Receivable, nor shall any of them be obligated to perform any of the obligations of the Servicer hereunder.

Section 4.03. Authorization of the Servicer.

(a) Each of the Buyer and the Agent, on behalf of the Lender Group, hereby authorizes the Servicer (including the Sub-Servicer and any successor servicer thereto) to take any and all reasonable steps in its name and on its behalf necessary or desirable and not inconsistent with the pledge of the Transferred Notes Receivable pursuant to the Loan Agreement, in the determination of the Servicer, to collect all amounts due under any and all Transferred Notes Receivable, including, without limitation, endorsing any of their names on checks and other instruments representing Collections, executing and delivering any and all instruments of satisfaction or cancellation, or of partial or full release or discharge, and all other comparable instruments, with respect to the Transferred Notes Receivable and, after the delinquency of any Transferred Notes Receivable and to the extent permitted under and in compliance with Applicable Law, to commence proceedings with respect to enforcing payment thereof, to the same extent as the Originator could have done if it had continued to own such Notes Receivable. The Buyer shall furnish the Servicer (and any successors thereto) with any powers of attorney and other documents necessary or appropriate to enable the Servicer to carry out its servicing and administrative duties hereunder, and shall cooperate with the Servicer to the fullest extent in order to ensure the collectability of the Transferred Notes Receivable. In no event shall the Servicer be entitled to make the Buyer, the Agent or any member of the Lender Group a party to any litigation without such party's express prior written consent, or to make the Buyer a party to any litigation (other than any routine foreclosure or similar collection procedure) without the Agent's consent.

(b) After an Event of Default has occurred and is continuing, at the Agent's direction, the Servicer shall take such action as the Agent may deem necessary or advisable to enforce collection of the Transferred Notes Receivable; *provided*, that the Agent may, at any time after an Event of Default has occurred and is continuing, notify any Obligor with respect to any Transferred Notes Receivable of the pledge of such Transferred Notes Receivable to the Agent and direct that payments of all amounts due or to become due to the Buyer thereunder be made directly to the Agent or any servicer, collection agent or lock-box or other account designated by the Agent and, upon such notification and at the expense of the Buyer, the Agent may enforce collection of any such Transferred Notes Receivable and adjust, settle or compromise the amount or payment thereof. The Agent shall give written notice to the Backup Servicer or any other successor Servicer of the Agent's actions or directions pursuant to this Section 4.03(b).

Section 4.04. Collection of Payments.

(a) Collection Efforts, Modification of Transferred Notes Receivable. The Servicer will make reasonable efforts to collect all payments called for under the terms and provisions of the Transferred Notes Receivable as and when the same become due, and will follow those collection procedures as are consistent with Accepted Servicing Practices. The Servicer may not waive, modify or otherwise vary any provision of a Transferred Note Receivable, except as may be in accordance with the Required Procedures or with the consent of Agent. Notwithstanding anything to the contrary contained herein, the Servicer will not take any action with respect to any Transferred Note Receivable that is prohibited under the Loan Agreement.

(b) Taxes and other Amounts. To the extent provided for in any Transferred Note Receivable, the Servicer will use its best efforts to collect all payments with respect to amounts due for taxes, assessments and insurance premiums relating to such Transferred Note Receivable or the Related Property and remit such amounts to the appropriate Governmental Authority or insurer on or prior to the date such payments are due.

(c) Payments to Cash Management Account. On or before the Transfer Date with respect to each Transferred Note Receivable, the Servicer shall have instructed all Obligors to make all payments in respect of all Transferred Notes Receivable included in the Collateral directly to the Collection Account or other Cash Management Account designated by Agent and established pursuant to the Loan Agreement. Servicer shall also be responsible for compliance with the all other requirements of the cash management provisions in Section 2.6 of the Loan Agreement.

(d) Adjustments. If (i) the Servicer makes a deposit into the Cash Management Account in respect of a Collection of a Transferred Note Receivable included in the Collateral and such Collection was received by the Servicer in the form of a check that is not honored for any reason or (ii) the Servicer makes a mistake with respect to the amount of any Collection and deposits an amount that is less than or more than the actual amount of such Collection, the Servicer shall appropriately adjust the amount subsequently deposited into the Cash Management Account to reflect such dishonored check or mistake. Any Scheduled Payment in respect of which a dishonored check is received shall be deemed not to have been paid.

(e) Released Amounts. The Agent hereby agrees that it shall release to the Buyer from the Collateral, and the Buyer hereby agrees to release to the Originator, an amount equal to the Released Amounts promptly upon receipt of an Officer's Certificate of the initial Servicer (or the Originator if the initial Servicer is no longer the Servicer) setting forth the calculation thereof, which release shall be automatic and shall require no further act by the Agent; *provided*, that, the Agent and the Buyer, as applicable, shall execute and deliver such instruments of release and assignment, or otherwise confirm the foregoing release, as may reasonably be requested by the Servicer on behalf of the Buyer or the Originator, as applicable, in writing. Upon such release, such Released Amounts shall not constitute and shall not be included in the Collateral. Immediately upon the release to the Buyer by the Agent of the Released Amounts, the Buyer hereby irrevocably agrees to release to the Originator such Released Amounts, which release shall be automatic and shall require no further act by the Buyer; provided, that the Buyer shall execute and deliver such instruments of release and assignment, or otherwise confirming the foregoing release of any Released Amounts, as may be reasonably requested by the Originator.

Section 4.05. Realization Upon Defaulted Notes Receivable.

The Servicer will use its reasonable efforts to repossess or otherwise comparably convert the ownership of any Related Property with respect to a Defaulted Note Receivable and will act as sales and processing agent for Related Property that it repossesses. The Servicer will follow the practices and procedures set forth in the Required Procedures in order to realize upon such Related Property. Without limiting the foregoing, the Servicer may sell any such Related Property with respect to any Defaulted Note Receivable to the Servicer or its Affiliates for a purchase price equal to the then fair market value thereof (including, if applicable, the fair market value of any Supplemental Interests included in such sale); any such sale to be evidenced by a certificate of a Responsible Officer of the Servicer delivered to the Agent identifying the Defaulted Note Receivable and the Related Property, setting forth the sale price of the Related Property and certifying that such sale price is the fair market value of such Related Property; *provided*, that if after giving effect to such sale (a) the Available Amount would not be greater than or equal to zero or (b) a Default or an Event of Default would exist, then the Servicer prior to selling any Related Property with respect to a Defaulted Note Receivable shall obtain the prior written consent of the Agent. In any case in which any such Related Property has suffered damage, the Servicer will not expend funds in connection with any repair or toward the repossession of such Related Property unless it reasonably determines that such repair and/or repossession will increase the Recoveries by an amount greater than the amount of such expenses. The Servicer will remit to the Collection Account or other Cash Management Account designated by Agent and established pursuant to the Loan Agreement the Recoveries received in connection with the sale or disposition of Related Property with respect to a Defaulted Note Receivable.

Section 4.06. Maintenance of Insurance Policies.

The Servicer is hereby authorized and instructed to require that each Obligor with respect to a Transferred Note Receivable maintain an Insurance Policy with respect to each Transferred Note Receivable and the Related Property, to the extent consistent with the Required Procedures. In connection with its activities as Servicer, the Servicer agrees to present, on behalf of the Buyer and the Agent, on behalf of the Lender Group, with respect to the respective interests, claims to the insurer under each Insurance Policy and any such liability policy, and to settle, adjust and compromise such claims, in each case, consistent with the terms of each related Transferred Note Receivable.

Section 4.07. Representations and Warranties of the Servicer, the Sub-Servicer and the Backup Servicer.

(a) The Servicer hereby represents and warrants as follows:

(i) Organization and Good Standing; Power and Authority. The Servicer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite corporate power and authority to own its properties and to conduct its business as presently conducted and to enter into and perform its obligations pursuant to this Agreement and each other Loan Document to which it is a party.

(ii) Due Qualification. The Servicer is qualified to do business as a corporation, is in good standing, and has obtained all licenses and approvals as required under the laws of all jurisdictions in which the ownership or lease of its property and or the conduct of its business or the performance of its obligations pursuant to this Agreement requires such qualification, standing, license or approval, except where the failure to qualify or obtain such license or approval could not be reasonably expected to have a Material Adverse Effect.

(iii) Due Authorization. The Servicer has the full power and authority to enter into and consummate all transactions contemplated by the Loan Documents to be consummated by it, and has duly authorized the execution, delivery and performance of each Loan Document to which it is a party.

(iv) No Violation. The consummation of the transactions contemplated by, and the fulfillment of the terms of, this Agreement by the Servicer (with or without notice or lapse of time) will not (i) conflict with, result in any breach of any of the terms or provisions of, or constitute a default under, the governing documents of the Servicer, or any material contractual obligation to which the Servicer is a party or by which it or any of its property is bound, (ii) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such contractual obligation (other than this Agreement), or (iii) violate in any material respect any Applicable Law.

(v) No Consent. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any Governmental Authority having jurisdiction over the Servicer or any of its properties is required to be obtained by or with respect to the Servicer in order for the Servicer to enter into any Loan Document to which it is a party or perform its obligations hereunder.

(vi) Binding Obligation. This Agreement constitutes a legal, valid and binding obligation of the Servicer, enforceable against the Servicer in accordance with its terms, except as such enforceability may be limited by (i) applicable Bankruptcy Laws and (ii) general principles of equity (whether considered in a suit at law or in equity).

(vii) No Proceedings. There are no proceedings or investigations (formal or informal) pending or threatened against the Servicer, before any Governmental Authority (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement or (iii) seeking any determination or ruling that would be expected to have a Material Adverse Effect.

(viii) Reports Accurate. All Servicer Certificates, information, exhibits, financial statements, documents, books, Servicing Records or reports furnished or to be furnished by the Servicer to the Agent, any member of the Lender Group or any other party in connection with any Loan Document are and will be accurate, true and correct in all material respects.

(ix) No Servicer Default. No event has occurred and is continuing and no condition exists, or would result from an Advance or from the application of the proceeds therefrom, which constitutes or could reasonably be expected to constitute a Servicer Default.

(x) Material Adverse Change. Since December 31, 2012, there has been no Material Adverse Change with respect to the initial Servicer.

(xi) Required Procedures. It has at all times, since the adoption of the Required Procedures, complied with the Required Procedures with respect to each Transferred Note Receivable in all material respects.

(xii) Solvency. The Servicer is Solvent, is able to pay its debts as they become due and has capital sufficient to carry on its business and its obligations under each Loan Document to which it is a party; it will not be rendered insolvent by the execution and delivery of this Agreement or by the performance of its obligations under each Loan Document to which it is a party; and no petition of bankruptcy (or similar Bankruptcy Proceeding) has been filed by or against the Servicer prior to the date hereof.

(xiii) Servicing Fee. The Servicer acknowledges and agrees that the Servicing Fee represents reasonable compensation for the performance of the servicing duties hereunder and that the entire Servicing Fee shall be treated by the Servicer, for accounting purposes, as compensation for the servicing and administration of the Transferred Notes Receivable pursuant to this Agreement.

(b) The Sub-Servicer hereby represents and warrants as follows:

(i) Organization and Good Standing; Power and Authority. The Sub-Servicer is a limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite limited liability company power and authority to own its properties and to conduct its business as presently conducted and to enter into and perform its obligations pursuant to this Agreement and each other Loan Document to which it is a party.

(ii) Due Qualification. The Sub-Servicer is qualified to do business as a limited liability company, is in good standing, and has obtained all licenses and approvals as required under the laws of all jurisdictions in which the ownership or lease of its property and or the conduct of its business or the performance of its obligations pursuant to this Agreement requires such qualification, standing, license or approval, except where the failure to qualify or obtain such license or approval could not be reasonably expected to have a Material Adverse Effect.

(iii) Due Authorization. The Sub-Servicer has the full power and authority to enter into and consummate all transactions contemplated by the Loan Documents to be consummated by it, and has duly authorized the execution, delivery and performance of each Loan Document to which it is a party.

(iv) No Violation. The consummation of the transactions contemplated by, and the fulfillment of the terms of, this Agreement by the Sub-Servicer (with or without notice or lapse of time) will not (i) conflict with, result in any breach of any of the terms or provisions of, or constitute a default under, the governing documents of the Sub-Servicer, or any material contractual obligation to which the Sub-Servicer is a party or by which it or any of its property is bound, (ii) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such contractual obligation (other than this Agreement), or (iii) violate in any material respect any Applicable Law.

(v) No Consent. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any Governmental Authority having jurisdiction over the Sub-Servicer or any of its properties is required to be obtained by or with respect to the Sub-Servicer in order for the Sub-Servicer to enter into any Loan Document to which it is a party or perform its obligations hereunder.

(vi) Binding Obligation. This Agreement constitutes a legal, valid and binding obligation of the Sub-Servicer, enforceable against the Sub-Servicer in accordance with its terms, except as such enforceability may be limited by (i) applicable Bankruptcy Laws and (ii) general principles of equity (whether considered in a suit at law or in equity).

(vii) No Proceedings. There are no proceedings or investigations (formal or informal) pending or threatened against the Sub-Servicer, before any Governmental Authority (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement or (iii) seeking any determination or ruling that would be expected to have a Material Adverse Effect.

(viii) Reports Accurate. All Servicer Certificates, information, exhibits, financial statements, documents, books, Servicing Records or reports furnished or to be furnished by the Sub-Servicer on behalf of the Servicer to the Agent, any member of the Lender Group or any other party in connection with any Loan Document are and will be accurate, true and correct in all material respects.

(ix) No Servicer Default. No event has occurred and is continuing and no condition exists, or would result from an Advance or from the application of the proceeds therefrom, which constitutes or could reasonably be expected to constitute a Servicer Default.

