

Horizon Technology Finance Corp
Form N-2/A
August 10, 2018

As filed with the Securities and Exchange Commission on August 10, 2018

Securities Act Registration No. 333-225698

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form N-2

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
xPre-Effective Amendment No. 1
oPost-Effective Amendment No.**

Horizon Technology Finance Corporation

(Exact name of Registrant as specified in its charter)

**312 Farmington Avenue
Farmington, Connecticut 06032**

(Address of Principal Executive Offices)

(860) 676-8654

(Registrant's Telephone Number, Including Area Code)

**Robert D. Pomeroy, Jr.
Chief Executive Officer
Horizon Technology Finance Corporation
312 Farmington Avenue
Farmington, Connecticut 06032**

(Name and Address of Agent for Service)

Copies to:

**Thomas Friedmann
David Harris
Dechert LLP
One International Place
100 Oliver Street
Boston, MA 02110
(617) 728-7120
(617) 275-8389 Facsimile**

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

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

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

Thomas FriedmannDavid HarrisDechert LLP One International Place100 Oliver StreetBoston, MA 02110 (617) 728

the following box.

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

☐ When declared effective pursuant to section 8(c)

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price ⁽¹⁾	Amount of Registration Fee ⁽⁷⁾
Common Stock, \$0.001 par value per share ⁽²⁾				
Preferred Stock ⁽²⁾				
Subscription Rights ⁽³⁾				
Debt Securities ⁽⁴⁾				
Warrants ⁽⁵⁾				
Total			\$250,000,000 ⁽⁶⁾	\$4,653.19 ⁽⁷⁾⁽⁸⁾

Estimated pursuant to Rule 457 solely for the purpose of calculating the registration fee. Pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, which permits the registration fee to be calculated on the (1) basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.

Subject to Note 6 below, there is being registered hereunder an indeterminate amount of common stock or preferred stock as may be sold, from time to time. This includes such indeterminate number of shares of common (2) stock as may, from time to time, be issued upon conversion or exchange of other securities registered hereunder, to the extent any such securities are, by their terms, convertible or exchangeable for common stock.

Subject to Note 6 below, there is being registered hereunder an indeterminate number of subscription rights as may (3) be sold from time to time, representing rights to purchase common stock.

Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, (4) then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$250,000,000.

Subject to Note 6 below, there is being registered hereunder an indeterminate number of warrants as may be sold, (5) from time to time, representing rights to purchase common stock, preferred stock or debt securities.

In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration (6) statement exceed \$250,000,000.

(7) Pursuant to Rule 415(a)(6) under the Securities Act of 1933, this registration statement covers \$212,625,000 of unsold securities that had previously been registered for primary offerings under the Registrant's registration statement on Form N-2, initially filed with the Securities and Exchange Commission on February 5, 2015 (No. 333-201886) (the "Prior Registration Statement"), and that are being carried forward to this registration statement. The Prior Registration Statement registered securities for a maximum aggregate offering price of \$250,000,000. The registrant sold \$37,375,000 of securities pursuant to the Prior Registration Statement, leaving a balance of unsold securities with an aggregate offering price of \$212,625,000 on the Prior Registration Statement. In connection with the registration of such securities, the registrant paid a registration fee of \$24,513.75 covering such

unsold securities, which registration fee is being carried forward to this registration statement and will continue to be applied to such unsold securities pursuant to Rule 415(a)(6). The registrant has paid an additional \$4,653.19 to register an additional \$37,375,000 in securities.

(8)

Previously paid.

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

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

PRELIMINARY PROSPECTUS

Subject to completion, dated August 10, 2018

\$250,000,000

Horizon Technology Finance Corporation

Common Stock
Preferred Stock
Subscription Rights
Debt Securities
Warrants

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

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$250,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, which we refer to, collectively, as the "securities".

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

Our common stock is listed on The Nasdaq Global Select Market (Nasdaq) under the symbol HRZN . In addition, our 6.25% Notes due 2022 trade on the New York Stock Exchange under the ticker symbol HTFA . On August 9, 2018, the last reported sale price of a share of our common stock on Nasdaq was \$11.39. The net asset value per share of our common stock at June 30, 2018 (the last date prior to the date of this prospectus on which we determined net asset value) was \$11.60.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this public offering. See Risk Factors Risks related to our offering under this prospectus Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, which is separate and distinct from the risk that our net asset value per share may decline on page 42 for more information.

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

Investing in our securities is highly speculative and involves a high degree of risk, and you could lose your entire investment if any of the risks occur. For more information regarding these risks, including the risk of leverage, please see Risk Factors beginning on page 17. The individual securities in which we invest will not be rated by any rating agency. If they were, they would be rated as below investment grade or junk. Indebtedness of below investment grade quality has predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

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

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

The date of this prospectus is , 2018

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

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ABOUT THIS PROSPECTUS

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

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PROSPECTUS SUMMARY

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

Except where the context suggests otherwise, the terms we, us, our and Company refer to our predecessor Compass Horizon Funding Company, LLC and its consolidated subsidiary prior to our initial public offering, or IPO, and to Horizon Technology Finance Corporation and its consolidated subsidiaries after the IPO. The terms our Advisor and our Administrator refer to Horizon Technology Finance Management, LLC, a Delaware limited liability company, and, where the context requires, Horizon Technology Finance, LLC, or HTF, our Advisor's predecessor.

Our company

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries, which we refer to collectively as our Target Industries. Our investment objective is to maximize our investment portfolio's total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments, which we refer to as Venture Loans, to venture capital backed companies in our Target Industries, which we refer to as Venture Lending. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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 BDC under 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 do, finance a portion of 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, after such borrowing equals at least 200% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

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

Our advisor

Our investment activities are managed by our Advisor, and we expect to continue to benefit from our Advisor's ability to identify attractive investment opportunities, conduct diligence on and value prospective investments, negotiate investments and manage our 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 of 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

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broad network of contacts within the venture capital and private equity community. This network of contacts provides a principal source of investment opportunities.

Our Advisor is led by five senior managers including Robert D. Pomeroy, Jr., our Chief Executive Officer, Gerald A. Michaud, our President, Daniel R. Trolino, 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 Investment 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 and public 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 or unsecured debt 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 principal and have a senior position to equity and unsecured debt 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 debt investments primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.

Enterprise value lending. We and our Advisor take an enterprise value approach to structuring and underwriting loans. 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 lien position against the enterprise value of each 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, success 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 debt investment portfolio returns, in addition to interest and fees, we frequently obtain warrants to purchase the equity of our portfolio companies as additional consideration for making debt investments. 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.

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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 by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. 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. For public companies, our Advisor typically relies on publicly reported quarterly financials.

Use of leverage. We use leverage to increase returns on equity through our credit facility, or the Key Facility, provided by KeyBank National Association, or Key, and our 6.25% notes due 2022, or the 2022 Notes. See 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, the specific terms of which will be described in the particular prospectus supplement relating to that series. See Description of Debt Securities That We May Issue and Description of Preferred Stock That We May Issue for additional information about the debt securities or preferred stock we may issue.

Market opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include communications, networking, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug discovery, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, electronic medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include alternative energy, power management, energy efficiency, green building materials and waste recycling. We refer to all of these companies as technology-related companies because the companies are developing or offering goods and services to businesses and consumers which utilize scientific knowledge, including techniques, skills, methods, devices and processes, to solve problems. We intend, under normal market conditions, to invest at least 80% of the value of our total assets in such companies.

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 debt investment support provided by cash proceeds from equity capital invested by venture capital and private equity firms or access to public equity markets to access capital;
relatively rapid amortization of principal;

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senior ranking to equity and collateralization of debt investments to minimize potential loss of capital; and potential equity appreciation through warrants.

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

is typically less dilutive to the equity holders than additional equity financing;
extends the time period during which a portfolio company can operate before seeking additional equity capital or pursuing a sale transaction or other liquidity event; and
allows portfolio companies to better match cash sources with uses.

Competitive strengths

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

Consistently execute commitments and close transactions. Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed Venture Loans with an aggregate original principal amount over \$1.5 billion to more than 230 companies since operations commenced in 2004.

Robust direct origination capabilities. Our Advisor has significant experience originating Venture Loans in our Target Industries. This experience has given our Advisor a deep knowledge of our Target Industries and an extensive base of transaction sources and references.

Highly experienced and cohesive management team. Our Advisor's senior management team of experienced professionals has been together since our 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.

Well-known brand name. Our Advisor has originated Venture Loans to more than 230 companies in our Target Industries under the Horizon Technology Finance brand.

Our portfolio

From the commencement of operations of our predecessor on March 4, 2008 through June 30, 2018, we funded debt investments to 163 portfolio companies and invested \$1.02 billion in debt investments. As of June 30, 2018, our debt investment portfolio consisted of 33 debt investments with an aggregate fair value of \$203.5 million. As of June 30, 2018, 98.3%, or \$200.0 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. As of June 30, 2018, our net assets were \$133.8 million, and all of our debt investments were secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The debt investments in our portfolio are generally not rated by any rating agency. If the individual debt investments in our portfolio were rated, they would be rated below investment grade. Debt investments that are unrated or rated below investment grade are sometimes referred to as junk bonds and have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

For the six months ended June 30, 2018, our dollar-weighted annualized yield on average debt investments (excluding any yield from warrants, equity, other investments and Horizon Secured Loan Fund I LLC, or HSLFI) was 14.8%. We calculate the dollar-weighted yield on average debt investments for any period as (1) total investment income (excluding income from HSLFI) 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

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period. The dollar-weighted annualized yield on average debt investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

For the six months ended June 30, 2018, our investment portfolio (including any yield from warrants, equity and other investments but excluding any yield from HSLFI) had an overall total yield of 13.5%. We calculate the dollar-weighted yield on average investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of investments outstanding (excluding HSLFI) on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

As of June 30, 2018, our debt investments had a dollar-weighted average term of 47 months from inception and a dollar-weighted average remaining term of 36 months. As of June 30, 2018, substantially all of our debt investments had an original committed principal amount of between \$3 million and \$20 million, repayment terms of between 18 and 60 months and bore current pay interest at annual interest rates of between 9% and 14%.