(x) Material Adverse Change. Since December 31, 2012, there has been no Material Adverse Change with respect to the initial Sub-Servicer.

(xi) Required Procedures. It has at all times, since the adoption of the Required Procedures, complied with the Required Procedures with respect to each Transferred Note Receivable in all material respects.

(xii) Solvency. The Sub-Servicer is Solvent, is able to pay its debts as they become due and has capital sufficient to carry on its business and its obligations under each Loan Document to which it is a party; it will not be rendered insolvent by the execution and delivery of this Agreement or by the performance of its obligations under each Loan Document to which it is a party; and no petition of bankruptcy (or similar Bankruptcy Proceeding) has been filed by or against the Sub-Servicer prior to the date hereof.

(c) The Backup Servicer hereby represents and warrants as follows:

(i) Organization and Good Standing; Power and Authority. The Backup Servicer is a national banking association duly organized and validly existing under the laws of the jurisdiction of its organization with all requisite power and authority to own its properties and to conduct its business as presently conducted and to enter into and perform its obligations pursuant to this Agreement and each other Loan Document to which it is a party.

(ii) Due Qualification. The Backup Servicer is qualified to do business as a national banking association, and has obtained all licenses and approvals as required under the laws of all jurisdictions in which the ownership or lease of its property and or the conduct of its business or the performance of its obligations pursuant to this Agreement requires such qualification, standing, license or approval.

(iii) Due Authorization. The Backup Servicer has the full power and authority to enter into and consummate all transactions contemplated by the Loan Documents to be consummated by it, and has duly authorized the execution, delivery and performance of each Loan Document to which it is a party.

(iv) No Violation. The consummation of the transactions contemplated by, and the fulfillment of the terms of, this Agreement by the Backup Servicer (with or without notice or lapse of time) will not (i) conflict with, result in any breach of any of the terms or provisions of, or constitute a default under, the governing documents of the Backup Servicer, or any material contractual obligation to which the Backup Servicer is a party or by which it or any of its property is bound, (ii) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such contractual obligation (other than this Agreement), or (iii) violate in any material respect any Applicable Law.

(v) No Consent. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any Governmental Authority having jurisdiction over the Backup Servicer or any of its properties is required to be obtained by or with respect to the Backup Servicer in order for the Backup Servicer to enter into any Loan Document to which it is a party or perform its obligations hereunder.

(vi) Binding Obligation. This Agreement constitutes a legal, valid and binding obligation of the Backup Servicer, enforceable against the Backup Servicer in accordance with its terms, except as such enforceability may be limited by (i) applicable Bankruptcy Laws and (ii) general principles of equity (whether considered in a suit at law or in equity).

(vii) No Proceedings. There are no proceedings or investigations (formal or informal) pending or threatened against the Backup Servicer, before any Governmental Authority (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement or (iii) seeking any determination or ruling that would be expected to have a Material Adverse Effect.

(viii) Solvency. The Backup Servicer has capital sufficient to carry on its business and its obligations under each Loan Document to which it is a party; it will not be rendered insolvent by the execution and delivery of this Agreement or by the performance of its obligations under each Loan Document to which it is a party; and no petition of bankruptcy (or similar Bankruptcy Proceeding) has been filed by or against the Backup Servicer prior to the date hereof.

Section 4.08. Covenants of the Servicer and the Sub-Servicer.

Each of the Servicer and the Sub-Servicer hereby covenants that:

(a) Compliance with Law. The Servicer and the Sub-Servicer will comply in all material respects with all Applicable Laws, including those with respect to the Transferred Notes Receivable, the Related Property and Note Receivable Documents or any part thereof.

(b) Preservation of Corporate Existence. The Servicer and the Sub-Servicer will preserve and maintain its corporate or limited liability company (as applicable) existence, rights, franchises and privileges in the jurisdiction of its formation, and qualify and remain qualified in good standing as a foreign corporation or limited liability company (as applicable) in each jurisdiction where the failure to maintain such existence, rights, franchises, privileges and qualification could reasonably be expected to have a Material Adverse Effect.

(c) Obligations with Respect to Transferred Notes Receivable. The Servicer and the Sub-Servicer will duly fulfill and comply with all obligations on the part of the Buyer to be fulfilled or complied with under or in connection with each Transferred Note Receivable under this Agreement, the Loan Agreement or any other Loan Document and will do nothing to impair the rights of the Buyer or the Agent, on behalf of Lender Group, in, to and under the Collateral.

(d) Preservation of Security Interest. The Buyer or the initial Servicer on behalf of the Buyer will execute and file (or cause the execution and filing of) such financing and continuation statements and any other documents and take such other actions that may be required by any law or regulation of any Governmental Authority to preserve and protect fully the interest of the Agent, on behalf of Lender Group, in, to and under the Collateral.

(e) Change of Name or Location; Records. The initial Servicer and the Sub-Servicer (i) shall not change its name, move the location of its principal executive office or change its jurisdiction of incorporation, in each case without 30 days' prior written notice to the Buyer and the Agent, and (ii) shall not move, or consent to the Collateral Custodian moving, the Note Receivable Documents related to the Transferred Notes Receivable, without 45 days' prior written notice to the Buyer and the Agent, and (iii) will promptly take all actions required of each relevant jurisdiction in order to continue the first priority perfected security interest of the Agent, on behalf of Lender Group, in all Collateral, including delivery of an Opinion of Counsel.

(f) Required Procedures. The initial Servicer and the Sub-Servicer will comply in all material respects with the Required Procedures in regard to each Transferred Note Receivable and the Related Property included in the Collateral.

(g) Notice of Certain Events. The Servicer and the Sub-Servicer will furnish to the Agent, as soon as possible and in any event within one (1) Business Day after the Servicer shall have knowledge of the occurrence of any Default or Event of Default, a written statement setting forth the details of such event and the action that the Servicer proposes to take with respect thereto.

(h) Extension or Amendment of Transferred Notes Receivable. Neither the Servicer nor the Sub-Servicer will, except as otherwise permitted in Section 4.04(a), extend, amend or otherwise modify the terms of any Transferred Note Receivable.

(i) Other. The Servicer and the Sub-Servicer will furnish to the Agent and the Lender Group such other information, documents records or reports respecting the Transferred Notes Receivable or the condition or operations, financial or otherwise of the Servicer as the Buyer, the Agent or the Lender Group may from time to time reasonably request in order to protect the respective interests of the Buyer, the Agent or the Lender Group under or as contemplated by this Agreement, the Loan Agreement or any other Loan Document.

(j) No Commingling. Neither the Servicer nor the Sub-Servicer will commingle its assets with those of the Buyer.

(k) Inspection of Records. Each of the Servicer and the Sub-Servicer will, at any time and from time to time during regular business hours, as requested by the Agent, permit the Agent and the Lender Group, or their respective agents or representatives, (i) to examine and make copies of and take abstracts from all books, records and documents (including computer tapes and disks) relating to the Transferred Notes Receivable and the related Note Receivable Documents and (ii) to visit the offices and properties of the Buyer, the Originator, the Servicer or the Sub-Servicer, as applicable, for the purpose of examining such materials described in clause (i), and to discuss matters relating to the Transferred Notes Receivable or the Buyer's, the Originator's, the Servicer's or the Sub-Servicer's performance hereunder or under the related Note Receivable Documents with such officers, directors, employees or independent public accountants of the Buyer, the Originator, the Servicer or the Sub-Servicer, as applicable, as might reasonably be determined to have knowledge of such matters; provided that (A) so long as no Default or Event of Default has occurred and is continuing, the Servicer and the Sub-Servicer will not be charged for more than one (1) financial or collateral inspection, audit or appraisal during any calendar year, whether pursuant to this Agreement or the Loan Agreement, and (B) so long as no Event of Default has occurred and is continuing, none of Buyer, Horizon nor Horizon Management will be charged for an aggregate amount in excess of $30,000 for fees and charges during any calendar year covering financial or collateral inspections, audits or appraisals pursuant to this Agreement or the Loan Agreement.

(l) Keeping of Records. Each of the Servicer and the Sub-Servicer will maintain and implement administrative and operating procedures (including, in the case of the initial Servicer and the Sub-Servicer, an ability to recreate records evidencing Transferred Notes Receivable and the related Note Receivable Documents in the event of the destruction of the originals thereof), and keep and maintain, all documents, books, computer tapes, disks, records and other information reasonably necessary or advisable for the collection of all Transferred Notes Receivable (including records adequate to permit the daily identification of each new Transferred Note Receivable and all Collections of and adjustments to each existing Transferred Note Receivable). The Servicer and the Sub-Servicer shall give the Agent (with a copy to the Collateral Custodian) prompt notice of any material change in its administrative and operating procedures referred to in the previous sentence.

(m) Compliance with Transferred Notes Receivable. Each of the Servicer and the Sub-Servicer will (i) at its own expense, timely and fully perform and comply with all material provisions, covenants and other promises required to be observed by it under the Transferred Notes Receivable and the related Note Receivable Documents; and (ii) timely and fully comply in all material respects with the Required Procedures with respect to each Transferred Note Receivable and the related Note Receivable Documents.

(n) Consolidation or Merger of the Servicer. Neither the initial Servicer nor the Sub-Servicer shall consolidate or merge with or into, or sell, lease or transfer all or substantially all of its assets to, any other Person, unless, in the case of any such action (i) no Event of Default or Material Adverse Effect would occur or be reasonably likely to occur as a result of such transaction, (ii) Agent provides its prior written consent to such transaction and (iii) such Person executes and delivers to the Agent an agreement by which such Person assumes the obligations of the Servicer, or the Sub-Servicer, as applicable, hereunder and under the other Loan Documents to which it is a party, or confirms that such obligations remain enforceable against it, together with such certificates and opinions of counsel as the Agent may reasonably request.

Section 4.09. The Collateral Custodian.

(a) Appointment; Custodial Duties. The Borrower and the Agent each hereby appoints U.S. Bank to act as Collateral Custodian hereunder, for the benefit of the Borrower, the Agent, and the Lender Group, as provided herein. U.S. Bank hereby accepts such appointment and agrees to perform the duties and responsibilities with respect thereto set forth herein.

The Collateral Custodian shall take and retain custody of the Note Receivable Documents delivered by the Borrower or on its behalf pursuant to Section 2.04 hereof in accordance with the terms and conditions of this Agreement, all for the benefit of the Lender Group and subject to the Lien thereon in favor of the Agent, on behalf of the Lender Group. Upon receipt of any such Note Receivable Documents, the Collateral Custodian shall perform the review and certification functions with respect thereto specified in Section 2.05.

In taking and retaining custody of the Note Receivable Documents, the Collateral Custodian shall be acting as the agent of the Agent, on behalf of the Lender Group; *provided*, that the Collateral Custodian makes no representations as to the existence, perfection or priority of any Lien on the Note Receivable Documents or the instruments therein; *provided*, *further*, that, the Collateral Custodian's duties as agent shall be limited to those expressly contemplated herein. All Note Receivable Documents shall be kept in fire-resistant vaults or cabinets at the location of Collateral Custodian specified in Annex 1 hereto, or at such other office as shall be specified to the Agent and the Borrower by the Collateral Custodian in a written notice delivered at least 45 days prior to such change. All Note Receivable Documents shall be segregated with an appropriate identifying label and maintained in such a manner so as to permit retrieval and access. All Note Receivable Documents shall be clearly segregated from any other documents or instruments maintained by the Collateral Custodian. The Collateral Custodian shall clearly indicate in its records that such Note Receivable Documents are the sole property of the Borrower, subject to the security interest of the Agent, on behalf of the Lender Group. In performing its duties, the Collateral Custodian shall use the same degree of care and attention as it employs with respect to similar loan files that it holds as collateral custodian for others.

(b) Concerning the Collateral Custodian.

(i) Except for its willful misconduct, gross negligence or bad faith, the Collateral Custodian may conclusively rely on and shall be fully protected in acting upon any certificate, instrument, opinion, notice, letter, telegram or other document delivered to it and that in good faith it reasonably believes to be genuine and that has been signed by the proper party or parties. Except for its willful misconduct, gross negligence or bad faith, the Collateral Custodian may rely conclusively on and shall be fully protected in acting upon the written instructions of any designated officer of the Agent. In no event shall the Collateral Custodian be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits).

(ii) The Collateral Custodian may consult counsel satisfactory to it, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(iii) The Collateral Custodian shall not be liable for any error of judgment, or for any act done or step taken or omitted by it, in good faith, or for any mistakes of fact or law, or for anything that it may do or refrain from doing in connection herewith except in the case of its willful misconduct, gross negligence or bad faith.

(iv) The Collateral Custodian makes no warranty or representation and shall have no responsibility (except as expressly set forth in this Agreement) as to the content, enforceability, completeness, validity, sufficiency, value, genuineness, ownership or transferability of the Notes Receivable or the Note Receivable Documents, and will not be required to and will not make any representations as to the validity or value of any of the Notes Receivable. The Collateral Custodian shall not be obligated to take any legal action hereunder that might in its judgment involve any expense or liability unless it has been furnished with an indemnity reasonably satisfactory to it.

(v) The Collateral Custodian shall have no duties or responsibilities except such duties and responsibilities as are specifically set forth in this Agreement, and no covenants or obligations shall be implied in this Agreement against the Collateral Custodian.

(vi) The Collateral Custodian shall not be required to expend or risk its own funds in the performance of its duties hereunder.

(vii) It is expressly agreed and acknowledged that the Collateral Custodian is not guaranteeing performance of or assuming any liability for the obligations of the other parties hereto or any parties to the Transferred Notes Receivable.

(viii) The parties hereto hereby acknowledge and agree that the Collateral Custodian's execution of this Agreement shall constitute the Collateral Custodian's written acknowledgment and agreement that the Collateral Custodian is holding any Collateral it receives that may be perfected by possession under the UCC on behalf of and for the benefit of the Agent and the Lender Group.