For the six months ended June 30, 2018, our total return based on market value was (4.8)%. Total return based on market value is calculated as (x) the sum of (i) the closing sales price of our common stock on the last day of the period plus (ii) the aggregate amount of distributions paid per share during the period, less (iii) the closing sales price of our common stock on the first day of the period, divided by (y) the closing sales price of our common stock on the first day of the period.

In addition to our debt investments, as of June 30, 2018, we held warrants to purchase stock, predominantly preferred stock, in 69 portfolio companies, equity positions in eight portfolio companies and success fee arrangements in seven portfolio companies.

Risk factors

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

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 if rated;

We are dependent upon key personnel of our Advisor and our Advisor's ability to hire and retain qualified personnel; We operate in a highly competitive market for investment opportunities, and if we are not able to compete effectively, our business, results of operations and financial condition may be adversely affected and the value of your investment in us could decline;

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

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

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

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

Most of our portfolio companies will need additional capital, which may not be readily available; Economic recessions or downturns could adversely affect our business and that of our portfolio companies which may have an adverse effect on our business, results of operations and financial condition;

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We cannot assure you that the market price of shares of our common stock will not decline following an offering; Subsequent sales in the public market of substantial amounts of our common stock may have an adverse effect on the market price of our common stock;

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

We may invest the net proceeds from an offering in ways with which you may not agree including, without limitation, to reduce debt, to pay Company expenses or to make distributions to stockholders;

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

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

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

There is a risk that investors in our equity securities may not receive distributions or that our distributions may not grow over time;

A portion of distributions paid to you may represent a return of capital (which is the return of your original investment in us, after subtracting sales load, fees and expenses directly or indirectly paid by you) rather than a distribution from earnings or profits, reducing your basis in our stock for U.S. federal income tax purposes, which may result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value;

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, which is separate and distinct from the risk that our net asset value per share may decline;

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

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

The securities in which we invest generally will have no market price and we value them based on estimates. Our valuations are inherently uncertain and may differ materially from the values that would be assessed if a ready market for these securities existed;

Our investments in securities with deferred payment features may represent a higher credit risk than debt investments requiring payments of all principal and accrued interest at regular intervals over the life of the debt investments, as such features increase the risk that we will not receive a portion of the amount due at maturity and may make it difficult for us to identify and address developing problems with borrowers in terms of their ability to repay us;

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

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

If we are unable to comply with the covenants or restrictions in the Key Facility, make payments when due thereunder or make payments pursuant to our 2022 Notes, our business could be materially adversely affected.

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See Risk Factors beginning on page 17 and the other information included in this prospectus for a more detailed discussion of the material risks you should carefully consider before deciding to invest in our securities.

Company information

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

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OFFERINGS

We may offer, from time to time, up to \$250,000,000 of our common stock, preferred stock, subscription rights, debt securities and/or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on terms to be determined at the time of the offering. Any debt securities, preferred stock, warrants and subscription rights offered by means of this prospectus may be convertible or exchangeable into shares of our common stock, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus.

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

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

Use of proceeds

We intend to use the net proceeds from selling our securities to make new investments in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes.

Listing

Our common stock is traded on Nasdaq under the symbol HRZN. Our 2022 Notes trade on the New York Stock Exchange, or NYSE, under the ticker symbol HTFA.

Distributions

We intend to continue to pay monthly distributions to our stockholders out of assets legally available for distribution. Our distributions, if any, will be determined by our Board. Our ability to declare distributions depends on our earnings, our overall financial condition (including our liquidity position), maintenance of RIC status and such other factors as our Board may deem relevant from time to time.

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

Taxation

We have elected to be treated as a RIC. Accordingly, we generally will not incur corporate-level income taxes on any investment company taxable income determined without regard to any deductions for dividends paid and net capital gains that we distribute as dividends for U.S. federal income tax purposes to our stockholders. To maintain RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount generally equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

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Leverage

We borrow funds to make additional investments. We use this practice, which is known as leverage, to attempt to increase returns to our stockholders, but it involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, after such borrowing equals at least 200% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements.

Trading at a discount

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

Dividend Reinvestment Plan

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

Sales of common stock below net asset value

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

Certain anti-takeover provisions

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

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Investment Management Agreement

Under an amended and restated investment agreement, or the Investment Management Agreement, subject to the overall supervision of our Board, our Advisor manages our day-to-day operations and provides investment advisory services to us. For providing these services, our Advisor receives a base management fee from us, paid monthly in arrears, at an annual rate of 2.00% of (i) our gross assets, including any assets acquired with the proceeds of leverage less (ii) assets consisting of cash and cash equivalents.

The Investment Management Agreement also provides that our Advisor may be entitled to an incentive fee under certain circumstances. The incentive fee has two parts, which are independent of each other, with the result that one part may be payable even if the other is not. Under the first part, subject to a Fee Cap and Deferral Mechanism, we pay our Advisor quarterly in arrears 20.00% of Pre-Incentive Fee Net Investment Income which exceeds 1.75% (7.00% annualized) of our net assets at the end of the immediately preceding calendar quarter, subject to a catch-up feature.

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).

The incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income, or the Incentive Fee Look-back Period, includes the relevant calendar quarter and the 11 preceding full calendar quarters. Each quarterly incentive fee payable on Pre-Incentive Fee Net Investment Income is subject to a cap, or the Incentive Fee Cap, and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees, or collectively, the Incentive Fee Cap and Deferral Mechanism. The Incentive Fee Cap is equal to (a) 20.00% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on Pre-Incentive Fee Net Investment Income to the Advisor in that quarter. To the extent that the payment of incentive fees on Pre-Incentive Fee Net Investment Income is limited by the Incentive Fee Cap, the

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payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. We only pay incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. Cumulative Pre-Incentive Fee Net Return during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

Under the second part of the incentive fee, we pay our Advisor at the end of each calendar year 20.00% of our realized capital gains, if any, from October 28, 2010 through the end of that calendar year, computed net of all realized capital losses and all 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 second part of the incentive fee is not subject to any minimum return to stockholders. The Investment Management Agreement may be terminated by either party without penalty by delivering written notice to the other party upon not more than 60 days' written notice. See Investment Management and Administration Agreements Investment Management Agreement.

Administration Agreement

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

Available information

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

TABLE OF CONTENTS**FEES AND EXPENSES**

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

Stockholder Transaction Expenses		
Sales Load (as a percentage of offering price)		% ⁽¹⁾
Offering Expenses (as a percentage of offering price)		% ⁽²⁾
Dividend Reinvestment Plan Fees	None	⁽³⁾
Total Stockholder Transaction Expenses (as a percentage of offering price)	%	
Annual Expenses (as a Percentage of Net Assets Attributable to Common Stock) ⁽⁴⁾		
Base Management Fee	3.64	% ⁽⁵⁾
Incentive Fee Payable Under the Investment Management Agreement	2.32	% ⁽⁶⁾
Interest Payments on Borrowed Funds	4.96	% ⁽⁷⁾
Other Expenses (estimated for the current fiscal year)	2.14	% ⁽⁸⁾
Total Annual Expenses (estimated)	13.06	% ⁽⁵⁾⁽⁹⁾

(1) In the event that securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

(2) In the event that we conduct an offering of any of our securities, a corresponding prospectus supplement will disclose the estimated offering expenses because they will be ultimately borne by the stockholders.

The expenses of the DRIP are included in Other Expenses in the table. For instance, if a participant directs the plan administrator to sell part or all of the shares held by the plan administrator in the participant's account and to remit the proceeds of such sale to the participant, then the plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share trading fee from such proceeds. See Dividend Reinvestment Plan.

(4) Net Assets Attributable to Common Stock is based on our net assets at June 30, 2018.

Our base management fee under the Investment Management Agreement is based on our gross assets, less cash and cash equivalents, which includes assets acquired using leverage, including any leverage incurred under this prospectus, and is payable monthly in arrears. The management fee referenced in the table above is based on our gross assets, less cash and cash equivalents, of \$232 million as of June 30, 2018, including assets to be or will be acquired using leverage over the next twelve months, which management estimates will be in the amount of \$14 million. See Investment Management and Administration Agreements Investment Management Agreement.

(6) Our incentive fee payable under the Investment Management Agreement consists of two parts: The first part, which is payable quarterly in arrears, subject to a Fee Cap and Deferral Mechanism, equals 20.00% of the excess, if any, of our Pre-Incentive Fee Net Investment Income over a 1.75% quarterly (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% 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% quarterly (8.75% annualized). The effect of this catch-up 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. The first part of the incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash.