(ix) The Collateral Custodian shall be without liability to the parties hereto for any damage or loss resulting from or caused by events or circumstances beyond the Collateral Custodian's reasonable control including nationalization, expropriation, currency restrictions, the interruption, disruption or suspension of the normal procedures and practices of any securities market, power, mechanical, communications or other technological failures or interruptions, computer viruses or the like, fires, floods, earthquakes or other natural disasters, civil and military disturbance, acts of war or terrorism, riots, revolution, acts of God, work stoppages, strikes, national disasters of any kind, or other similar events or acts; errors by any party hereto in its instructions to the Collateral Custodian; or changes in applicable law, regulation or orders.

(x) The Collateral Custodian may at any time resign under this Agreement by giving not less than sixty (60) days prior written notice thereof to each party to this Agreement. Promptly after receipt of such notice and for so long as no Servicer Default has occurred and is continuing, the Servicer shall select a successor Collateral Custodian with the written consent of the Agent (which approval shall not be unreasonably withheld, conditioned or delayed). No resignation or removal of the Collateral Custodian shall become effective until the acceptance of a successor collateral custodian hereunder; *provided, that,* if a successor Collateral Custodian is not selected within such 60-day period, the Collateral Custodian may petition a court of competent jurisdiction to select a successor Collateral Custodian.

(xi) In the event of a resignation or removal of the Collateral Custodian, the Collateral Custodian shall not be required to release possession of the Required Asset Documents until all amounts owed to the Collateral Custodian pursuant to this Agreement have been paid to the Collateral Custodian.

(c) Release for Servicing. From time to time and as appropriate for the enforcement or servicing of any of the Transferred Notes Receivable, the Collateral Custodian is hereby authorized, upon receipt from the Servicer or Sub-Servicer on behalf of the Borrower, of a written request for release of documents and receipt in the form annexed hereto as Exhibit E, to release to the Servicer or Sub-Servicer the related Note Receivable Documents or the documents set forth in such request and receipt to the Servicer or Sub-Servicer. All documents so released to the Servicer or Sub-Servicer on behalf of the Borrower shall be held by the Servicer or Sub-Servicer in trust for the benefit of the Borrower, the Agent and the Lender Group, with respect to their respective interests, in accordance with the terms of this Agreement. The Servicer or Sub-Servicer, on behalf of the Borrower, shall return to the Collateral Custodian the Note Receivable Documents or other such documents when the need therefor of Servicer or Sub-Servicer in connection with such foreclosure or servicing no longer exists, unless the Transferred Note Receivable shall be liquidated, in which case, upon receipt of an additional request for release of documents and receipt certifying such liquidation from the Servicer or Sub-Servicer to the Collateral Custodian in the form annexed hereto as Exhibit E, the request and receipt submitted by Servicer or Sub-Servicer pursuant to the first sentence of this Section 4.09(c) shall be released by the Collateral Custodian to the Servicer or Sub-Servicer. Notwithstanding anything in this Section 4.09(c) to the contrary, in no event shall the Collateral Custodian release any Note Receivable Documents or part thereof to the Servicer or Sub-Servicer for any reason if the Collateral Custodian has received written notice from the Agent that an Event of Default has occurred and is continuing and that the Agent is instructing the Collateral Custodian to cease releasing documents to the Servicer or Sub-Servicer.

(d) Release for Payment. Upon receipt by the Collateral Custodian of the Servicer's request for release of documents and receipt in the form annexed hereto as Exhibit E (which certification shall include a statement to the effect that all amounts received in connection with such payment or repurchase have been credited to the Collection Account or other Cash Management Account designated by Agent as provided in this Agreement and the Loan Agreement), the Collateral Custodian shall promptly release the related Note Receivable Documents to the Servicer or Sub-Servicer, on behalf of the Borrower.

(e) Collateral Custodian Compensation. As compensation for its activities hereunder, the Collateral Custodian shall be entitled to a Collateral Custodian Fee from the Servicer. To the extent that such Collateral Custodian Fee is not paid by the Servicer, the Collateral Custodian shall be entitled to receive the unpaid balance of such Collateral Custodian Fee to the extent of funds available therefor pursuant to the provision of Sections 2.4 of the Loan Agreement. The Collateral Custodian's entitlement to receive the Collateral Custodian Fee (other than due and unpaid Collateral Custodian Fees owed through such date) shall cease on the earlier to occur of: (i) its removal as Collateral Custodian or (ii) the termination of this Agreement. The Buyer, to the extent of funds available to pay such amounts pursuant to Section 2.4 of the Loan Agreement, shall indemnify, defend and hold harmless the Collateral Custodian for and from any and all costs and expenses (including without limitation reasonable attorney's fees and expenses), and any and all losses, damages, claims and liabilities, that may arise, be brought against or incurred by the Collateral Custodian, and any advances or disbursements made by the Collateral Custodian as a result of, relating to, or arising out of this Agreement, or in the administration or performance of the Collateral Custodian's duties hereunder, or the relationship among the Collateral Custodian and the other parties hereto created hereby, other than such liabilities, losses, damages, claims, costs and expenses arising out of the Collateral Custodian's own gross negligence, bad faith, willful misconduct or reckless disregard of its obligations hereunder.

(f) Replacement of the Collateral Custodian. The Collateral Custodian may be replaced by the Borrower with the prior consent of the Agent, which consent shall not be unreasonably withheld; *provided* that no such replacement shall be effective until a replacement Collateral Custodian has been appointed, has agreed to act as Collateral Custodian hereunder and has received all Note Receivable Documents held by the previous Collateral Custodian.

Section 4.10. Representations and Warranties of the Collateral Custodian.

The Collateral Custodian represents and warrants as follows:

(a) Organization and Good Standing. It is a national banking association duly organized and validly existing under the laws of the United States with all requisite power and authority to own its properties and to conduct its business as presently conducted and to enter into and perform its obligations pursuant to this Agreement.

(b) Due Qualification. It is duly qualified to do business as a national banking association and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of its property or the conduct of its business requires such qualification, licenses or approval except where the failure to so qualify or have such licenses or approvals has not had, and would not be reasonably expected to have, a Material Adverse Effect.

(c) Power and Authority. It has the power and authority to execute and deliver this Agreement and each other Loan Document to which it is a party and to carry out their respective terms. It has duly authorized the execution, delivery and performance of this Agreement and each other Loan Document to which it is a party by all requisite action.

(d) No Violation. The consummation of the transactions contemplated by, and the fulfillment of the terms of, this Agreement and each other Loan Document to which it is a party by it will not (i) conflict with, result in any breach of any of the terms or provisions of, or constitute a default under, its articles of association, or any contractual obligation to which it is a party or by which it or any of its property is bound, (ii) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any contractual obligation, or (iii) violate any Applicable Law.

(e) No Consents. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any Governmental Authority having jurisdiction over it or any of its respective properties is required to be obtained in order for it to enter into this Agreement or perform its obligations hereunder.

(f) Binding Obligation. This Agreement constitutes its legal, valid and binding obligation, enforceable in accordance with its terms, except as such enforceability may be limited by (i) applicable Bankruptcy Laws and (ii) general principles of equity (whether considered in a suit at law or in equity).

(g) No Proceedings. There are no proceedings or investigations pending or, to the best of its knowledge, threatened, against it before any Governmental Authority (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement or (iii) seeking any determination or ruling that might (in its reasonable judgment) have a Material Adverse Effect.

Section 4.11. Covenants of the Collateral Custodian.

The Collateral Custodian hereby covenants that:

(a) Compliance with Law. The Collateral Custodian will comply in all material respects with all Applicable Laws.

(b) Preservation of Existence. The Collateral Custodian will preserve and maintain its existence, rights, franchises and privileges as a national banking association under the laws of the United States.

(c) No Bankruptcy Petition. Prior to the date that is one year and one day (or such longer preference period as shall then be in effect) after the termination of this Agreement pursuant to Section 10.01, it will not institute against the Buyer, or join any other Person in instituting against the Buyer, any Bankruptcy Proceedings or other similar proceedings under the laws of the United States or any state of the United States. This Section 4.11(c) will survive the termination of this Agreement.

(d) Note Receivable Documents. The Collateral Custodian will not dispose of any documents constituting the Note Receivable Documents in any manner that is inconsistent with the performance of its obligations as the Collateral Custodian pursuant to this Agreement and will not dispose of any Transferred Note Receivable except as contemplated by this Agreement.

(e) Location of Note Receivable Documents. The Note Receivable Documents to be held by the Collateral Custodian pursuant to this Agreement shall remain at all times in the possession of the Collateral Custodian at the address set forth on Annex 1 hereto unless notice of a different address is given in accordance with the terms hereof.

(f) No Changes in Collateral Custodian Fee. The Collateral Custodian will not make any changes to the Collateral Custodian Fee set forth in the Collateral Custodian Fee Letter without the prior written approval of the Agent.

Section 4.12. The Agent.

The Agent shall have no duties or responsibilities under this Agreement except such duties and responsibilities as are specifically set forth in this Agreement, and no covenants or obligations shall be implied in this Agreement against the Agent. Except for its willful misconduct, gross negligence or bad faith, the Agent may conclusively rely on and shall be fully protected in acting upon any certificate, instrument, opinion, notice, letter, telegram or other document delivered to it and that in good faith it reasonably believes to be genuine and that has been signed by the proper party or parties. In no event shall the Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits). The Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it, in good faith, or for any mistakes of fact or law, or for anything that it may do or refrain from doing in connection herewith except in the case of its willful misconduct, gross negligence or bad faith.

Section 4.13. Payment of Certain Expenses by the Servicer and the Buyer.

(a) The Servicer will be required to pay all fees and expenses incurred by it in connection with the transactions and activities contemplated by this Agreement, including fees and disbursements of legal counsel and independent accountants, taxes imposed on the Servicer, expenses incurred in connection with payments and reports pursuant to this Agreement, and all other fees and expenses not expressly stated under this Agreement for the account of the Buyer, except that reasonable out-of-pocket fees and expenses paid by the Servicer or the Sub-Servicer to Persons that are not Affiliates of the Servicer or the Buyer, for (i) accounting and auditing functions with respect to the servicing of the Transferred Notes Receivable in accordance with this Agreement, and (ii) legal, appraisal and other professional services in connection with work outs or the enforcement of Borrower's rights and remedies with respect to the Transferred Notes Receivable in accordance with this Agreement, in each case to the extent not paid by an Obligor or recovered from the collateral securing such Transferred Notes Receivable, shall be reimbursed to the Servicer by the Buyer. In consideration for the payment by the Buyer of the Servicing Fee, the Servicer (so long as it is an Affiliate of the Originator or the Buyer) will be required to pay all reasonable fees and expenses owing to any bank or trust company in connection with the maintenance of the Cash Management Accounts. The Servicer shall be required to pay such expenses for its own account and shall not be entitled to any payment therefor other than the Servicing Fee. The Servicer shall pay the Sub-Servicer a reasonable sub-servicing fee in respect of its services hereunder, and the Sub-Servicer shall not be entitled to any payment therefor other than such sub-servicing fee.

(b) The Buyer will be required to pay all fees and expenses incurred by the Agent, the Lender Group or any Successor Servicer in connection with the transactions and activities contemplated by this Agreement, including reasonable fees and disbursements of legal counsel and independent accountants.

Section 4.14. Reports.

(a) Servicer Report. With respect to each Record Date and the related Collection Period, the Servicer will provide to the Buyer, the Backup Servicer and the Agent (and if so requested by Agent, with copies for each Lender), on the related Record Date, a monthly statement (a "Servicer Report"), signed by a Responsible Officer of the Servicer and substantially in the form of Exhibit A.

(b) Servicer's Certificate. Together with each Servicer Report, the Servicer shall submit to the Buyer and the Agent (and if so requested by Agent, with copies for each Lender) a certificate substantially in the form of Exhibit F (a "Servicer's Certificate"), signed by a Responsible Officer of the Servicer, which shall include a certification by such Responsible Officer that no Default or Event of Default has occurred and is continuing.

(c) Financial Statements. The initial Servicer will submit to the Buyer and the Agent (and if so requested by Agent, with copies for each Lender), within 45 days following the end of each of the Servicer's fiscal quarters (other than the final fiscal quarter), commencing for the fiscal quarter ending on September 30, 2013, unaudited financial statements of the Servicer (including an analysis of delinquencies and losses for each fiscal quarter) as of the end of each such fiscal quarter. The Servicer shall submit to the Buyer and the Agent (and if so requested by Agent, with copies for each Lender), within one hundred fifty (150) days following the end of the Servicer's fiscal year, commencing with the fiscal year ending on December 31, 2013, annual audited financial statements as of the end of such fiscal year.

Section 4.15. Annual Statement as to Compliance.

The Servicer and the Sub-Servicer, jointly, will provide to the Buyer and Agent (and if so requested by Agent, with copies for each Lender) within ninety (90) days following the end of each fiscal year of the Servicer, commencing with the fiscal year ending on December 31, 2013, an annual report signed by a Responsible Officer of each of the Servicer and the Sub-Servicer certifying that (a) a review of the activities of the Servicer, and the Servicer's performance pursuant to this Agreement, for the period ending on the last day of such fiscal year has been made under such Responsible Officer's supervision and (b) the Servicer (itself or through the Sub-Servicer) has performed or has caused to be performed in all material respects all of its obligations under this Agreement throughout such year and no Servicer Default has occurred and is continuing (or if a Servicer Default has occurred and is continuing, specifying each such event, the nature and status thereof and the steps necessary to remedy such event, and, if a Servicer Default occurred during such year and no notice thereof has been given to the Agent, specifying such Servicer Default and the steps taken to remedy such event).