The second part of the incentive fee equals 20.00% of our Incentive Fee Capital Gains, if any. Incentive Fee Capital Gains are our realized capital gains 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

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capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is payable, in arrears, at the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date). For a more detailed discussion of the calculation of this fee, see Investment Management and Administration Agreements Investment Management Agreement.

The incentive payable to our Advisor represents our estimated annual expense incurred under the first part of the incentive fee payable under the Investment Management Agreement over the next twelve months. As of June 30, 2018, our cumulative realized capital gains and unrealized capital appreciation did not exceed our cumulative realized capital losses and unrealized capital depreciation. Given our strategy of investing primarily in Venture Loans, which are fixed-income assets, we believe it is unlikely that our cumulative realized capital gains and unrealized capital appreciation will exceed our cumulative realized capital losses and unrealized capital depreciation in the next twelve months. Consequently, we do not expect to incur any Incentive Fee Capital Gains during the next twelve months. As we cannot predict the occurrence of any capital gains from the portfolio, we have assumed no Incentive Fee Capital Gains.

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

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will restate this example to reflect the applicable sales load and estimated offering expenses.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation)	\$ 125	\$ 347	\$ 533	\$ 884

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

While the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Management Agreement is unlikely to be significant assuming a 5% annual return and is not included in the example. This illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher.

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The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock assuming a 5% annual return derived entirely from capital gains.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee)	\$ 113	\$ 318	\$ 496	\$ 845
See Investment Management and Administration Agreements for additional information regarding the calculation of incentive fees. In addition, while the examples assume reinvestment of all dividends and other distributions at net asset value, participants in our DRIP receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. This price may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our DRIP.				

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data of Horizon Technology Finance Corporation as of December 31, 2017, 2016, 2015, 2014 and 2013, and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 are derived from the consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. Interim financial information as of and for the six months ended June 30, 2018 and 2017 is derived from our unaudited consolidated financial statements, and in the opinion of management, reflects all adjustments (consisting of only normal recurring adjustments) that are necessary to present fairly the results of such interim periods. 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.

	As of and for the six months ended June 30,		As of and for the years ended December 31,				
(In thousands, except per share data)	2018	2017	2017	2016	2015	2014	2013
Statement of Operations							
Data:							
Total investment income	\$ 14,488	\$ 12,841	\$ 25,777	\$ 32,984	\$ 31,110	\$ 31,254	\$ 33,643
Base management fee	2,202	1,862	3,786	4,727	4,747	4,648	5,353
Performance based incentive fee	1,527	836	1,714	2,126	3,501	2,112	3,318
All other expenses	4,418	4,022	8,034	9,119	9,212	13,962	11,605
Base management and performance based incentive fees waived	(159)		(79)		(346)	(345)	(144)
Net investment income before excise tax	6,500	6,121	12,322	17,012	13,996	10,877	13,511
Provision (credit) for excise tax			25	(87)		160	240
Net investment income	6,500	6,121	12,297	17,099	13,996	10,717	13,271
Net realized loss on investments	(302)	(10,670)	(21,191)	(7,776)	(1,650)	(3,576)	(7,509)
Net unrealized (depreciation) appreciation on investments	(665)	8,934	18,485	(14,236)	(490)	8,289	(2,254)
Net increase (decrease) in net assets resulting from operations	5,533	4,385	9,591	(4,913)	11,856	15,430	3,508
Dollar amount of distributions declared	\$ 6,916	\$ 6,911	\$ 13,823	\$ 15,403	\$ 15,793	\$ 13,282	\$ 13,236
Per Share Data:							
Net asset value	\$ 11.60	\$ 11.87	\$ 11.72	\$ 12.09	\$ 13.85	\$ 14.36	\$ 14.14

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Net investment income	0.56	0.53	1.07	1.48	1.25	1.11	1.38
Net realized loss on investments	(0.03)	(0.93)	(1.84)	(0.67)	(0.15)	(0.37)	(0.78)
Net change in unrealized (depreciation) appreciation on investments	(0.05)	0.78	1.60	(1.24)	(0.04)	0.86	(0.23)
Net increase (decrease) in net assets resulting from operations	0.48	0.38	0.83	(0.43)	1.06	1.60	0.37
Per share distributions declared	0.60	0.60	1.20	1.335	\$1.38	\$1.38	\$1.38

Statement of Assets and Liabilities Data at Period End:

Investments, at fair value	\$226,467	\$179,084	\$222,099	\$194,003	\$250,267	\$205,101	\$221,284
Other assets	16,859	18,033	12,047	45,249	31,221	20,095	42,453
Total assets	243,326	197,117	234,146	239,252	281,488	225,196	263,737
Borrowings	104,214	55,691	94,075	95,597	115,546	81,753	122,343
Total liabilities	109,555	60,355	99,071	100,060	121,737	86,948	127,902
Total net assets	\$133,771	\$136,762	\$135,075	\$139,192	\$159,751	\$138,248	\$135,835

Other data:

Weighted annualized yield on income producing investments at fair value	14.8 %	15.1 %	15.1 %	14.9 %	14.2 %	15.3 %	14.4 %
Weighted annualized yield on all portfolio investments at fair value (excluding equity interest in HSLFI)	13.5 %	14.1 %	14.0 %	14.4 %	13.7 %	14.8 %	14.1 %

Number of portfolio companies at period end:

Debt investments	33	37	33	44	52	50	49
Warrants investments	69	72	72	78	83	75	73
Equity investments	8	5	6	5	6	4	4
Other investments	4	3	4	2	1	1	1

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SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth certain quarterly financial information for each of the 10 quarters ending with the quarter ended June 30, 2018. This information was derived from our unaudited consolidated financial statements.

Results for any quarter are not necessarily indicative of results for the full fiscal year or for any future quarter.

	2018	
	Q2	Q1
	(Dollar amounts in thousands, except per share data)	
Total investment income	\$ 7,313	\$ 7,175
Net investment income	\$ 3,290	\$ 3,210
Net realized and unrealized loss	\$ (360)	\$ (607)
Net increase in net asset resulting from operations	\$ 2,930	\$ 2,603
Net investment income per share ⁽¹⁾	\$ 0.29	\$ 0.28
Net increase in net assets per share ⁽¹⁾	\$ 0.25	\$ 0.23
Net asset value per share at period end ⁽²⁾	\$ 11.60	\$ 11.65

	2017			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	\$ 6,163	\$ 6,774	\$ 5,878	\$ 6,962
Net investment income	\$ 2,379	\$ 3,797	\$ 2,754	\$ 3,367
Net realized and unrealized gain (loss)	\$ 117	\$ (1,088)	\$ (2,021)	\$ 286
Net increase in net asset resulting from operations	\$ 2,496	\$ 2,709	\$ 733	\$ 3,653
Net investment income per share ⁽¹⁾	\$ 0.21	\$ 0.33	\$ 0.24	\$ 0.29
Net increase in net assets per share ⁽¹⁾	\$ 0.21	\$ 0.24	\$ 0.06	\$ 0.32
Net asset value per share at period end ⁽²⁾	\$ 11.72	\$ 11.81	\$ 11.87	\$ 12.11

	2016			
	Q4	Q3	Q2	Q1
	(Dollar amounts in thousands, except per share data)			
Total investment income	\$6,987	\$7,608	\$9,092	\$9,297
Net investment income	\$3,815	\$4,375	\$4,512	\$4,397
Net realized and unrealized loss	\$(4,404)	\$(10,018)	\$(4,590)	\$(3,000)
Net (decrease) increase in net asset resulting from operations	\$(589)	\$(5,643)	\$(78)	\$ 1,397

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Net investment income per share ⁽¹⁾	\$0.33	\$0.38	\$0.39	\$0.38
Net (decrease) increase in net assets per share ⁽¹⁾	\$(0.05)	\$(0.49)	\$(0.01)	\$0.12
Net asset value per share at period end ⁽²⁾	\$12.09	\$12.44	\$13.27	\$13.62

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

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

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Risk Factors

Investing in our securities involves a high degree of risk. In addition to the other information contained in this prospectus, 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 net asset value, or NAV, per share 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 do not have any employees and are dependent upon the members of our Advisor's senior management, 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 the senior members of our Advisor's management team. If our Advisor were to lose the services of any of the 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 any two of the three of Mr. Pomeroy, our Chief Executive Officer, Mr. Michaud, our President, or Mr. Trolio, our Chief Financial Officer, ceases to be actively involved with us or our Advisor, and is not replaced by an individual satisfactory to Key within 90 days, Key could, absent a waiver or cure, demand repayment of any outstanding obligations under the Key Facility. In such an event, if we do not have sufficient cash to repay our outstanding obligations, we may be required to sell investments which, due to their illiquidity, may be difficult to sell on favorable terms or at all. We may also be unable to make new investments, cover our existing obligations to extend credit or meet other obligations as they come due, which could adversely impact our results of operations.

Our future success also depends, in part, on our Advisor's ability to identify, attract and retain sufficient numbers of highly skilled employees. If our Advisor is not successful in identifying, attracting and retaining such 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 adviser 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 adviser 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 investment adviser 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

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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. See 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 net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. However, any decrease in our income would cause net income to decline more sharply than it would have had we not leveraged. This decline could adversely affect our ability to make common stock distribution 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 less cash and cash equivalents, 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. As leverage magnifies gains, if any, on our portfolio, as discussed above, our pre-incentive fee net investment income may exceed the quarterly hurdle rate for the incentive fee on income payable pursuant to the management fee at a lower average return on our portfolio. Thus, if we incur additional leverage, the incentive fees payable to the Advisor may increase without any corresponding increase in our performance. 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 or incentive fee payable to our Advisor.