Section 4.16. Limitation on Liability.

Except as provided herein, none of the directors or officers or employees or agents of the Servicer or the Sub-Servicer shall be under any liability to the Buyer, the Agent, the other members of the Lender Group or any other Person for any action taken or for refraining from the taking of any action as expressly provided for in this Agreement; *provided*, that this provision shall not protect any such Person against any liability that would otherwise be imposed by reason of its willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of its failure to perform materially in accordance with this Agreement.

Neither the Servicer nor the Sub-Servicer shall be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its duties to service the Transferred Notes Receivable in accordance with this Agreement that in its reasonable opinion may involve it in any expense or liability. The Servicer (itself or through the Sub-Servicer) may, in its sole discretion, undertake any legal action relating to the servicing, collection or administration of Transferred Notes Receivable and the Related Property that it may reasonably deem necessary or appropriate for the benefit of the Buyer and the Lender Group with respect to this Agreement and the rights and duties of the parties hereto and the respective interests of the Buyer and the Lender Group hereunder.

Section 4.17. The Servicer and Sub-Servicer Not to Resign.

Neither the Servicer nor the Sub-Servicer shall resign from the obligations and duties hereby imposed on such Person except upon such Person's determination that (i) the performance of its duties hereunder is or becomes impermissible under Applicable Law and (ii) there is no reasonable action that such Person could take to make the performance of its duties hereunder permissible under Applicable Law. Any such determination permitting the resignation of the Servicer shall be evidenced as to clause (i) above by an Opinion of Counsel to such effect delivered to the Buyer and the Agent. No such resignation shall become effective until a successor shall have assumed the responsibilities and obligations of such Person in accordance with the terms of this Agreement.

Section 4.18. Access to Certain Documentation and Information Regarding the Transferred Notes Receivable.

The Buyer, the Servicer and the Sub-Servicer shall provide to the Agent from time to time hereafter, and so long as no Default or Event of Default has occurred and in continuing, upon reasonable notice and during normal business hours, access to the Note Receivable Documents and all other documentation regarding the Transferred Notes Receivable and the Related Property included as part of the Collateral, such access being afforded without charge. The Collateral Custodian shall provide to the Agent from time to time hereafter access to the Note Receivable Documents and all other documentation regarding the Transferred Notes Receivable and the Related Property included as part of the Collateral, such access being afforded without charge but only (i) upon two (2) Business Days' prior written request, (ii) during normal business hours and (iii) subject to the Collateral Custodian's normal security and confidentiality procedures. From and after the Closing Date and periodically thereafter at the discretion of the Agent, the Agent or its agents may review the Buyer's and the Servicer's collection and administration of the Transferred Notes Receivable in order to assess compliance by the Servicer with the Servicer's written policies and procedures, as well as with this Agreement and may conduct an audit of the Transferred Notes Receivable and related Note Receivable Documents and records in conjunction with such a review. Such review shall be reasonable in scope and shall be completed in a reasonable period of time. The Buyer shall bear the cost of such audits. Notwithstanding the foregoing, (A) so long as no Default or Event of Default has occurred and is continuing, neither Buyer nor Servicer will be charged for more than one (1) financial or collateral inspection, audit or appraisal during any calendar year, whether pursuant to this Agreement or the Loan Agreement, and (B) so long as no Event of Default has occurred and is continuing, none of Buyer, Horizon nor Horizon Management will be charged for an aggregate amount in excess of $30,000 for fees and charges during any calendar year covering financial or collateral inspections, audits or appraisals pursuant to this Agreement or the Loan Agreement.

Section 4.19. Identification of Records.

The Servicer and the Sub-Servicer shall clearly and unambiguously identify each Transferred Note Receivable that is part of the Collateral and the Related Property in its computer or other records to reflect that the interest in such Transferred Notes Receivable and Related Property have been transferred to and are owned by the Buyer and that the Agent, on behalf of the Lender Group, has the security interest and Lien therein granted by Buyer pursuant to the Loan Agreement.

ARTICLE V

ESTABLISHMENT OF CASH MANAGEMENT ACCOUNT

Section 5.01. Cash Management Account.

(a) Establishment of Cash Management Account. The Servicer, for the benefit of the Agent and the Lender Group, shall cause to be established and maintained the Collection Account and other Cash Management Accounts designated by Agent in accordance with the requirements of Section 2.6 of the Loan Agreement.

(b) Deposits to Cash Management Account. Each of the Servicer and the Sub-Servicer shall deposit or cause to be deposited all Collections on or in respect of each Transferred Note Receivable collected on or after the related Transfer Date (to the extent received by the Servicer) within one (1) Business Day after receipt thereof. The Originator agrees that it will cause each appropriate Person paying such amounts, as the case may be, to remit directly to the Collection Account or other Cash Management Accounts designated by Agent, within one (1) Business Day after receipt thereof, all such amounts to the extent such amounts are received by such Person.

ARTICLE VI

APPOINTMENT OF SUB-SERVICER

Section 6.01. Appointment of the Sub-Servicer.

(a) Horizon as the Servicer, hereby appoints Horizon Management hereunder as sub-servicer (the "Sub-Servicer"), to take any and all actions to service the Transferred Notes Receivable and enforce the Buyer's rights and interests in and under each Transferred Note Receivable in accordance with this Agreement, to perform all other obligations of the Servicer hereunder, and to serve in such capacity until the termination of its responsibilities by written notice from Horizon, with the consent of the Buyer and the Agent not to be unreasonably withheld or delayed. Horizon Management hereby accepts such appointment and agrees to perform the duties and obligations with respect thereto set forth herein. The Servicer, the Sub-Servicer and the Buyer hereby acknowledge that the Agent and the Lender Group are third party beneficiaries of the obligations undertaken by the Sub-Servicer hereunder.

(b) The Agent hereby consents to the appointment of Horizon Management as the Sub-Servicer, and acknowledges and agrees that the Servicer may perform any or all of its obligations hereunder directly or through the Sub-Servicer.

ARTICLE VII

COVENANTS

Section 7.01. [Reserved].

Section 7.02. Covenants Regarding Purchased Assets.

(a) Protect Collateral. The Originator agrees that it shall not sell, assign, transfer, pledge or encumber in any other manner the Purchased Assets (except for the assignment and pledge to the Buyer hereunder). The Originator shall warrant and defend the right and title herein granted unto the Buyer in and to the Purchased Assets (and all right, title and interest represented by the Collateral) against the claims and demands of all Persons whomsoever.

(b) Further Assurances. The Originator shall, at its own expense, promptly execute and deliver all further instruments (including financing statements, stock powers, other powers and other instruments of transfer or control) requested by the Buyer or the Agent to perfect and protect the transfer of the Purchased Assets to the Buyer or any security interest granted or purported to be granted hereby or under the Loan Agreement, or to enable the Buyer and/or the Agent, as applicable, to exercise and enforce its rights and remedies hereunder with respect to the Purchased Assets or under the Loan Agreement with respect to any Collateral, including the rights and remedies under Section 9 of the Loan Agreement. In addition, the Originator shall, at its own expense, promptly take all further action that the Buyer or the Agent may request in order to perfect and protect the transfer of the Purchased Assets to the Buyer or any security interest granted or purported to be granted hereby or under the Loan Agreement, or to enable the Buyer and/or the Agent, as applicable, to exercise and enforce its rights and remedies hereunder with respect to the Purchased Assets or under the Loan Agreement with respect to any Collateral, including the rights and remedies under Section 9 of the Loan Agreement.

(c) Collections Held in Trust. If the Originator receives any Collections, the Originator shall hold such Collections separate and apart from its other property in trust for the Buyer and shall, within two (2) Business Days after receipt thereof, deposit such Collections to the Collection Account or other Cash Management Accounts designated by Agent.

(d) Consents. The Originator shall execute and deliver to the Buyer and/or the Agent, as applicable, upon request and at the time the Buyer and/or the Agent, as applicable, exercises its remedies, any document deemed necessary by the Buyer and/or the Agent, as applicable, in order to evidence the Originator's consent to the Buyer and/or the Agent exercising their respective remedies hereunder with respect to the Purchased Assets or under the Loan Agreement with respect to any Collateral, including the rights and remedies under Section 9 of the Loan Agreement.

(e) True Sale. The Originator shall not account for or treat (whether in financial statements or otherwise) the transfers contemplated by this Agreement, in any manner other than as a sale of the Transferred Notes Receivable and related Supplemental Interests to the Buyer constituting a "true sale" for bankruptcy purposes.

ARTICLE VIII

THE SERVICER

Section 8.01. Indemnification; Third Party Claims.

(a) Each of the Servicer (so long as it is an Affiliate of the Originator or the Buyer) and the Sub-Servicer, jointly and severally, shall indemnify the Originator, the Buyer, the Collateral Custodian, the Backup Servicer, the Agent and each other member of the Lender Group, their respective officers, directors, employees, agents and "control persons," as such term is used under the Securities Act and under the Exchange Act (each a "Servicer Indemnified Party") and hold harmless each of them against any and all claims, losses, damages, penalties, fines, forfeitures, reasonable legal fees and related costs, judgments, and other costs and expenses resulting from any claim, demand, defense or assertion based on or grounded upon, or resulting from, a breach of any of the Servicer's representations and warranties and covenants contained in this Agreement or in any way relating to the failure of the Servicer to perform its duties and service the Transferred Notes Receivable in compliance with the terms of this Agreement except to the extent such loss arises out of such Servicer Indemnified Party's fraud, gross negligence or willful misconduct; *provided*, however, that if the Servicer is not liable pursuant to the provisions of Section 8.01(b) hereof for its failure to perform its duties and service the Transferred Notes Receivable in compliance with the terms of this Agreement, then the provisions of this Section 8.01 shall have no force and effect with respect to such failure; *provided*, *further* that (i) no successor Servicer shall be liable for the breaches of representations or warranties or covenants, or actions or omissions, of a predecessor Servicer; and (ii) the Servicer shall not be so required to indemnify a Servicer Indemnified Party or to otherwise be liable to an Servicer Indemnified Party for any losses in respect of the non-performance of the Transferred Notes Receivable, the creditworthiness of the Obligors with respect to the Transferred Notes Receivable, changes in the market value of the Transferred Note Receivable or other similar investment risks associated with the Transferred Note Receivable if the effect of such indemnity would be to provide credit recourse to the Originator for the performance of the Transferred Note Receivable. The Servicer shall be liable for the breaches of representations, warranties, covenants or other actions or omissions of the Sub-Servicer as if such breaches or representations, warranties, covenants, actions or omissions were made by it directly.

(b) None of the Originator, the Servicer the Sub-Servicer or any of their respective Affiliates, directors, officers, employees or agents shall be under any liability to the Collateral Custodian, the Backup Servicer, the Buyer, the Agent or any member of the Lender Group for any action taken, or for refraining from the taking of any action, in good faith pursuant to this Agreement, or for errors in judgment; *provided*, however, that this provision shall not protect the Originator, the Servicer, the Sub-Servicer or any of their respective Affiliates, directors, officers, employees, agents against the remedies provided herein for the breach of any warranties, representations or covenants made herein, or against any expense or liability specifically required to be borne by such party without right of reimbursement pursuant to the terms hereof, or against any expense or liability which would otherwise be imposed by reason of misfeasance, bad faith or negligence in the performance of the respective duties of the Servicer, the Sub-Servicer or the Originator, as the case may be. The Originator, the Servicer, the Sub-Servicer and any of their respective Affiliates, directors, officers, employees, agents may rely in good faith on any document of any kind which, prima facie, is properly executed and submitted by any Person respecting any matters arising hereunder.

(c) Horizon agrees to indemnify and hold harmless the Collateral Custodian, the Backup Servicer, the Buyer, the Agent, and the Lender Group (each a "Horizon Indemnified Party," together with the Servicer Indemnified Parties, the "Indemnified Parties"), from and against any loss, liability, expense, damage, claim or injury arising out of or based on (i) any breach of any representation, warranty or covenant of Horizon in any Loan Document, including, without limitation, by reason of any acts, omissions, or alleged acts or omissions arising out of activities of Horizon in its capacity as the Originator or the Servicer, and (ii) any untrue statement by Horizon of any material fact, including, without limitation, any Officer's Certificate, statement, report or other document or information prepared by any such Person and furnished or to be furnished by it pursuant to or in connection with the transactions contemplated thereby and not corrected prior to completion of the relevant transaction including, without limitation, such written information as may have been and may be furnished in connection with any due diligence investigation with respect to the Transferred Notes Receivable or any such Person's business, operations or financial condition, including reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding or claim; *provided* that Horizon shall not indemnify a Horizon Indemnified Party to the extent such loss, liability, expense, damage or injury is due to either such Horizon Indemnified Party's willful misfeasance, bad faith or gross negligence or by reason of such Horizon Indemnified Party's reckless disregard of its obligations hereunder; *provided*, *further*, that Horizon shall not be so required to indemnify a Horizon Indemnified Party or to otherwise be liable to a Horizon Indemnified Party for any losses in respect of the non-performance of the Transferred Notes Receivable, the creditworthiness of the Obligors with respect to the Transferred Notes Receivable, changes in the market value of the Transferred Notes Receivable or other similar investment risks associated with the Transferred Notes Receivable if the effect of such indemnity would be to provide credit recourse to Horizon for the performance of the Transferred Notes Receivable. The provisions of this indemnity shall run directly to and be enforceable by a Horizon Indemnified Party subject to the limitations hereof.