In addition to the leverage described above, in the past, we have securitized a large portion of our debt investments to generate cash for funding new investments and may seek to securitize additional debt investments in the future to the extent permitted by the 1940 Act and the risk retention rules adopted pursuant to Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. To securitize additional debt investments in the future, we may create a wholly-owned subsidiary and sell and/or contribute a pool of debt investments to such subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers, who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools. We would retain all or a portion of the equity in any such securitized pool of loans. An inability to securitize part of our debt investments in the future could limit our ability to grow our business, fully execute our business strategy and increase our earnings. Moreover, certain types of securitization transactions may expose us to greater risk of loss than would other types of financing.

On June 7, 2018, a required majority (as defined in Section 57(o) of the 1940 Act) of our Board approved the reduced asset coverage requirements and separately recommended that our stockholders approve the reduced asset coverage

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

requirements at a special meeting of our stockholders, which we intend to hold in the fall of 2018. As a result, our asset coverage requirements applicable to senior securities are expected to decrease from 200% to 150% effective June 7, 2019, unless earlier approved by a majority of votes cast at the special meeting. In that case, the modified asset coverage requirements would be effective with respect to us on the day immediately following such stockholder approval.

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Illustration: The following table illustrates the effect of leverage on returns from an investment in our common stock assuming that we employ leverage such that our asset coverage equals (1) our actual asset coverage as of June 30, 2018 and (2) 150% at 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 Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to common stockholder assuming actual asset coverage as of June 30, 2018 ⁽¹⁾	(22.62)%	(13.55)%	(4.48)%	4.58 %	13.65 %
Corresponding return to common stockholder assuming 150% asset coverage ⁽²⁾	(41.74)%	(26.59)%	(11.45)%	3.70 %	18.85 %

(1) Assumes \$243 million in total assets, \$105 million in outstanding debt, \$134 million in net assets, and an average cost of borrowed funds of 5.72% at June 30, 2018.

(2) Assumes \$406 million in total assets, \$268 million in outstanding debt, \$134 million in net assets, and an average cost of borrowed funds of 5.72% at June 30, 2018.

Based on our outstanding indebtedness of \$105 million as of June 30, 2018 and the average cost of borrowed funds of 5.72% as of that date, our investment portfolio would have been required to experience an annual return of at least 2.96% to cover annual interest payments on the outstanding debt. Actual interest payments may be different.

Based on an outstanding indebtedness of \$268 million on an assumed 150% asset coverage ratio and an average cost of borrowed funds of 5.72%, our investment portfolio would be required to experience an annual return of at least 4.18% to cover annual interest payments on the outstanding debt. Actual interest payments may be different.

If we are unable to comply with the covenants or restrictions in the Key Facility or make payments when due thereunder, our business could be materially adversely affected.

Our Key Facility is secured by a lien on the assets of our wholly owned subsidiary, Horizon Credit II LLC, or Credit II. The breach of certain of the covenants or restrictions or our failure to make payments when due under the Key Facility, unless cured within the applicable grace period, would result in a default under the Key Facility that would permit the lender 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 lender may exercise rights available to them, including to the extent permitted under applicable law, the seizure of such assets without adjudication.

The Key Facility also requires Credit II and our Advisor to comply with various financial covenants, including 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 Key Facility. 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 Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources for additional information regarding our credit arrangements.

If we are unable to comply with the covenants or restrictions in the Key Facility or make payments when due thereunder,

An event of default or acceleration under the Key Facility could also cause a cross-default or cross-acceleration of other debt instruments or contractual obligations, which would adversely impact our liquidity. We may not be granted waivers or amendments to the Key Facility if for any reason we are unable to comply with the terms of the Key Facility and we may not be able to refinance the Key Facility on terms acceptable to us, or at all.

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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 Key Facility or 2022 Notes, in order to obtain funds which may be made available for investments. We may borrow under the Key Facility until April 6, 2021. 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 April 6, 2023, unless such date is extended in accordance with the terms of the Key Facility. All outstanding amounts on our 2022 Notes are due and payable on September 15, 2022 unless redeemed prior to that date. If we are unable to increase, renew or replace the Key Facility or enter into other new debt financings on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such debt financings and are declared in default or are unable to renew or refinance these debt financings, 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, an economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

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 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 incurring excise taxes and to minimize or to avoid incurring corporate-level federal income taxes, we intend to distribute to our stockholders all or substantially all of our investment company taxable income and net capital gains. However, we may retain all or a portion of our net capital gains, incur any applicable income taxes with respect thereto, and elect to treat such retained net capital gains as deemed distributions to our stockholders. As a BDC, we generally are required to maintain coverage 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% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements. This requirement limits the amount that we may borrow. Because we continue to need capital to grow our debt 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 at a price below the then-current net asset value per share. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

As a BDC, we generally are not able to issue our common stock at a price below the then-current NAV per share without first obtaining the approval of our stockholders and our independent directors. If our common stock trades at a price below NAV per share 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 the then-current NAV per share without first obtaining the approval of our stockholders and our independent directors. Stockholder approval to offer our common stock at a price below NAV per share expired in January 2016, but we may seek such approval again in the future. If our common stock trades at a price below NAV per share and we do not receive approval from our stockholders and our independent directors to issue common stock at a price below NAV per share, we cannot raise capital through the issuance of common stock. This may 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.

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

While interest rates remain relatively low due to several factors, including longer-term inflationary pressure that may result from the U.S. government's fiscal policies, the end of the Federal Reserve quantitative easing program and recent increases in the Federal Funds rate, we expect to experience rising interest rates, rather than falling rates, in the future.

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. To the extent our investments have fixed interest rates or have interest rate floors that are higher than the floor on, or interest rates that reset less frequently than, the Key Facility, increases in interest rates can lead to interest rate compression and have a material adverse effect on our net investment income. In addition to increasing the cost of borrowed funds, which may materially reduce our net investment income, rising interest rates may also adversely affect our ability to obtain additional debt financing on terms as favorable as under our current debt financings, or at all. See If we are unable to obtain additional debt financing, our business could be materially adversely affected.

In a rising interest rate environment, there is a risk that the portfolio companies in which we hold floating rate securities will be unable to pay escalating interest amounts, which could result in a default under their loan documents with us. Rising interest rates could also cause portfolio companies to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults on our investments in such portfolio companies. In addition, increasing payment obligations under floating rate loans may cause borrowers to refinance or otherwise repay our loans earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. In addition, rising interest rates may increase pressure on us to provide fixed rate loans to our portfolio companies, which could adversely affect our net investment income, as increases in our cost of borrowed funds would not be accompanied by increased interest income from such fixed-rate investments.

We may hedge against interest rate fluctuations by using hedging instruments such as caps, swaps, futures, options and forward contracts, subject to applicable legal requirements, including 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.

As a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, an increase in interest rates would make it easier for us to meet or exceed the hurdle rate applicable to the incentive fee and may result in a substantial increase in the amount of incentive fees payable to the Advisor with respect to Pre-Incentive Fee Net Investment Income.

Also, an increase in interest rates on investments available to investors could make investment in our common stock less attractive if we are not able to increase our distributions, which could materially reduce the value of our common stock.

We are subject to risks associated with a rising interest rate environment that may affect our cost of capital and net

On July 27, 2017, the head of the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the London InterBank Offered Rate, or LIBOR, after 2021 (the FCA Announcement). Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities. On December 12, 2017, following consideration of public comments, the

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Federal Reserve Board concluded that the public would benefit if the Federal Reserve Bank of New York published the three proposed reference rates as alternatives to LIBOR (the Federal Reserve Board Notice). The Federal Reserve Bank of New York said that the publication of these alternative rates is targeted to commence by mid-2018.

At this time, it is not possible to predict the effect of the FCA Announcement, the Federal Reserve Board Notice, or other regulatory changes or announcements, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, the United States or elsewhere. As such, the potential effect of any such event on our net investment income cannot yet be determined.

Because many of our investments are not and typically 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 debt investments or securities issued by privately held companies. As these investments are not publicly traded, their fair value may not be readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated debt investment 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 and consistent with U.S. generally accepted accounting principles, or GAAP. Our Board employs independent third-party valuation firms to assist it 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 firms. 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.

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, as defined in the 1940 Act, after each issuance of senior securities equals at least 200% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements. If our asset coverage is not at least 200% or 150% as applicable, we are not

Because many of our investments are not and typically will not be in publicly traded securities, the value of our investments

permitted to pay distributions or issue additional senior securities. As a result, we may have difficulty meeting the annual distribution requirement necessary to maintain RIC tax treatment. Moreover, 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 net asset value per share without first obtaining the approval of our stockholders and our independent directors. Our stockholder approval expired in January 2016, but we may seek such approval again in the future. If our common stock trades at a price below net asset value per share and we do not receive approval from our stockholders and our independent directors to issue common stock at a price below net asset value per share, we cannot raise

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capital through the issuance of equity securities. This may 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. The stockholder approval 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.

Recently passed legislation may allow us to incur additional leverage.

A BDC has historically been able to issue senior securities, including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. On March 23, 2018, the Small Business Credit Availability Act was signed into law and amended the 1940 Act to decrease the asset coverage requirements applicable to BDCs from 200% to 150% if such lower asset coverage requirements have been approved by either (a) a majority of a BDC's directors who have no financial interest in such approval and a majority of the BDC's directors who are not interested persons, as defined by the 1940 Act (a required majority as defined in Section 57(o) of the 1940 Act), of such BDC, in which case such reduced asset coverage requirements would take effect on the first anniversary of the date of such approval, or (b) a majority of votes cast by the stockholders of such BDC at a special or annual meeting at which a quorum is present, in which case such reduced asset coverage requirements shall take effect on the day after such approval. On June 7, 2018, a required majority (as defined in Section 57(o) of the 1940 Act) of our Board approved the reduced asset coverage requirements and separately recommended that our stockholders approve the reduced asset coverage requirements at a special meeting of our stockholders, which we intend to hold in the fall of 2018. As a result, our asset coverage requirements applicable to senior securities are expected to decrease from 200% to 150% effective June 7, 2019, unless earlier approved by a majority of votes cast at the special meeting. In that case, the modified asset coverage requirements would be effective with respect to us on the day immediately following such stockholder approval.

As a result, if we comply with certain disclosure requirements, we will be able to incur additional indebtedness, which may increase the risk of investing in us. See We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us. In addition, since our base management fee is payable based upon our gross assets (less cash and cash equivalents), which includes any assets acquired with the proceeds of borrowings, the base management fee expense will increase if we incur additional leverage.

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

To qualify as a RIC under the Code, we must meet certain source-of-income and asset diversification 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 in order to avoid the imposition of corporate-level income taxes on all of our taxable income, regardless of whether we make any distributions to our stockholders.

The qualifying income test, or the Qualifying Income Test is satisfied if we derive in each tax 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 interests in qualified publicly traded partnerships. 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 diversification tests, or the Diversification Tests, at the end of each quarter of our tax year. Failure to meet these tests may result in our having to (1) dispose of certain

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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 debt investments.

The Annual Distribution Requirement is satisfied if we distribute dividends to our stockholders in each tax year of an amount generally equal to at least 90% of our investment company taxable income, determined without regard to any deductions for dividends paid. If we borrow money, we may be subject to certain asset coverage 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 be eligible to be subject to taxation as a RIC, assuming we do not qualify for or take advantage of certain remedial provisions, and, thus, may be subject to corporate-level income taxes.

If we were to fail to qualify as a RIC for any reason and become subject to a corporate-level income taxes, 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, incur substantial taxes and interest and make substantial distributions before requalifying as a RIC. See Regulation.

Impact of Recently Enacted Federal Tax Legislation

Significant U.S. federal tax reform legislation was recently enacted that, among many other changes, permanently reduces the maximum federal corporate income tax rate, reduces the maximum individual income tax rate (effective for taxable years 2018 through 2025), restricts the deductibility of business interest expense, changes the rules regarding the use of net operating losses, and under certain circumstances requires accrual method taxpayers to recognize income for U.S. federal income tax purposes no later than the income is taken into account as revenue in an applicable financial statement. The impact of this new legislation on us and our portfolio companies is uncertain. Prospective investors are urged to consult their tax advisors regarding the effects of the new legislation.

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, or PIK, interest or, in certain cases, increasing interest rates or issued with warrants), we must include in taxable income each tax 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 tax year. We do not have a policy limiting our ability to invest in original issue discount instruments, including PIK debt investments. Because in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty meeting the Annual Distribution Requirement.

Accordingly, we may need to sell some of our assets at times that we would not consider advantageous, raise additional debt or equity capital or forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take 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 become subject to a corporate-level income taxes on all of 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

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GAAP not received in cash for the six months ended June 30, 2018 and the years ended December 31, 2017, 2016 and 2015 was 10.4%, 9.5%, 12.6% and 8.9%, respectively.

If we make loans to borrowers or acquire loans that contain deferred payment features, such as loans providing for the payment of portions of principal and/or interest at maturity, this could increase the risk of default by our borrowers.

Our investments with deferred payment features, such as debt investments providing for ETPs, may represent a higher credit risk than debt investments requiring payments of all principal and accrued interest at regular intervals over the life of the debt investment. For example, even if the accounting conditions for income accrual were met during the period when the obligation was outstanding, the borrower could still default when our actual collection is scheduled to occur upon maturity of the obligation. The amount of ETPs due under our investments having such a feature currently represents a small portion of the applicable borrowers' total repayment obligations under such investments. However, deferred payment arrangements increase the incremental risk that we will not receive a portion of the amount due at maturity. Additionally, because investments with a deferred payment feature may have the effect of deferring a portion of the borrower's payment obligation until maturity of the debt investment, it may be difficult for us to identify and address developing problems with borrowers in terms of their ability to repay us. Any such developments may increase the risk of default on our debt investments by borrowers.

In addition, debt investments providing for ETPs are subject to the risks associated with debt investments having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants). See We may have difficulty paying our required distributions if we recognize taxable income before or without receiving cash.

The borrowing needs of our portfolio companies are unpredictable, especially during a challenging economic environment. We may not be able to meet our unfunded commitments to extend credit, which could have a material adverse effect on our reputation in the market and our ability to generate incremental lending activity and may subject us to lender liability claims.

A commitment to extend credit is an agreement to lend funds to our portfolio companies as long as there is no violation of any condition established under the agreement. Because of the credit profile of our portfolio companies, we typically have a substantial amount of total unfunded credit commitments, which amount is not reflected on our balance sheet. The actual borrowing needs of our portfolio companies may exceed our expected funding requirements, especially during a challenging economic environment when our portfolio companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, an increasing cost of credit or the limited availability of equity financing from venture capital firms or otherwise. In addition, limited partner investors of some of our portfolio companies may fail to meet their underlying investment commitments due to liquidity or other financing issues, which may increase our portfolio companies' borrowing needs. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our portfolio companies may have a material adverse effect on our reputation in the market and our ability to generate incremental lending activity and may subject us to lender liability claims.

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 (as defined under the 1940 Act) unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a market capitalization that is less than \$250 million at the time of such investment and meets the other specified requirements. 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

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dictated by the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding marginable securities. See Regulation Qualifying assets.

If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a BDC. 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 at the U.S. local, state and federal level. We are also subject to federal, state and local laws and are subject to judicial and administrative decisions that affect our operations, including maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure proceedings and other trade practices. If these laws, regulations or decisions change, or if we expand our business into additional jurisdictions, we may have to incur significant expenses in order to comply or we might have to restrict our operations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we or our portfolio companies are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In particular, the impact of the Dodd-Frank Act, and any amendments thereto that may be enacted, on us and our portfolio companies is subject to continuing uncertainty. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. President Trump and certain members of Congress have indicated they will seek to amend or repeal portions of the Dodd-Frank Act, among other federal laws. We cannot predict the ultimate effect on us or our portfolio companies that changes in the laws and regulations would have as a result of the Dodd-Frank Act, or whether and the extent to which the Dodd-Frank Act may remain in its current form. In addition, uncertainty regarding legislation and regulations affecting the financial services industry or taxation could also adversely impact our business or the business of our portfolio companies. If we do not comply with applicable laws and regulations, we could lose any licenses that we then hold for the conduct of our business and may be subject to civil fines and criminal penalties.

Additionally, changes to or repeal of the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to our strategies and plans set forth in this prospectus and may shift our investment focus from the areas of expertise of our Advisor to other types of investments in which our 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, obligations to these other entities may cause our executive officers and directors and those of our Advisor to divert their time and attention away from us or otherwise cause them not to dedicate a significant portion of their time to our businesses which could slow our rate of investment.

In addition, our Advisor manages other funds, and may manage additional funds in the future, that 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

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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 allocation 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. In addition, if any of the other funds managed by our Advisor have a different fee structure than we do, our Advisor may, in certain circumstances, have an incentive to devote more time and resources, and/or recommend the allocation of investment opportunities, to such fund. For example, to the extent our Advisor's incentive compensation is not subject to a total return requirement with respect to another fund, it may have an incentive to devote time and resources to such fund.

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 an incentive 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 distributions. Our governing documents do not limit the number of debt investments we may make with deferred interest features or the proportion of our income we derive from such debt investments.

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Our ability to enter into transactions with our affiliates is restricted, which may limit the scope of investments available to us.

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, of the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into certain joint transactions (which could include investments in the same portfolio company) with, such affiliates, absent the prior approval of our independent directors or, in certain cases, the SEC.

Our Advisor is considered to be our affiliate under the 1940 Act, as is any person that controls, or is under common control with us or our Advisor. We are generally prohibited from buying or selling any security from or to, or entering into joint transactions with, such affiliates without prior approval of our independent directors and, in some cases, exemptive relief from the SEC.

We may, however, invest alongside other clients of our Advisor in certain circumstances where doing so is consistent with applicable law, SEC staff interpretations and/or exemptive relief issued by the SEC. For example, we may invest alongside such accounts consistent with guidance promulgated by the staff of the SEC permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that our Advisor, acting on our behalf and on behalf of other clients, negotiates no term other than price. We may also invest alongside our Advisor's other clients as otherwise permissible under regulatory guidance and applicable regulations. Such investments will be allocated in accordance with our Advisor's allocation policy, and this allocation policy is periodically approved by our Advisor and reviewed by our independent directors. We expect that allocation determinations will be made similarly for other accounts sponsored or managed by our Advisor. If sufficient securities or loan amounts are available to satisfy our and each such account's proposed demand, we expect that the opportunity will be allocated in accordance with our Advisor's pre-transaction determination; however, if insufficient securities or loan amounts are available, the opportunity will generally be allocated pro rata based on each affiliate's initial allocation in the asset class being allocated. We cannot assure you that investment opportunities will be allocated to us fairly or equitably in the short-term or over time.