(d) With respect to a claim subject to indemnity hereunder made by any Person against an Indemnified Party (a "Third Party Claim"), such Indemnified Party shall notify the related indemnifying parties (each an "Indemnifying Party") in writing of the Third Party Claim within a reasonable time after receipt by such Indemnified Party of written notice of the Third Party Claim unless the Indemnifying Parties shall have previously obtained actual knowledge thereof. Thereafter, the Indemnified Party shall deliver to the Indemnifying Parties, within a reasonable time after the Indemnified Party's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Party relating to the Third Party Claim. No failure to give such notice or deliver such documents shall effect the rights to indemnity hereunder. Each Indemnifying Party shall promptly notify the Agent and the Indemnified Party (if other than the Agent) of any claim of which it has been notified and shall promptly notify the Agent and the Indemnified Party (if applicable) of its intended course of action with respect to any claim.

(e) If a Third Party Claim is made against an Indemnified Party, while maintaining control over its own defense, the Indemnified Party shall cooperate and consult fully with the Indemnifying Party in preparing such defense, and the Indemnified Party may defend the same in such manner as it may deem appropriate, including settling such claim or litigation after giving notice to the Indemnifying Party of such terms, and the Indemnifying Party will promptly reimburse the Indemnified Party upon written request; *provided*, however, that the Indemnified Party may not settle any claim or litigation without the consent of the Indemnifying Party; *provided*, *further*, that the Indemnifying Party shall have the right to reject the selection of counsel by the Indemnified Party if the Indemnifying Party reasonably determines that such counsel is inappropriate in light of the nature of the claim or litigation and shall have the right to assume the defense of such claim or litigation if the Indemnifying Party determines that the manner of defense of such claim or litigation is unreasonable.

Section 8.02. Relationship of Servicer to the Buyer and the Agent.

The relationship of the Servicer (and of any successor to the Servicer as servicer under this Agreement) to the Buyer and the Agent under this Agreement is intended by the parties hereto to be that of an independent contractor and not of a joint venturer, agent or partner of the Buyer or the Agent.

Section 8.03. Servicer May Be a Lender.

Each of the Servicer and any Affiliate of the Servicer may in its individual or any other capacity become a Lender under the Loan Agreement with the same rights as it would have if it were not the Servicer or an Affiliate thereof except as otherwise specifically provided herein; *provided*, however, that at any time that Horizon or any of its Affiliates is the Servicer, neither the Servicer nor any of its Affiliates may be a Lender. In its capacity as a Lender, the Servicer or such Affiliate shall have an equal and proportionate benefit under the provisions of this Agreement and the Loan Agreement, without preference, priority, or distinction as among all of the Lenders. The Servicer shall notify the Agent promptly after it or any of its Affiliates proposes to become a Lender.

ARTICLE IX

SERVICER DEFAULT

Section 9.01. Servicer Default.

(a) The occurrence of any of the following events shall constitute a "Servicer Default":

(1) any failure by the Servicer or the Sub-Servicer to make any payment, transfer or deposit or to give instructions or notice to the Buyer, the Agent or any member of the Lender Group as required by this Agreement or the other Loan Documents, and such failure shall continue for two Business Days;

(2) any failure by the Servicer (itself or through the Sub-Servicer) to deliver any Servicer Report or other report required hereunder on or before the date such payment, transfer, deposit, instruction of notice or report is required to be made or given, as the case may be, under the terms of this Agreement or the other Loan Documents, and such failure shall continue for five calendar days;

(3) any failure on the part of the Servicer or the Sub-Servicer duly to observe or perform in any material respect any of the other covenants or agreements on the part of the Servicer contained in any Note Receivable Document to which it is a party and which relates to a Transferred Note Receivable;

(4) any breach on the part of the Servicer or the Sub-Servicer of any representation or warranty contained in any Note Receivable Document to which it is a party and which relates to a Transferred Note Receivable that has a material adverse affect on the interests of any of the parties hereto or thereto or any member of the Lender Group;

(5) so long as the Servicer, the Sub-Servicer or the Originator is an Affiliate of the Buyer, any "event of default" by the Servicer, the Sub-Servicer or the Originator occurs under any of the Note Receivable Documents relating to a Transferred Note Receivable;

(6) the occurrence of an Event of Default;

(7) any failure on the part of the Servicer (itself or through the Sub-Servicer) duly to observe or perform in any material respect any other covenants or agreements of the Servicer set forth in this Agreement or any other Loan Document to which it is a party as Servicer that continues unremedied for a period of thirty (30) days;

(8) other than as noted in clause (2) above, the Servicer (itself or through the Sub-Servicer) shall become unable to or shall fail to deliver any other reporting, certification, notification or other documentation required under this Agreement or any other Loan Document or any financial or asset information reasonably requested by the Agent as provided herein is not provided as required or requested within thirty (30) days of the due date therefor or the receipt by the Servicer of any such request, as applicable;

(9) a Bankruptcy Event shall occur with respect to the Servicer or the Sub-Servicer;

(10) as of the end of any fiscal quarter of the Servicer, the Servicer's Tangible Net Worth shall be less than the sum of (i) $100,000,000, plus (ii) 50% of the value of any incremental issuance of stock or other equity interests;

(11) the net investment income of the Servicer shall be (i) less than zero as of the end of two (2) consecutive fiscal quarters of the Servicer, calculated as of the end of such fiscal quarter on the Determination Date occurring in the second calendar month following the end of such fiscal quarter, or (ii) less than zero for any fiscal year, calculated as of the end of such fiscal year on the Determination Date occurring in the second calendar month following the end of such fiscal year;

(12) (i) as of the end of any fiscal quarter of the Sub-Servicer, the Tangible Net Worth of the Sub-Servicer shall be less than $500,000, or (ii) the net income of the Sub-Servicer shall be less than zero for any three consecutive quarters;

(13) as of the end of any fiscal quarter of the Servicer, (a) the sum of (i) unrestricted cash on hand and (ii) undrawn availability under all credit facilities of the Servicer and its Subsidiaries shall not equal or exceed (b) the aggregate amount of any unfunded committed amounts in respect of all Note Receivables;

(14) any representation, warranty or certification made by the Servicer or the Sub-Servicer in this Agreement or any other Loan Document shall prove to have been false or incorrect in any material respect when made or deemed made and such failure, if susceptible to a cure, shall continue unremedied for a period, if any, determined by the Agent in its sole discretion (but in any event not less than ten (10) days) and such inaccuracy shall have a material adverse effect on the Borrower, the Agent, any Lender or any other Secured Party or any portion of the Collateral or the Agent's (or any Secured Party's) interest therein;

(15) the Servicer (itself or through the Sub-Servicer) shall fail to service the Transferred Note Receivables in accordance with the Required Procedures and the Accepted Servicing Practices in any material respect; or

(16) without the prior written consent of the Agent, the Servicer or the Sub-Servicer agrees or consents to, or otherwise permits to occur, any amendment or modification or rescission to the Required Procedures in whole or in part, in each case, in a manner not permitted by the definition thereof.

(b) Upon the occurrence of an Event of Default, the Agent by notice in writing to the Servicer and the other parties hereto (provided that no notice shall be required to be sent to the Servicer for any Event of Default pursuant to Sections 8.2 or 8.7 of the Loan Agreement), may, in addition to whatever rights such Person may have at law or in equity to damages, including injunctive relief and specific performance, terminate immediately all the rights and obligations of the Servicer under this Agreement and in and to the Transferred Notes Receivable and the proceeds thereof, as servicer under this Agreement. Upon receipt by the Servicer of such written notice (or upon any Event of Default pursuant to Sections 8.2 or 8.7 of the Loan Agreement) all authority and power of the Servicer under this Agreement, whether with respect to the Transferred Notes Receivable or otherwise, shall, subject to Section 9.02, pass to and be vested in the Backup Servicer, or, if there is a Servicer Default with respect to the Backup Servicer, a successor servicer (the " Successor Servicer") pursuant to Section 9.02, and the Backup Servicer or such other Successor Servicer as applicable, is hereby authorized and empowered to execute and deliver, on behalf of the Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments and do or cause to be done all other acts or things necessary or appropriate to effect the purposes of such notice of termination, including, but not limited to, the transfer and endorsement or assignment of the Transferred Notes Receivable and related documents. The Servicer agrees to cooperate with the Backup Servicer or the Successor Servicer, as applicable, in effecting the termination of the Servicer's responsibilities and rights hereunder, including, without limitation, the transfer to the successor servicer for administration by it of all amounts which shall at the time have been or are thereafter received with respect to the Purchased Assets and to provide the Backup Servicer with access to the officers and employees of the Servicer.

Section 9.02. Appointment of Successor.

(a) Upon (i) the termination of Horizon Management's rights and obligations pursuant to Section 9.01 or (ii) the Agent's receipt of the resignation of the Servicer evidenced by an Opinion of Counsel and, in each case, notice to the Backup Servicer by the Agent, the Backup Servicer shall be automatically appointed as the Successor Servicer. The Backup Servicer shall make commercially reasonable efforts to transition the servicing from the predecessor Servicer within thirty (30) days of its receipt of notice from the Agent that the Backup Servicer is being appointed as Successor Servicer, and it shall not be held liable for servicing the Transferred Note Receivables in accordance with the standard of care under this Agreement until the end of such 30-day period; provided, however, that the Backup Servicer will not be required to act as Successor Servicer if it is not paid the One Time Successor Servicer Engagement Fee on the Remittance Date succeeding the date on which the Backup Servicer received notice that it is to become the Successor Servicer. If a Servicer, other than Horizon Management, receives a notice of termination pursuant to Section 9.01 hereof, or the Agent receives the resignation of the Servicer evidenced by an Opinion of Counsel or the resignation of the Backup Servicer pursuant to the terms herein, then the Agent shall appoint a Successor Servicer, with the consent of Horizon (which such consent shall not be unreasonably withheld or delayed and shall not in any event be required upon the occurrence and during the continuance of a Default or Event of Default) and the Successor Servicer shall accept its appointment by a written assumption in a form acceptable to the Agent. In the event that a Successor Servicer has not accepted its appointment at the time when the Servicer ceases to act as Servicer, the Agent shall petition a court of competent jurisdiction to appoint any established financial institution, having a net worth of not less than United States $50,000,000 and whose regular business includes the servicing of assets similar to the Transferred Notes Receivable, as the Successor Servicer hereunder.

(b) Upon the appointment of any Successor Servicer, including without limitation, the Backup Servicer, the Successor Servicer shall be the successor in all respects to the Servicer with respect to servicing functions under this Agreement and shall be subject to all the responsibilities, duties and liabilities relating thereto placed on the Servicer by the terms and provisions hereof, and all references in this Agreement to the Servicer shall be deemed to refer to the Successor Servicer; *provided*, however, that the Successor Servicer shall have (i) no liability with respect to any action performed by the terminated Servicer prior to the date that the Successor Servicer becomes the successor to the Servicer or any claim of a third party based on any alleged action or inaction of the terminated Servicer, (ii) no obligation to perform any advancing obligations, if any, of the Servicer unless it elects to in its sole discretion, (iii) no obligation to pay any taxes required to be paid by the Servicer (provided that the Successor Servicer shall pay any income taxes for which it is liable), (iv) no obligation to pay any of the fees and expenses of any other party to the transactions contemplated hereby, and (v) no liability or obligation with respect to any indemnification obligations of any prior Servicer, including the original Servicer. The indemnification obligations of the Successor Servicer upon becoming a successor servicer are expressly limited to those instances of gross negligence or willful misconduct of the Successor Servicer.

(c) Prior to the date on which all Obligations are paid in full in cash and the Commitments have terminated, all authority and power granted to the Servicer under this Agreement shall automatically cease and terminate upon termination of this Agreement and shall pass to and be vested in the Agent (or to and in the Buyer if the Obligations under the Loan Agreement have been paid in full in cash) and, without limitation, the Agent (or the Buyer if the Obligations under the Loan Agreement have been paid in full in cash) is hereby authorized and empowered to execute and deliver, on behalf of the Servicer, as attorney-in-fact or otherwise, all documents and other instruments, and to do and accomplish all other acts or things necessary or appropriate to effect the purposes of such transfer of servicing rights. The Servicer agrees to cooperate with the Agent (or the Buyer if the Obligations under the Loan Agreement have been paid in full in cash) in effecting the termination of the responsibilities and rights of the Servicer to conduct servicing of the Transferred Notes Receivable.

(d) As compensation, any Successor Servicer so appointed shall be entitled to receive the Servicing Fee. No appointment of a successor to the Servicer hereunder shall be effective until written notice of such proposed appointment shall have been provided to the successor and the successor shall have consented thereto (except that in the case of the Backup Servicer, the appointment shall be automatic upon the Agent's notice). Notwithstanding anything to the contrary contained herein, in no event shall the Agent, in any capacity, be liable for any Servicing Fee or for any differential in the amount of the Servicing Fee paid hereunder and the amount necessary to induce any Successor Servicer under this Agreement and the transactions set forth or provided for by this Agreement. A Successor Servicer shall be entitled to recover the Servicing Fee to the extent of funds available therefor pursuant to the provision of Section 2.4 of the Loan Agreement.

(e) The Servicer agrees to cooperate and use its best efforts in effecting, at the Servicer's expense, the transition of the responsibilities and rights of servicing of the Note Receivable Documents relating to the Transferred Notes Receivable, including, without limitation, the transfer to any Successor Servicer for the administration by it of all cash amounts that shall at the time be held by Servicer for deposit, or have been deposited by the Servicer, or thereafter received with respect to the Note Receivable Documents relating to the Transferred Notes Receivable, and the delivery to the Successor Servicer in an orderly and timely fashion of all files and records with respect to such Note Receivable Documents and a computer tape in readable form containing all information necessary to enable the Successor Servicer to service the Transferred Notes Receivable. In addition, the Servicer agrees to cooperate and use its best efforts in providing, at the Servicer's expense, the Successor Servicer with reasonable access (including at the premises of the Servicer) to Servicer's employees, and any and all of the books, records (in electronic or other form) or other information reasonably requested by it to enable the Successor Servicer to assume the servicing functions hereunder and to maintain a list of key servicing personnel and contact information.