On November 27, 2017, we were granted exemptive relief from the SEC that permits greater flexibility to negotiate the terms of co-investments if our Board determines in advance that it would be advantageous for us to co-invest with other accounts sponsored or managed by our Advisor in a manner consistent with our investment objective, positions, policies, strategies and restrictions, as well as regulatory requirements and other relevant factors. We cannot assure you, however, that we will develop opportunities that comply with such limitations.

In situations where co-investment with other accounts managed by our Advisor is not permitted or appropriate, our Advisor will need to decide which client will proceed with the investment. Our Advisor's allocation policy provides, in such circumstances, for investments to be allocated to assure that all clients have fair and equitable access to such investment opportunities over time. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which a fund managed by our Advisor has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions may limit the scope of investment opportunities that would otherwise be available to us.

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

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Advisor's management fee is based, in part, on our gross assets less cash and cash equivalents, and our incentive fees will be based, in part, on unrealized appreciation and depreciation on our investments.

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 are 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

Our Advisor's liability is limited, and we have agreed to indemnify our Advisor against certain liabilities, which may

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 debt investments, 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

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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 depend 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, 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 adviser 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 Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and other rules implemented by the SEC.

Compliance with Section 404 of the Sarbanes-Oxley Act involves significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act would 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 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 annual re-evaluation, testing and remediation actions or the impact of the same on our operations, and we cannot assure you that our internal control over financial reporting is or will be effective. In the event that we are unable to maintain compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and the market price of our securities may be adversely affected.

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We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay distributions.

Our business is highly dependent on the Advisor and its affiliates' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

sudden electrical or telecommunications outages;
natural disasters such as earthquakes, floods, tornadoes and hurricanes;
disease pandemics; and

events arising from local or larger scale political or social matters, including terrorist acts.

Any of these events, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay distributions to our stockholders.

In addition, these communications and information systems are subject to potential attacks, including through adverse events that threaten the confidentiality, integrity or availability of our information resources. These attacks, which may include cyber incidents, may involve a third party gaining unauthorized access to our communications or information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. Any such attack could result in disruption to our business, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships, any of which could have a material adverse effect on our business, financial condition and results of operations.

Risks related to our investments

Our stockholders are not able to evaluate our future investments.

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. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be focused on relatively few portfolio companies.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which

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. If a significant investment in one or more portfolio companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more portfolio companies. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

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Our portfolio may be focused on a limited number of industries, which will subject us to a risk of significant loss if there is a downturn in a particular industry.

Our portfolio may be focused on a limited number of 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 each tax year as dividends to stockholders, we will suffer adverse tax consequences, including the possible loss of our ability to be subject to tax as a RIC.

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.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may have opportunities to make additional investments in that portfolio company as follow-on investments, in seeking to:

increase or maintain in whole or in part our position as a creditor or equity ownership percentage in a portfolio company;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
preserve or enhance the value of our investment.

Our portfolio may be focused on a limited number of industries, which will subject us to a risk of significant loss if the

We have discretion to make follow-on investments, subject to the availability of capital resources. Failure on our part to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful portfolio company. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our level of risk, because we prefer other opportunities or because of regulatory or other considerations. Our ability to make follow-on investments may also be limited by our Advisors' allocation policy.

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 are susceptible to economic or industry centric slowdowns or recessions and may be unable to repay our debt investments

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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 debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a material 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.

From late 2007 until early 2009, global credit and other financial markets suffered substantial stress and disruption, significantly diminishing overall confidence in the debt and equity markets. While financial conditions have since recovered, any new period of market disruption may have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, unfavorable economic conditions, including rising interest rates, may also increase our funding costs, limit our access to capital markets or negatively impact our ability to obtain financing, particularly from the debt markets.

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.

Economic recessions or downturns could adversely affect our business and that of our portfolio companies, which may

Any unrealized depreciation we experience on our debt investments 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 is 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 debt investment losses. Decreases in the fair values of our investments, which can occur rapidly based upon developments affecting our portfolio companies, are recorded as unrealized depreciation. Any unrealized depreciation in our debt investments could be an indication of a portfolio company's inability to

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meet its repayment obligations to us with respect to the affected debt investments. 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 debt investments 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 debt investments 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. There is a risk that the collateral securing our debt investments 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 debt investment. Consequently, although such debt investment is secured, we may not receive principal and interest payments according to the debt investment'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 debt investment 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 debt investments 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, which may adversely affect our ability to pay distributions in the future.

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 such companies' business and 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.

If the assets securing the debt investments we make decrease in value, we may not have sufficient collateral to cover

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 debt investments 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

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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.

The disposition of our debt investments may result in contingent liabilities.

In connection with the disposition of a debt investment, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such debt investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

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

We plan to invest primarily in debt investments issued by our portfolio companies. Some of our portfolio companies are permitted to have other debt that ranks equally with, or senior to, our debt investments 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 debt investments. 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 debt investments, we would have to share on a pro rata 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 debt investments 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 debt investments, 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 or an out-of-court restructuring might enable other lenders to become effectively senior to our claims. 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 that primarily includes investments in privately held companies presents certain challenges, including a 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, 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.

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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.

Our Advisor may, from time to time, possess material non-public information regarding our portfolio companies, limiting our investment discretion.

Officers and employees of our Advisor may serve as directors of, or in a similar capacity with, our portfolio companies, the securities of which are purchased or sold on our behalf. If we obtain material non-public information with respect to such portfolio companies, or we become subject to trading restrictions under the internal trading policies of those portfolio companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or disposing of the securities of such portfolio companies, and this prohibition may have an adverse effect on us.

We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, experience bankruptcy or similar financial distress.

Leveraged companies may experience bankruptcy, receivership or similar financial distress. The debt investments of distressed companies may not produce income, may require us to bear certain expenses or to make additional advances in order to protect our investment and may subject us to uncertainty as to when, in what manner (e.g., through liquidation, reorganization, receivership or bankruptcy) and for what value such distressed debt will eventually be satisfied. Proceeds received from such proceedings may not be income that satisfies the Qualifying Income Test for RICs and may not be in an amount sufficient to repay such expenses or advances. In the event that a plan of reorganization is adopted or a receivership is established, in exchange for the debt investment we currently hold, we may receive non-cash proceeds, including equity securities or license or royalty agreements with contingent payments, which may require significantly more of our management's time and attention. In addition, if we take control of a distressed company in connection with a reorganization, it could require additional costs and significant amounts of our management's time and attention.

If a portfolio company enters a bankruptcy process, we will be subject to a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial 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.

Our Advisor may, from time to time, possess material non-public information regarding our portfolio companies, limiting our investment discretion.

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 debt investments 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

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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 uncertainty regarding such changes 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 technology industry are subject to 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 technology industry. Such portfolio companies face intense competition as their businesses are rapidly evolving and intensely competitive, and are subject to changing technology, shifting user needs, and frequent introductions of new products and services. The growth of certain technology sectors in which we focus (such as communications, networking, data storage, software, cloud computing, and internet and media) into a variety of new fields implicates new regulatory issues and may result in our portfolio companies in such sectors being subject to new regulations.

Portfolio companies in the technology 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. In addition, litigation regarding intellectual property rights is common in the sectors of the technology industry in which we focus. See 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. 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 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.

Such portfolio companies 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. In addition, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a

Our business and growth strategy could be adversely affected if government regulations, priorities and resources in

portfolio company in this industry.

The successful and timely implementation of the business model of life science companies depends on their ability to adapt to changing technologies and introduce new products. The success of new product offerings will depend, in turn, on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors.

Further, the development of products (including medical devices or drugs) by life science companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement by insurers in the United States (including Medicare and Medicaid) and abroad, or gain and maintain market approval of

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products. In addition, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, failure to establish or maintain intellectual property rights, infringement by others of a company's intellectual property rights, or infringement by a company of intellectual property rights of others.

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 portfolio companies operating in the healthcare information and services 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 healthcare information and services industry. Such portfolio companies provide technology to companies that are subject to extensive regulation, including Medicare and Medicaid payment rules and regulation, the False Claims Act and federal and state laws regarding the collection, use and disclosure of patient health information and the storage, handling and administration of pharmaceuticals. If any of our portfolio companies or the companies to which they provide such technology 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 in the healthcare information or services industry are also subject to the risk that changes in applicable regulations will render their technology obsolete or less desirable in the marketplace.

Portfolio companies in the healthcare information and services 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

Our portfolio companies operating in the healthcare information and services industry are subject to extensive government

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 decrease 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.

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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, uncertainty regarding such changes 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 particular, 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.

Our portfolio companies may rely upon licenses for all or part of their intellectual property.

A portfolio company may license all or part of its intellectual property from another unrelated party. While the portfolio company may continue development on that licensed intellectual property, it can be difficult to ascertain who has title to the intellectual property. We may also rely upon the portfolio company's management team's representations as to the nature of the licensing agreement. There are implications in workouts and in bankruptcy where intellectual property is not wholly owned by a portfolio company. Further, the licensor may have an actual or contingent claim on the intellectual property (for instance, a payment due upon change in control) that would supersede other claims in that asset in certain situations.

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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 debt investments. 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.

In some cases, we collateralize our debt investments with a secured collateral position in a portfolio company's assets, which may include a negative pledge or, to a lesser extent, no security interest on their intellectual property. In the event of a default on a debt investment, the intellectual property of the portfolio company would most likely be liquidated to provide proceeds to pay the creditors of the portfolio company. There can be no assurance that our security interest, if any, in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court or that there will not be others with senior or *pari passu* credit interests.

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 invest in foreign portfolio companies or secure our investments with the assets of our portfolio companies' foreign subsidiaries.

We may invest in securities of foreign companies. Additionally, certain debt investments consisting of secured loans to portfolio companies with headquarters and primary operations located within the United States may be secured by

If our portfolio companies are unable to protect their intellectual property rights, our business and prospects could be

the assets of a portfolio company's foreign subsidiary. Investments involving foreign companies may involve greater risks. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. Debt investments secured by the assets of a portfolio company's foreign subsidiary may be subject to various laws enacted in their home countries for the protection of debtors or creditors, which could adversely affect our ability to recover amounts owed. These insolvency considerations will differ depending on the country in which each

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foreign subsidiary is located and may differ depending on whether the foreign subsidiary is a non-sovereign or a sovereign entity. The economies of individual non-U.S. countries may also differ from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position. Accordingly, debt investments secured by the assets of a portfolio company's foreign subsidiary could face risks which would not pertain to debt investments solely in U.S. portfolio companies.

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.

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.

Risks related to our offering under this prospectus

There is a risk that investors in our equity securities may not receive distributions, that our distributions may not grow over time or that 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 distributions might be adversely affected by the impact of one or more risk factors described in this prospectus. 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 ability to be subject to tax as a RIC, 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. Distributions that represent a return of capital (which is the return of your original investment in us, after subtracting sales load, fees and expenses directly or indirectly paid by you) rather than a distribution from earnings or profits, reduce your basis in our stock for U.S. federal income tax purposes, which may result in higher tax liability when the shares are sold, even if they have not increased in value or have lost value.

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:

- actual or anticipated changes in our earnings or fluctuations in our operating results;
- changes in the value of our portfolio of investments;
- 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;

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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;
general economic conditions, trends and other external factors;
departures of key personnel; or
loss of a major source of funding.

We and our Advisor could be the target of litigation.

We or our Advisor could become the target of securities class action litigation or other similar claims if our stock price fluctuates significantly or for other reasons. The outcome of any such proceedings could materially adversely affect our business, financial condition and/or operating results and could continue without resolution for long periods of time. Any litigation or other similar claims could consume substantial amounts of our management's time and attention, and that time and attention and the devotion of associated resources could, at times, be disproportionate to the amounts at stake. Litigation and other claims are subject to inherent uncertainties, and a material adverse impact on our financial statements could occur for the period in which the effect of an unfavorable final outcome in litigation or other similar claims becomes probable and reasonably estimable. In addition, we could incur expenses associated with defending ourselves against litigation and other similar claims, and these expenses could be material to our earnings in future periods.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV, which is separate and distinct from the risk that our NAV per share may decline.

We cannot predict the price at which our common stock will trade. Shares of closed-end investment companies, including BDCs, 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.

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

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

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

We have significant flexibility in investing the net proceeds of an offering, although such flexibility does not extend to investing in a manner inconsistent with our investment strategy, and we may invest the net proceeds from an offering in ways with which you may not agree or in investments other than those contemplated at the time of the offering. For example, we may use net proceeds from an offering to reduce debt, pay fund expenses or fund distributions.

We estimate that it will take up to six months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal. Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents,

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U.S. Government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and may result in lower distributions, if any, during such period. See Regulation Temporary investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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 Key Facility if (i) a person or group of persons (within the meaning of the Exchange Act) acquires beneficial ownership of 20% or more of our issued and outstanding 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 could accelerate our repayment obligations under, and/or terminate, our Key Facility.

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

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions 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 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 ability to be subject to tax as a RIC.

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

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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 an 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 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 current 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 experience dilution in their ownership percentage if they do not participate in our DRIP.

All distributions payable to stockholders that are participants in the DRIP are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the DRIP will experience dilution in their ownership interest over time.

Stockholders may receive shares of our common stock as dividends, which could result in adverse tax consequences to them.

In order to satisfy the Annual Distribution Requirement, we have the ability to declare a large portion of a dividend in shares of our common stock instead of in cash. As long as a portion of such dividend is paid in cash (which portion may be as low as 20% of such dividend) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, a stockholder generally would be subject to tax on 100% of the fair market value of the dividend on the date the dividend is received by the stockholder in the same manner as a

cash dividend, even though most of the dividend was paid in shares of our common stock. We currently do not intend to pay dividends in shares of our common stock.

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;

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the level, direction and volatility of market interest rates generally; and
market rate of interest higher or lower than the 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.

Sales in the public market of substantial amounts of our common stock may have an adverse effect on the market price of our common stock, 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.

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

Our debt securities are not secured by any of our assets or any of the assets of our subsidiaries. As a result, our debt securities 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 our debt

The trading market or market value of our publicly issued debt securities that we may issue may fluctuate.93

securities.

Our debt securities are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

Our debt securities are obligations exclusively of Horizon Technology Finance Corporation, and not of any of our subsidiaries. None of our subsidiaries is a guarantor of our debt securities and our debt securities 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 our debt securities.

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

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our debt securities) 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, our debt securities 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.

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

The indenture governing our debt securities contains limited protection for holders of our debt securities.

The indenture governing our debt securities offers limited protection to holders of our debt securities. The terms of the indenture 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 our debt securities. In particular, the terms of the indenture 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 our debt securities, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to our debt securities 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 our debt securities 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 our debt securities with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, (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 after such borrowings, equals at least 200% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements);

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 our debt securities, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) 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, 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 equals at least 200% through June 6, 2019 (or, if earlier, the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter, subject to certain disclosure requirements);

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

Our debt securities are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

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

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

Furthermore, the terms of the indenture do not protect holders of our debt securities 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 our debt securities may have important consequences for holders of our debt securities, including making it more difficult for us to satisfy our obligations with respect to our debt securities or negatively affecting the trading value of our debt securities.

Certain of our current debt instruments include more protections for their holders than the indenture. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture 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 our debt securities.

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

We cannot provide any assurances that an active trading market for our debt securities will exist in the future or that you will be able to sell our debt securities. Even if an active trading market does exist, our debt securities 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 our debt securities may be harmed. Accordingly, you may be required to bear the financial risk of an investment in our debt securities for an indefinite period of time.

The optional redemption provision may materially adversely affect the return on our debt securities.

Our debt securities may provide that such securities are redeemable in whole or in part prior to their maturity date at our sole option. We may choose to redeem such debt securities at times when prevailing interest rates are lower than the interest rate paid on such debt securities. In this circumstance, the holders of such debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

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

Any default under the agreements governing our indebtedness, including a default under the Key Facility 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 our debt securities and substantially decrease the market value of our debt securities. If we are unable to

An active trading market for our debt securities may not exist, which could limit holders' ability to sell our debt securities.

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 lender under the Key Facility 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 lender under the Key Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Key Facility 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 lender under the Key Facility, could proceed against the collateral securing the debt. Because the Key Facility

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has, 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.

FATCA withholding may apply to payments to certain foreign entities.

Payments made under our debt securities to a foreign financial institution, or FFI, or non-financial foreign entity, or NFFE (including such an institution or entity acting as an intermediary), may be subject to a U.S. withholding tax of 30% under U.S. Foreign Account Tax Compliance Act provisions of the Code (commonly referred to as FATCA). This withholding tax may apply to payments of interest on our debt securities as well as, after December 31, 2018, to payments made upon maturity, redemption, or sale of our debt securities, unless the FFI or NFFE complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Depending upon the status of a holder and the status of an intermediary through which any debt securities are held, the holder could be subject to this 30% withholding tax in respect of any interest paid on our debt securities as well as any proceeds from the sale or other disposition of our debt securities. Holders of our debt securities should consult their own tax advisors regarding FATCA and how it may affect their investment in our debt securities.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

our future operating results, including the performance of our existing debt investments, warrant and other investments;

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;

our ability to qualify and maintain qualification as a RIC and as a BDC;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our portfolio companies;

the impact of interest rate volatility on our results, particularly if we use leverage as part of our investment strategy;

the ability of our portfolio companies to achieve their objective;

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;

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

our ability to fund the unfunded commitments of HSLFI, to the extent approved by each member of HSLFI.

This prospectus, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically

identified by words or phrases such as trend, opportunity, pipeline, believe, comfortable, expect, anticipate, intention, estimate, position, assume, plan, potential, project, outlook, continue, remain, maintain, achieve and similar expressions, or future or conditional verbs such as will, would, should, could, may or similar expressions.

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

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USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of our securities for investment in portfolio companies in accordance with our investment objective and strategies as described in this prospectus and for working capital and general corporate purposes. We may also use a portion of the net proceeds from the sale of our securities to repay amounts outstanding under the Key Facility, which bore an annual interest rate of 5.23% (*i.e.*, one-month LIBOR plus 3.25% per annum, with a LIBOR floor of 0.75%) as of June 30, 2018. We may request advances under the Key Facility until April 6, 2021 and all outstanding advances are due and payable on April 6, 2023. We may also use a portion of the net proceeds to redeem the 2022 Notes after they are subject to optional redemption in September 2019. The 2022 Notes bear interest at an annual rate of 6.25% and otherwise mature on September 15, 2022. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. We estimate that it will take up to six months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurances that we will be able to achieve this goal.