(f) The Backup Servicer as Successor Servicer is authorized to accept and rely on all accounting records (including computer records) and work product of the prior Servicer hereunder relating to the Transferred Note Receivables without any audit or other examination. Notwithstanding anything contained in this Agreement to the contrary, the Backup Servicer, as Successor Servicer, is not responsible for the accounting, records (including computer records) and work of the prior Servicer relating to the Collateral (collectively, the "Predecessor Servicer Work Product"). If any error, inaccuracy, omission or incorrect or non-standard practice or procedure (collectively "Errors") exist in any Predecessor Servicer Work Product and such Errors make it materially more difficult to service or should cause or materially contribute to the Backup Servicer as Successor Servicer making or continuing any Errors (collectively, "Continued Errors"), the Backup Servicer as successor Servicer shall have no liability for such Continued Errors; *provided*, *however*, that the Backup Servicer as Successor Servicer agrees to use commercially reasonable efforts to prevent Continued Errors. In the event that the Backup Servicer as Successor Servicer becomes aware of Errors or Continued Errors, it shall, with the prior consent of Agent, use its commercially reasonable efforts to reconstruct and reconcile such data to correct such Errors and Continued Errors and to prevent future Continued Errors. The Backup Servicer as Successor Servicer shall be entitled to recover its reasonable costs thereby expended pursuant to Section 2.4 of the Loan Agreement.

(g) The representations and warranties of the initial Servicer in this Agreement shall not apply to the Backup Servicer as Successor Servicer. The Backup Servicer has no implied duties under this Agreement, and the Backup Servicer is not required to supervise, verify or monitor performance or duties of other parties to the Loan Documents. In addition, notwithstanding anything to the contrary in this Agreement or the Loan Agreement, the following provisions shall apply in the event that the Backup Servicer becomes Successor Servicer:

(i) inspections or audits of the Successor Servicer can take place no more than twice per calendar year and require five (5) days' prior written notice so long as the Successor Servicer has not defaulted on its obligations under this Agreement, and the Successor Servicer shall not be required to reimburse any other party's fees or expenses in connection with any such inspection or audit or provide copies to any party free of charge unless it is in connection with a default by the Successor Servicer of its obligations under this Agreement;

(ii) the Successor Servicer may appoint agents to act on its behalf, *provided* that the Successor Servicer shall remain liable for the duties and obligations of the Successor Servicer under this Agreement and the Backup Servicer Engagement Letter;

(iii) the Backup Servicer as Successor Servicer shall deposit funds that it receives into the Collection Account within two Business Days of identification of such amounts;

(iv) the Backup Servicer shall not be required to expend its own funds for out-of-pocket expenses in performing its duties as either Backup Servicer or as Successor Servicer unless it is reasonably assured that it will be reimbursed for such expenses pursuant to this Agreement or the Loan Agreement;

(v) no amendment to the Loan Agreement that adversely affects the rights or duties of the Backup Servicer, either as Backup Servicer or as Successor Servicer, shall be effective with respect to the Backup Servicer without the written consent of the Backup Servicer;

(vi) the Buyer agrees to provide a copy of each amendment to the Loan Agreement to the Backup Servicer promptly after it becomes effective;

(vii) prior to the time the Backup Servicer becomes Successor Servicer, the Agent may terminate all the rights and obligations of the Backup Servicer under this Agreement for any reason in its sole judgment and discretion upon delivery of thirty (30) calendar days' advance written notice to the Backup Servicer of such termination;

(viii) at any time after the Backup Servicer becomes Successor Servicer, the Agent may terminate all the rights and obligations of the Successor Servicer under this Agreement for any reason in its sole judgment and discretion upon delivery of ninety (90) calendar days' advance written notice to the Successor Servicer of such termination; *provided* that no such prior notice is required pursuant to any termination under Section 9.01(b);

(ix) the Backup Servicer may resign as either Backup Servicer or as Successor Servicer, without the consent of the other parties hereto, upon ninety (90) calendar days advance written notice to the Agent of such resignation; *provided* that no such resignation shall be effective until a successor Backup Servicer or successor Successor Servicer has been appointed), and provided, further, that the Backup Servicer may resign as Successor Servicer upon 30 days written notice to the Agent and the Borrower without having a replacement Servicer in place if it is not being paid the Servicing Fee pursuant to Section 2.4 of the Loan Agreement;

(x) the Backup Servicer shall have the right to perform at the expense of the Servicer a site visit to the Servicer's offices at which the Servicer performs servicing operations for the Transferred Note Receivables;

(xi) the Backup Servicer as Successor Servicer shall not be liable for the payment of any audit fees in accordance with Section 4.08(k);

(xii) so long as the Backup Servicer or its parent is a publicly traded company, it shall not be required to deliver financial statements pursuant to this Agreement;

(xiii) the obligations of the Backup Servicer are solely corporate obligations, and in no event will any of the officers, directors, or employees of the Backup Servicer be liable for any such obligations; and

(xiv) in no event will the Backup Servicer be liable for any consequential, indirect or special damages.

Section 9.03. Waiver of Defaults.

The Agent may waive any events permitting removal of the Servicer as servicer pursuant to Section 9.01. Upon any waiver of a past default, such default shall cease to exist and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto except to the extent expressly so waived.

Section 9.04. Accounting Upon Termination of Servicer.

Upon termination of the Servicer under this Article IX, the Servicer shall, at its own expense:

(a) deliver to its successor or, if none shall yet have been appointed, to the Agent, any Collections received and not yet deposited in the Collection Account;

(b) deliver to its successor or, if none shall yet have been appointed, to the Collateral Custodian, all Note Receivable Documents and related documents and statements held by it hereunder relating to the Transferred Notes Receivable and a copy of the most recent Data Tape;

(c) deliver to its successor, the Agent, and the Buyer a full accounting of all funds, including a statement showing the Scheduled Payments with respect to the Transferred Notes Receivable collected by it and a statement of monies held in trust by it for payments or charges with respect to the Transferred Note Receivable; and

(d) execute and deliver such instruments and perform all acts reasonably requested in order to effect the orderly and efficient transfer of servicing of the Transferred Notes Receivable to its successor and to more fully and definitively vest in such successor all rights, powers, duties, responsibilities, obligations and liabilities of the Servicer under this Agreement, including but not limited to granting the Backup Servicer access to the Servicer's offices, employees and officers during any servicing transition.

ARTICLE X

TERMINATION

Section 10.01. Termination. This Agreement shall terminate upon either: (A) the later of (i) the termination of the Loan Agreement and the satisfaction and discharge of all Obligations due and owing in accordance with the provisions thereof, or (ii) the disposition of all funds with respect to the last Transferred Note Receivable and the remittance of all funds due hereunder and the payment of all amounts due and payable, including, in both cases, without limitation, indemnification payments payable pursuant to any Loan Document to the Agent, the Lender Group, the Buyer, the Servicer, the Collateral Custodian and the Backup Servicer, written notice of the occurrence of either of which shall be provided to the Agent by the Servicer; or (B) the mutual written consent of the Buyer, the Originator, the Servicer, and the Agent.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 11.01. Amendment.

This Agreement may be amended from time to time by the written agreement of the Buyer, the Originator, the Servicer, the Collateral Custodian, the Backup Servicer and the Agent.

Section 11.02. Duration of Agreement.

This Agreement shall continue in existence and effect until terminated as herein provided.

Section 11.03. **CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER**.

(a) **THE VALIDITY OF THIS AGREEMENT, THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(b) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE AGENT ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH PARTY WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 11.03(b).**

(c) **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.**

(d) **EACH OF THE BUYER, THE ORIGINATOR AND THE SERVICER HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK AND THE STATE OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT AGENT MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST THE BUYER, THE ORIGINATOR OR THE SERVICER OR THEIR RESPECTIVE PROPERTIES IN THE COURTS OF ANY JURISDICTION.**

Section 11.04. Notices.

All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered personally, mailed by overnight mail, certified mail or registered mail, postage prepaid, or (ii) transmitted by telecopy, upon telephone confirmation of receipt thereof, as follows:

If to the Buyer:

Horizon Credit II LLC
c/o Horizon Technology Finance Corporation
312 Farmington Avenue
Farmington, CT 06032
Attn: Jay Bombara
E-mail: jay@horizontechfinance.com
Fax No.: 860-676-8655

with copies to:

Dickstein Shapiro LLP
One Stamford Plaza
263 Tresser Boulevard, Suite 1400
Stamford, CT 06901-3271
Attn: Evan S. Seideman, Esq.
E-mail: seidemane@dicksteinshapiro.com
Fax No.: 203-547-7686

If to the Originator or Servicer:

Horizon Technology Finance Corporation
312 Farmington Avenue
Farmington, CT 06032
Attn: Jay Bombara
E-mail: jay@horizontechfinance.com
Fax No.: 860-676-8655

with copies to:

Dickstein Shapiro LLP
One Stamford Plaza
263 Tresser Boulevard, Suite 1400
Stamford, CT 06901-3271
Attn: Evan S. Seideman, Esq.
E-mail: seidemane@dicksteinshapiro.com
Fax No.: 203-547-7686

If to the Sub-Servicer:

Horizon Technology Finance Management LLC
312 Farmington Avenue
Farmington, CT 06032
Attn: Jay Bombara
E-mail: jay@horizontechfinance.com
Fax No.: 860-676-8655

with copies to:

Dickstein Shapiro LLP
One Stamford Plaza
263 Tresser Boulevard, Suite 1400
Stamford, CT 06901-3271
Attn: Evan S. Seideman, Esq.
E-mail: seidemane@dicksteinshapiro.com
Fax No.: 203-547-7686

If to the Collateral Custodian:

U.S. Bank National Association
1133 Rankin Street, Suite 100
St. Paul, MN 55116
Attn: Account Management - Horizon Credit II
E-mail:
Fax No.: (651) 695-6101

If to the Backup Servicer:

U.S. Bank Corporate Trust Services
Backup Servicing Account Manager
60 Livingston Ave
St Paul MN 55107-2292
Attn: Horizon Credit II
E-mail: Deborah.Franco@usbank.com
Fax No.: (651) 466-5032

If to the Agent: Key Equipment Finance Inc.
Specialty Finance and Syndications
1000 McCaslin Blvd.
Superior, CO 80027
Attn: Richard Andersen
Fax No. 216-370-9166

with copies to: Key Equipment Finance Inc.
120 Vantis, Suite 300
Aliso Viejo, CA. 92656
Attn: Rian Emmett
Fax No. (216) 357-6708

Any of the Buyer, the Originator, the Servicer, the Collateral Custodian, the Backup Servicer and the Agent may change the address or telecopy number at which it is to receive notices hereunder, by notice in writing in the foregoing manner given to each other party to this Agreement. Any such notices shall be deemed to be effective with respect to any party hereto upon the receipt of such notice or telephone confirmation thereof by such party, as applicable.

Section 11.05. Severability of Provisions.

If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be held invalid for any reason whatsoever, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions or terms of this Agreement.

Section 11.06. No Partnership.

Nothing herein contained shall be deemed or construed to create any partnership or joint venture between the parties hereto.

Section 11.07. Counterparts.

This Agreement may be executed in one or more counterparts and by the different parties hereto on separate counterparts (including by fax or other electronic means), each of which, when so executed, shall be deemed to be an original and such counterparts, together, shall constitute one and the same Agreement.

Section 11.08. Successors and Assigns.

This Agreement shall inure to the benefit of and be binding upon the Buyer, the Originator, the Servicer, the Collateral Custodian, the Backup Servicer and the Agent, and their respective successors and permitted assigns.

Section 11.09. Headings.

The headings of the various Sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be part of this Agreement.

Section 11.10. Non-Petition Agreement.

Notwithstanding any prior termination of any Loan Document, the Originator, the Servicer, the Collateral Custodian and the Backup Servicer, each severally and not jointly, covenants that it shall not, prior to the date which is one year and one day, or, if longer, the applicable preference period then in effect, after the termination of this Agreement pursuant to Section 10.01, acquiesce, petition or otherwise, directly or indirectly, invoke or cause the Buyer to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Buyer under any Bankruptcy Law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Buyer or any substantial part of their respective property or ordering the winding up or liquidation of the affairs of the Buyer.

Section 11.11. Due Diligence.

The Originator acknowledges that the Agent and the Lender Group may make Advances and may enter into transactions based solely upon the information provided by the Originator to the Agent and the Lender Group in the Note Receivables Schedules and the representations, warranties and covenants contained herein, and that the Agent, at its option, has the right prior to any such Advance to conduct a partial or complete due diligence review on some or all of the Transferred Note Receivables securing such Advance, including, without limitation, re-generating the information used to originate each such Transferred Note Receivables. The Agent may underwrite such Transferred Note Receivables itself or engage a mutually agreed upon third party underwriter to perform such underwriting. The Originator agrees to cooperate with the Agent and any third party underwriter in connection with such underwriting, including, but not limited to, providing the Agent and any third party underwriter with access to any and all documents, records, agreements, instruments or information relating to such Transferred Notes Receivables in the possession, or under the control, of the Servicer. The Originator also shall make available to the Agent and the Buyer a knowledgeable financial or accounting officer for the purpose of answering questions respecting the Transferred Note Receivables and the related Note Receivable Documents. The Agent agrees (on behalf of itself and its Affiliates, directors, officers, employees and representatives) to use reasonable precaution to keep confidential, in accordance with its customary procedures for handling confidential information and in accordance with safe and sound practices, and not to disclose to any third party, any non-public information supplied to it or otherwise obtained by it hereunder with respect to the Originator or any of its Affiliates; *provided*, however, that nothing herein shall prohibit the disclosure of any such information to the extent required by statute, rule, regulation or judicial process; *provided*, *further* that, unless specifically prohibited by applicable law or court order, the Agent shall, prior to disclosure thereof, notify the Originator of any request for disclosure of any such non-public information. The Agent further agrees not to use any such non-public information for any purpose unrelated to this Agreement and that the Agent shall not disclose such non public information to any third party underwriter without obtaining a written agreement from such third party underwriter to comply with the confidentiality provisions of this Section 11.11.

Section 11.12. No Reliance.

Each of the Originator and the Buyer hereby acknowledges that it has not relied on the Agent or any member of the Lender Group or any of their officers, directors, employees, agents and "control persons" as such term is used under the Securities Act and under the Exchange Act, for any tax, accounting, legal or other professional advice in connection with the transactions contemplated by the Loan Documents, that each of the Originator and the Buyer has retained and been advised by such tax, accounting, legal and other professionals as it has deemed necessary in connection with the transactions contemplated by the Loan Documents and that neither the Agent nor any member of the Lender Group makes any representation or warranty, and that neither the Agent nor any member of the Lender Group shall have any liability with respect to, the tax, accounting or legal treatment or implications relating to the transactions contemplated by the Loan Documents.

Section 11.13. Conflicts.

Notwithstanding anything contained in the Loan Documents to the contrary, (a) in the event of the conflict between the terms of this Agreement and the Loan Agreement, the terms of the Loan Agreement shall control, and (b) in the event of the conflict between the terms of this Agreement and any other Loan Document (other than the Loan Agreement), the terms of this Agreement shall control.

Section 11.14. No Agency.

Nothing contained herein or in the Loan Documents shall be construed to create an agency or fiduciary relationship between the Agent, any member of the Lender Group or any of their Affiliates and the Buyer, the Originator or the Servicer. None of the Agent, any member of the Lender Group, or any of their Affiliates shall be liable for any acts or actions effected in connection with any sale of the Transferred Notes Receivables by the Buyer, the Originator or the Servicer.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused their names to be signed by their respective officers thereunto duly authorized, as of the day and year first above written, to this Agreement.

HORIZON CREDIT II LLC,
as the Buyer

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

HORIZON TECHNOLOGY FINANCE CORPORATION,
as the Originator and the Servicer

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC,
as the Sub-Servicer

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

U.S. BANK NATIONAL ASSOCIATION,
as the Collateral Custodian

By: /s/ Michelle Hoff
Name: Michelle Hoff
Title: Assistant Vice President

U.S. BANK NATIONAL ASSOCIATION,
as the Backup Servicer

By: /s/ Deborah J Franco
Name: Deborah J Franco
Title: Vice President

SIGNATURE PAGE TO
AMENDED AND RESTATED SALE AND SERVICNG AGREEMENT

KEY EQUIPMENT FINANCE INC.,
as the Agent

By: /s/ Richard Andersen
Name: Richard Andersen
Title: VP

SIGNATURE PAGE TO
AMENDED AND RESTATED SALE AND SERVICNG AGREEMENT

EXHIBIT 10.16

EXECUTION VERSION

AGREEMENT REGARDING LOAN ASSIGNMENT AND RELATED MATTERS
[Horizon Credit II LLC]

THIS AGREEMENT REGARDING LOAN ASSIGNMENT AND RELATED MATTERS ("Agreement") is entered into as of November 4, 2013 (the "Effective Date"), by and among (i) HORIZON CREDIT II LLC, a Delaware limited liability company ("Borrower"), (ii) WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company ("WFCF"), as agent (in such capacity, "Resigning Agent") and as sole "Lender" (in such capacity, "Selling Lender") under the Loan Agreement (as defined below), and (vi) KEY EQUIPMENT FINANCE INC., a Michigan corporation ("Key") as successor Agent under the Loan Agreement (in such capacity, "Successor Agent") and as purchaser of Selling Lender's interests under the Loan Agreement (in such capacity, the "Purchasing Lender"), with reference to the following:

RECITALS

A. Borrower, Resigning Agent and Selling Lender are parties to that certain Loan and Security Agreement dated as of July 14, 2011, as amended to date (the "Loan Agreement"), pursuant to which Resigning Agent and Selling Lender provided financial accommodations to or for the direct and indirect benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in the Loan Agreement shall be applied herein as defined or established therein.

B. Purchasing Lender desires to acquire from Selling Lender, and Selling Lender desires to sell to Purchasing Lender, all of Selling Lender's rights and obligations in its capacity as Lender under the Loan Agreement and the other Loan Documents, and in connection and concurrent therewith, among other things, (i) Resigning Agent intends to resign from its position as "Agent" under the Loan Agreement and the other Loan Documents and (ii) Purchasing Lender intends to appoint Successor Agent as the successor "Agent" under the Loan Agreement and the other Loan Documents.

C. The parties hereto are entering into this Agreement to set forth their agreements with respect to the foregoing and certain other matters as more fully set forth herein, in all cases subject to the terms and conditions hereof.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged:

1. Assignment of Loan.

(a) In consideration of Purchasing Lender's payment to Selling Lender and Resigning Agent of the amounts set forth on Schedule 1 to this Agreement (collectively, the "Purchase Price Amount"), Selling Lender hereby sells and assigns to Purchasing Lender, and Purchasing Lender hereby purchases and assumes from Selling Lender, Selling Lender's rights and obligations in its capacity as Lender under the Loan Agreement and the other Loan Documents, which consist of 100% of the existing Advances and Commitments under the Loan Agreement. For the avoidance of doubt, this includes the Commitment of WFCF as the Swing Line Lender. The transaction described in this **Section 1(a)** will be referred to as the "Loan Assignment," and the rights and obligations so assigned shall be referred to as the "Assigned Interest."

(b) By its execution hereof, Borrower expressly consents to the Loan Assignment. Resigning Agent and Successor Agent confirm that the assignment fee in the amount of $XXXX required to be paid under Section 14.1(a) of the Loan Agreement has been waived in connection with the Loan Assignment.

(c) As of the Effective Date, (i) Purchasing Lender shall be a party to the Loan Agreement and have the rights and obligations of a Lender under the Loan Agreement and (ii) Selling Lender shall relinquish its rights (except those surviving the termination of the Commitments and payment in full of the Obligations and those that are preserved hereunder) and be released from its obligations under the Loan Documents.

2. Resignation of Resigning Agent. Notwithstanding the method of resignation of the "Agent" under the Loan Agreement that is set forth in Section 16.9 of the Loan Agreement, WFCF hereby resigns as "Agent" under the Loan Agreement effective as of the effectiveness of this Agreement, and the parties hereto consent to such resignation.

3. Appointment of Successor Agent; Certain Matters Regarding Security Interests and Letters of Loan.

(a) Notwithstanding the method of appointment of a successor Agent that is set forth in Section 16.9 of the Loan Agreement, effective immediately upon the effectiveness of this Agreement, (i) Purchasing Lender, as holder of 100% of the Advances and Commitments, hereby appoints Key as Successor Agent, (ii) Key hereby accepts such appointment and assumes all of the obligations and duties of "Agent" under the Loan Agreement and the other Loan Documents and (iii) Borrower hereby consents to such appointment. In furtherance of the foregoing, Purchasing Lender authorizes Successor Agent to take such action as administrative agent on its behalf and to exercise such powers under the Loan Documents as are delegated to "Agent" by the terms thereof, together with such powers as are reasonably incidental thereto.

(b) By virtue of the resignation of Resigning Agent and the appointment of Successor Agent, all parties hereto acknowledge that (i) Successor Agent has succeeded to, and is hereby vested with, all of the rights, powers, privileges, duties and interests of Resigning Agent under any Loan Documents in its capacity as "Agent" (collectively, the "Agency Rights"), including with respect to all of Resigning Agent's rights and interests as a secured party with respect to any Collateral pledged to it pursuant to any Loan Documents and as the holder of any Liens therein (provided, that the Fee Letter between Resigning Agent and Borrower shall be deemed terminated upon the Effective Date, and Successor Agent shall not succeed to Resigning Agent's rights under the Fee Letter), (ii) each reference to "Agent" in the Loan Agreement and any of the other Loan Documents shall be deemed to be a reference to Successor Agent, in its capacity as "Agent" thereunder, and (iii) WFCF is hereby discharged from its duties and obligations as "Agent" under the Loan Agreement and the other Loan Documents as of the effectiveness of this Agreement.

(c) In connection with the foregoing, Resigning Agent hereby agrees to take all steps reasonably requested by Successor Agent to assist Successor Agent in its efforts to become the successor secured party with respect to all Liens currently existing in favor of Resigning Agent, without any interruption in the perfection or priority currently enjoyed by Resigning Agent. Successor Agent shall be responsible for preparing and filing amendments to any existing UCC-1 Financing Statements to reflect that Successor Agent is now the "Secured Party" thereunder.

(d) Without limiting the foregoing, it is acknowledged and agreed that Successor Agent shall succeed Resigning Agent with respect to the Agency Rights under each of the following agreements:

(i) Sale and Servicing Agreement dated as of July 14, 2011, by and among Borrower, Horizon (as Originator), Horizon Management (as Servicer), U.S. Bank National Association (as Collateral Custodian), and Resigning Agent.

(ii) the following cash management documents (collectively, the "Blocked Account Agreements"):

(A) Restricted Account Agreement (Account Restricted Immediately – Standing Wire Transfers), dated as of July 12, 2011, by and among Borrower, Resigning Agent and Wells Fargo Bank, National Association ("WFB"), with respect to Account No. XXXXXXXX maintained by Borrower with WFB; and

(B) Restricted Account Agreement (Account Restricted after Instructions) , dated as of July 12, 2011, by and among Borrower, Resigning Agent and WFB, with respect to Account Nos. XXXXXXXX and XXXXXXXX maintained by Borrower with WFB.

(iii) Control Agreement among Borrower, Resigning Agent, Morgan Stanley Smith Barney LLC (as Introducing Broker), and Morgan Stanley & Co. LLC (as Securities Intermediary), with respect to Account No. XXXXXXX maintained by Borrower with Morgan Stanley & Co. LLC.

(iv) Collateral Access Agreement dated as of July 14, 2011, by and among Pro-Park Group LLC (as Landlord), Resigning Agent, Borrower, Horizon (as Originator), and Horizon Management (as Servicer and Tenant), with respect to the premise located at 312 Farmington Avenue, Farmington Connecticut 06032.

Promptly after the Effective Date hereof, Successor Agent shall (A) send written notice to each of the parties to the agreements described in this **Section 3** (with a copy to Resigning Agent and to any other persons entitled to notice under any such agreement) regarding the succession of Successor Agent to the Agency Rights under such agreement and providing to such parties any necessary notice or other information (including payment instructions) that may be required under any such agreement, and (B) deliver to WFB pursuant to Section 19 of the Blocked Account Agreements, Successor Agent's binding written agreement to assume all of Resigning Agent's obligations under each of the Blocked Account Agreements in order to release Resigning Agent from its obligations under the Blocked Account Agreements.

(e) The Loan Assignment shall be deemed to have occurred simultaneously with the transfer of the Agency Rights to Successor Agent, and no agency relationship shall exist or have been created between Purchasing Lender and Resigning Agent.

(f) The Purchase Price Amount has been calculated assuming that the proceeds of all checks or similar instruments for the payment of money (collectively, "Checks") that have been received by Resigning Agent and credited to the Borrower's account with Resigning Agent are good collected funds. For the avoidance of doubt, Successor Agent has assumed and shall be responsible for all claims under the Blocked Account Agreements arising as a result of any nonpayment, claim, refund, or chargeback of any Check (it being understood between Successor Agent and Borrower that the amount of any such payment made by Successor Agent may, at the Successor Agent's option, constitute an Advance made by Purchasing Lender to Borrower under the Loan Agreement and that the provisions of the Loan Agreement shall govern Borrower's obligation to indemnify Successor Agent for costs and expenses generally).

4. Certain Acknowledgments of Selling Lender and Resigning Agent. The Selling Lender and Resigning Agent hereby acknowledge and agree that, as a result of the consummation of the transactions contemplated hereby, the Selling Lender has assigned to Purchasing Lender all of its rights and obligations under the Loan Agreement and the other Loan Documents, and Successor Agent has succeeded to all the rights of Resigning Agent under the Loan Documents. Accordingly, upon the effectiveness of this Agreement, the Selling Lender and Resigning Agent acknowledge and agree that Borrower has no further obligations to Resigning Agent or Selling Lender under the Loan Agreement and the other Loan Documents; provided, that notwithstanding the foregoing or any future termination of the Loan Documents, Borrower shall remain obligated to Resigning Agent and the Selling Lender with respect to (a) any indemnification obligations under the Loan Documents and any other provisions contained in the Loan Documents which by their express terms (as in effect immediately prior to the Effective Date) survive the termination of the Loan Documents and (b) any of their obligations arising hereunder. Without limiting Resigning Agent's and Selling Lender's claims against Borrower as to claims described in the proviso in the preceding sentence, the Purchase Price Amount represents the entire amount of outstanding Obligation owed to the Selling Lender and Resigning Agent under the terms of the Loan Agreement as of the Effective Date.

5. Representations, Warranties and Covenants.

(a) Of WFCF. WFCF, in its capacity as Resigning Agent and as Selling Lender:

(i) represents and warrants as of the Effective Date that (A) it has full power and authority, and has taken all actions necessary for it, to execute and deliver this Agreement and to consummate the transactions contemplated hereby, (B) in the case of Selling Lender, it is the legal and beneficial owner of the Assigned Interest and that such Assigned Interest is free and clear of any Lien and other adverse claims created by or through Selling Lender and (C) by executing and delivering this Agreement, the Person executing and delivering this Agreement on behalf of WFCF in the capacities specified above is an authorized signer for WFCF in such capacities and is authorized to execute and deliver this Agreement; and

(ii) in the case of Selling Lender, represents and warrants as of the Effective Date that there are no promissory notes evidencing the Assigned Interest.

Other than the representations and warranties in **clauses (a)(i)** and **(a)(ii)** above, WFCF makes no other representation or warranty, including as to the aggregate amount of the Advances and Commitments, any statements, representations and warranties made in or in connection with any Loan Document or any other document or information furnished pursuant thereto, the execution, legality, validity, enforceability or genuineness of any Loan Document or any document or information provided in connection therewith, the existence, nature or value of any Collateral or the perfection or priority of any Liens on any Collateral, or the financial condition of Borrower or the performance or nonperformance by Borrower of any obligation under any Loan Document or any document provided in connection therewith, it being acknowledged and agreed by Key in its capacity as Successor Agent and Purchasing Lender that the Assigned Interests and the Agency Rights are transferred to Key on an "as is, where is" basis and WFCF disclaims all warranties, representations and guarantees, whether express or implied, other than those expressly contained in **clauses (a)(i)** and **(a)(ii)** above.

(b) Of Key. Key, in its capacity as Successor Agent and as Purchasing Lender:

(i) represents and warrants as of the Effective Date that (A) it has full power and authority, and has taken all actions necessary for it, to execute and deliver this Agreement and to consummate the transactions contemplated hereby, (B) this Agreement is the legal, valid and binding obligation of Successor Agent and Purchasing Lender, enforceable against such Persons in accordance with its terms, (C) by executing and delivering this Agreement, the Person executing and delivering this Agreement on behalf of Key in the capacities specified above is an authorized signer for Key in such capacities and is authorized to execute and deliver this Agreement, (D) it (1) is a sophisticated Person with respect to the matters that are the subject of this Agreement (including with respect to the acquisition of the Assigned Interest and the assumption of the Agency Rights), (2) has adequate information concerning the business and financial condition of Borrower to make an informed decision regarding the Loan Assignment and the assumption of the Agency Rights and (3) has independently and without reliance upon Resigning Agent or Selling Lender, and based on such information as it has deemed appropriate, made its own analysis and decision to enter into this Agreement, and (E) no broker, finder or other Person acting under the authority of Successor Agent or Purchasing Lender is entitled to any broker's commission or other fee in connection with the transactions contemplated hereby for which Resigning Agent or Selling Lender could be responsible;

(ii) acknowledges that neither Resigning Agent nor Selling Lender has given it any investment advice, credit information or opinion on whether the acquisition of the Assigned Interest or the assumption of the Agency Rights is prudent;

(iii) acknowledges that it has not relied and will not rely on Resigning Agent or Selling Lender to furnish or make available any documents or other information regarding the credit, affairs, financial condition or business of Borrower, or any other matter concerning Borrower;

(iv) without in any way limiting any disclaimers or any similar provision hereof, acknowledges that Resigning Agent's execution of and/or delivery of any documents transferring any Lien or claim in any Collateral, assigning any Lien or transferring the Agency Rights, in each case as provided for herein or contemplated hereby, is made without recourse, representation, warranty or other assurance of any kind by Resigning Agent as to Resigning Agent's rights in any Collateral (including perfection or priority), the condition or value of any Collateral, or any other matter;

(v) confirms it has received such documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and shall continue to make its own credit decisions in taking or not taking any action under any Loan Document independently and without reliance upon Resigning Agent or Selling Lender and based on such documents and information as it shall deem appropriate at the time;

(vi) acknowledges and agrees that, as Agent or a Lender, as applicable, it may receive material non-public information and confidential information concerning Borrower and its Affiliates and their Stock and agrees with Borrower to comply with Section 17.9 of the Loan Agreement in respect thereof; and

(vii) specifies as its address for notices the address set forth on **Exhibit B** hereto.

(c) Of Borrower:

(i) Borrower represents and warrants as of the Effective Date that the execution, delivery and performance by Borrower of this Agreement (A) are within its power; (B) have been duly authorized by all necessary corporate or limited liability company action, as applicable; (C) do not contravene any provision of its charter, bylaws or operating agreement, as applicable; (D) do not violate any law or regulation, or any order or decree of any court or Governmental Authority; (E) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which it is a party or by which it or any of its property is bound; and do not require the consent or approval of any Governmental Authority or any other Person.

(ii) Borrower represents and warrants as of the Effective Date that this Agreement has been duly executed and delivered by such Person and constitutes a legal, valid and binding obligation of such Person enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

6. Conditions to Effectiveness. This Agreement shall be effective at such time at which the following conditions have been satisfied (provided, that to the extent any such condition is for the benefit of WFCF, WFCF may waive such condition in writing, and to the extent any such conditions is for the benefit of Key, Key may waive such condition in writing):

(a) receipt by Resigning Agent, Selling Lender, Successor Agent and Purchasing Lender of this Agreement, duly executed and delivered by Resigning Agent, Selling Lender, Successor Agent, Purchasing Lender, and Borrower;

(b) receipt by Selling Lender of the Purchase Price Amount by wire transfer of immediately available funds in accordance with the instructions specified in **Schedule 1** hereto, no later than 2:00 p.m. (New York time) on the Effective Date; and

(c) all representations and warranties contained in **Section 5** hereof are true and correct in all material respects as of the Effective Date.

7. Notices. All notices, demands, requests, directions and other communications required or expressly authorized to be made by this Agreement shall be given in writing in the manner contemplated by, and addressed to the relevant Person as provided in, Section 12 of the Loan Agreement; provided, that notices to WFCF in any capacity shall be sent to the notice address for WFCF set forth in the Loan Agreement as in effect immediately before the effectiveness of this Agreement and notices to Key in any capacity shall be sent to the notice address for Key provided for in the Loan Agreement as in effect after the effectiveness of this Agreement.

8. Certain Amendments. The portion of Section 12 to the Loan Agreement that provides the notice address for Agent is hereby deleted in its entirety and replaced with the notice information on **Exhibit A** hereto.

9. Reimbursement of Expenses Etc. of Resigning Agent and Selling Lender. Borrower shall, and if Borrower does not, for any reason, Successor Agent shall, in each case, promptly upon written request from WFCF, reimburse WFCF for all out-of-pocket costs and expenses incurred by WFCF as Resigning Agent or Selling Lender in connection with the matters referred to in this Agreement or required to be performed hereunder (it being understood between Successor Agent and Borrower that the amount of any such payment made by Successor Agent may, at Successor Agent's option, constitute an Advance made by Purchasing Lender to Borrower under the Loan Agreement and that the provisions of the Loan Agreement shall govern Borrower's obligation to indemnify Successor Agent for costs and expenses generally).

10. Indemnification. Successor Agent and Purchasing Lender shall indemnify, defend, and hold Resigning Agent, Selling Lender and their Affiliates, officers, directors, employees, attorneys, consultants and agents (collectively, "Resigning Agent Indemnitees") harmless from and against any liability, claim, cost, loss, judgment, damage or expense (including reasonable attorneys' fees and expenses) (the "Indemnified Liabilities") that any Resigning Agent Indemnitee incurs or suffers as a result of or arising out of (a) a breach of any of Successor Agent's or Purchasing Lender's representations, warranties, covenants or agreements in this Agreement or (b) any breach of any obligations or covenants by Successor Agent or Purchasing Lender or any of their successors or assigns under any of the Loan Documents after the Effective Date or any other matter relating to actions or omissions of Successor Agent or Purchasing Lender or any of their successors or assigns that occur after the Effective Date.

11. Release. Each of Borrower, Horizon Technology Finance Corporation and Horizon Technology Finance Management LLC (collectively, the "Horizon Parties" and each, a "Horizon Party") hereby acknowledges and agrees that: (a) it has no claim or cause of action against Resigning Agent or Selling Lender (or any of their respective successor and assigns, Affiliates, officers, directors, employees, attorneys, consultants or agents) in connection with the Loan Documents and (b) Resigning Agent and Selling Lender have heretofore properly performed and satisfied in a timely manner all of their obligations under the Loan Agreement and the other Loan Documents that are required to have been performed on or prior to the date hereof. Notwithstanding the foregoing, Resigning Agent and Selling Lender wish (and Borrower agrees) to eliminate any possibility that Borrower would assert any claim in contravention of the foregoing. In furtherance of the foregoing, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the Horizon Parties (for itself and its successors, assigns, heirs and representatives) (collectively, the "Releasors") does hereby fully, finally, unconditionally and irrevocably release and forever discharge Resigning Agent, Selling Lender and each of their respective successor and assigns (including, for the avoidance of doubt, Purchasing Lender and Successor Agent), Affiliates, officers, directors, employees, attorneys, consultants and agents (collectively, the "Released Parties") from any and all debts, claims, obligations, damages, costs, attorneys' fees, suits, demands, liabilities, actions, proceedings and causes of action, in each case, whether known or unknown, contingent or fixed, direct or indirect, and of whatever nature or description, and whether in law or in equity, under contract, tort, statute or otherwise, which any Releasor has heretofore had or now or hereafter can, shall or may have against any Released Party by reason of any act, omission or thing whatsoever done or omitted to be done on or prior to the Effective Date directly arising out of, connected with or related to the Loan Agreement or any other Loan Document, or any act, event or transaction related or attendant thereto, or the agreements of Resigning Agent or Selling Lender contained therein, or the possession, use, operation or control of any of the assets of Borrower or any other Horizon Party, or the making of any Advances, or the management of such Advances or the Collateral. Each Releasor waives any and all claims, rights and benefits it may have under any law of any jurisdiction that would render ineffective a release made by a creditor of claims that the creditor does not know or suspect to exist in its favor at the time of executing the release and that, if known by it, would have materially affected its settlement with the applicable debtor. Each Releasor acknowledges that (i) it has been represented by independent legal counsel of its own choice throughout all of the negotiation that preceded the execution of this Agreement and that it has executed this Agreement after receiving the advice of such independent legal counsel, and (ii) such Person and its respective counsel have had an adequate opportunity to make whatever investigation or inquiry they deem necessary or desirable in connection with the release contained in this **Section 11**.

12. Miscellaneous.

(a) Loan Document. This Agreement shall be considered one of the Loan Documents under the Loan Agreement.

(b) Headings. The various headings of this Agreement are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement or any provisions hereof.

(c) Counterparts. This Agreement may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or email transmission shall be effective as delivery of a manually executed counterpart thereof.

(d) Interpretation. No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party's having or being deemed to have structured, drafted or dictated such provision.

(e) Further Assurances. Each party executing this Agreement agrees that upon the reasonable request of any other party hereto, it shall (i) in the case of expenses incurred by Resigning Agent, at Successor Agent's expense (in accordance with **Section 9** hereof) and (ii) in all other cases, at Borrower's expense, duly execute and deliver, or cause to be duly executed and delivered, to such other party such further instruments and do and cause to be done such further acts as may be necessary or proper to carry out more effectively the provisions and purposes of this Agreement.

(f) Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to the subject matter hereof, and supersedes any prior written or oral agreements, writings, communications or understandings of the parties with respect thereto.

(g) Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflict of laws.

(h) Waiver of Jury Trial. The parties hereto, to the extent permitted by law, waive all right to trial by jury in any action, suit, or proceeding arising out of, in connection with or relating to, this Agreement and any other transaction contemplated hereby. This waiver applies to any action, suit or proceeding whether sounding in tort, contract or otherwise.

IN WITNESS WHEREOF, this Agreement Regarding Loan Assignment and Related Matters has been duly executed as of the date first set forth above.

[SIGNATURE PAGES FOLLOW]

"**Resigning Agent**" and "**Selling Lender**"

WELLS FARGO CAPITAL FINANCE, LLC

By: /s/ Randy Allenmang
Name: Randy Allemang
Title: Vice President

"**Successor Agent**" and "**Purchasing Lender**"

KEY EQUIPMENT FINANCE INC.

By: /s/ Richard S. Andersen
Name: Richard S. Andersen
Title: Vice President

"**Borrower**"

HORIZON CREDIT II LLC

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

"**Horizon Party**"

HORIZON TECHNOLOGY FINANCE CORPORATION

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

"**Horizon Party**"

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

Exhibit 21

LIST OF SUBSIDIARIES OF
HORIZON TECHNOLOGY FINANCE CORPORATION
AS OF 12/31/13

Compass Horizon Funding Company LLC — Delaware Limited Liability Company
Horizon Credit I LLC — Delaware Limited Liability Company
Horizon Credit II LLC — Delaware Limited Liability Company
Horizon Credit III LLC — Delaware Limited Liability Company
Longview SBIC GP LLC — Delaware Limited Liability Company
Longview SBIC LP — Delaware Limited Partnership
Horizon Funding 2013-1 LLC — Delaware Limited Liability Company
Horizon Funding Trust 2013-1 – Delaware Trust

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 Chairman of the Board and Chief Executive Officer of Horizon Technology Finance Corporation and Subsidiaries, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 11, 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 Annual Report on Form 10-K 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: March 11, 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 Annual Report on Form 10-K of Horizon Technology Finance Corporation and Subsidiaries (the "Company") for the annual period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert D. Pomeroy, Jr., as Chairman of the Board and Chief Executive Officer of the Registrant hereby certify, to the best of my knowledge that:

(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 Registrant.

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

Date: March 11, 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 Annual Report on Form 10-K of Horizon Technology Finance Corporation and Subsidiaries (the "Company") for the annual period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher M. Mathieu, as Chief Financial Officer of the Registrant hereby certify, to the best of my knowledge that:

(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 Registrant.

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

Date: March 11, 2014