Pending such use, we will invest the remaining net proceeds of this offering primarily in cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less from the date of investment. These temporary investments may have lower yields than our other investments and, accordingly, may result in lower distributions, if any, during such period. See Regulation Temporary investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on Nasdaq, under the symbol **HRZN**. The following table sets forth, for each fiscal quarter since January 1, 2016, the range of high and low closing sales price of our common stock, the premium or discount of the closing sales price to our NAV and the distributions declared per share by us.

Period	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				
<i>Year ended December 31, 2018</i>							
Third Quarter ⁽⁴⁾	*	\$ 11.39	\$ 10.28	*	*	\$ 0.30	⁽⁵⁾
Second Quarter	\$ 11.60	\$ 10.59	\$ 9.97	(9)%	(14)%	\$ 0.30	⁽⁶⁾
First Quarter	\$ 11.65	\$ 11.69	\$ 10.34	%	(11)%	\$ 0.30	
<i>Year ended December 31, 2017</i>							
Fourth Quarter	\$ 11.72	\$ 11.50	\$ 10.55	(2)%	(10)%	\$ 0.30	
Third Quarter	\$ 11.81	\$ 11.71	\$ 10.09	(1)%	(15)%	\$ 0.30	
Second Quarter	\$ 11.87	\$ 11.72	\$ 11.00	(1)%	(7)%	\$ 0.30	
First Quarter	\$ 12.11	\$ 11.67	\$ 10.03	(4)%	(17)%	\$ 0.30	
<i>Year ended December 31, 2016</i>							
Fourth Quarter	\$ 12.09	\$ 13.74	\$ 9.83	14 %	(19)%	\$ 0.30	
Third Quarter	\$ 12.44	\$ 13.86	\$ 12.43	11 %	%	\$ 0.345	
Second Quarter	\$ 13.27	\$ 12.20	\$ 11.23	(8)%	(15)%	\$ 0.345	
First Quarter	\$ 13.62	\$ 12.02	\$ 9.42	(12)%	(31)%	\$ 0.345	

NAV per share determined as of the last day in the relevant quarter and therefore may not reflect the NAV per (1)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.

We have adopted an opt out DRIP for our common stockholders. As a result, if we declare a distribution, then (3)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 August 9, 2018.

(5) \$0.10 of which is payable on each of October 16, 2018, November 15, 2018 and December 14, 2018.

(6) \$0.10 of which is payable on each of August 15, 2018 and September 14, 2018.

* Not yet determined at the time of filing.

The last reported price for our common stock on August 9, 2018 was \$11.39 per share. Our NAV per share on June 30, 2018 (the last date prior to the date of this prospectus on which we determined NAV) was \$11.60. The closing sales price of our shares on Nasdaq on that date was \$10.08, which represented a 13% discount to NAV per share. As of August 6, 2018 we had 15 stockholders of record, which did not include stockholders for whom shares are held in nominee or street name.

Shares of BDCs may trade at a market price that is less than the 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.

TABLE OF CONTENTS**Issuer Purchases of Equity Securities**

On April 27, 2018, our Board extended a previously authorized stock repurchase plan which allows us to repurchase up to \$5.0 million of our outstanding common stock. Unless extended by our Board, the repurchase program will expire on the earlier of June 30, 2019 and the repurchase of \$5.0 million of common stock. The following table provides information regarding our purchases of our common stock for each quarter since the announcement of the stock repurchase plan through the quarter ended June 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
(In thousands, except share and per share data)				
October 1, 2015 through December 31, 2015	113,382	\$ 11.53	113,382	\$ 3,693
January 1, 2016 through March 31, 2016		\$		\$ 3,693
April 1, 2016 through June 30, 2016		\$		\$ 3,693
July 1, 2016 through September 30, 2016	1,319	\$ 11.54	1,319	\$ 3,678
October 1, 2016 through December 31, 2016	46,841	\$ 10.63	46,841	\$ 3,180
January 1, 2017 through March 31, 2017		\$		\$ 3,180
April 1, 2017 through June 30, 2017		\$		\$ 3,180
July 1, 2017 through September 30, 2017	5,923	\$ 9.97	5,923	\$ 3,121
October 1, 2017 through December 31, 2017		\$		\$ 3,121
January 1, 2018 through March 31, 2018		\$		\$ 3,121
April 1, 2018 through June 30, 2018		\$		\$ 3,121
Total	167,465	\$ 11.22	167,465	

Any shares repurchased by us may have the effect of maintaining the market price of our common stock or retarding a decline in the market price of the common stock, and, as a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. In addition, as any shares repurchased pursuant to the stock repurchase plan will be purchased at a price below the net asset value per share as reported in our most recent financial statements, share repurchases may have the effect of increasing our net asset value per share.

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 considered a return of capital to our common stockholders for U.S. federal income tax purposes. 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 distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains.

In order to qualify to be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income during each tax year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to our business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each tax year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

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In addition, in order to be eligible for the special tax treatment accorded to RICs and to avoid the imposition of corporate level tax on the income and gains we distribute to our stockholders, each tax year we are required under the Code to distribute as dividends of an amount generally at least 90% of our investment company taxable income, determined without regard to any deduction for dividends paid to our stockholders. We refer to such amount as the Annual Distribution Requirement. Additionally, we must distribute, in respect of each calendar year, dividends of an amount generally at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income or capital gain net income for preceding years that was not distributed during such years and on which we previously did not incur any U.S. federal income tax in order to avoid the imposition of a 4% U.S. federal excise tax. If we fail to qualify as a RIC for any reason and become subject to corporate income tax, the resulting corporate income taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify 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% U.S. federal excise tax on such undistributed income. Distributions of any such carryover taxable income must be made through a distribution declared as of the earlier of the filing date of the corporate income tax return related to the tax year in which such taxable income was generated or the 15th day of the ninth month following the end of such tax year, in order to count towards the satisfaction of the Annual Distribution Requirement for the tax year in which such taxable 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 stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See Material U.S. Federal Income Tax Considerations.

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, stockholders participating in our 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.

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RATIO OF EARNINGS TO FIXED CHARGES

For the six months ended June 30, 2018 and the years ended December 31, 2017, 2016, 2015, 2014 and 2013, our ratios of earnings to fixed charges, computed as set forth below, were as follows:

	For the Six Months Ended June 30, 2018	For the Year Ended December 31,				
		2017	2016	2015	2014	2013
Earnings to Fixed Charges ⁽¹⁾	2.9	2.9	0.1	3.1	2.8	1.5

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

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

Excluding the net unrealized gains or losses, the earnings to fixed charges ratio would be 3.1 for the six months ended June 30, 2018, (0.7) for the year ended December 31, 2017, 2.6 for the year ended December 31, 2016, 3.1 for the year ended December 31, 2015, 1.8 for the year ended December 31, 2014 and 1.7 for the year ended December 31, 2013.

Excluding the net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 3.2 for the six months ended June 30, 2017, 3.4 for the year ended December 31, 2017, 3.9 for the year ended December 31, 2016, 3.4 for the year ended December 31, 2015, 2.2 for the year ended December 31, 2014 and 2.7 for the year ended December 31, 2013.

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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 prospectus. Amounts are stated in thousands, except shares and per share data and where otherwise noted.

Overview

We are a specialty finance company that lends to and invests in development-stage companies in our Target Industries. Our investment objective is to maximize our investment portfolio's total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making Venture Loans to venture capital backed companies in our Target Industries, which we refer to as Venture Lending. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. As of June 30, 2018, 98.3%, or \$200.0 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. Venture Lending is typically characterized by (1) the making of a secured debt investment 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 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, after such borrowing equals at least 200% through June 6, 2019 (or, if early the day on which we receive stockholder approval of the application of the reduced asset coverage requirement to us) and 150% thereafter. 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 are not subject to corporate-level income taxes on our investment company taxable income, determined without regard to any deductions for dividends paid, and our net capital gain that we distribute as dividends for U.S. federal income tax purposes to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

Compass Horizon Funding Company LLC, 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 our Advisor and supervised by the Board, of which a majority of the members are independent of us. Under the Investment Management Agreement, 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 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.

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The following table shows our portfolio by type of investment as of June 30, 2018 and December 31, 2017 and 2016:

	June 30, 2018			December 31, 2017			December 31, 2016		
	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio	Number of Investments	Fair Value	Percentage of Total Portfolio
	(Dollars in thousands)								
Term loans	33	\$203,459	89.8 %	33	\$203,793	91.8 %	44	\$186,186	96.0 %
Warrants	69	9,070	4.0	72	9,090	4.0	78	6,362	3.3
Other investments	4	7,700	3.4	4	7,700	3.5	2	600	0.3
Equity	8	2,169	1.0	6	1,516	0.7	5	855	0.4
Equity interest in HSLFI	1	4,069	1.8						
Total		\$226,467	100.0 %		\$222,099	100.0 %		\$194,003	100.0 %

The following table shows total portfolio investment activity as of and for the six months ended June 30, 2018 and the years ended December 31, 2017 and 2016:

	For the Six Months Ended June 30, 2018 (In thousands)			For the Year Ended December 31, 2017 2016	
Beginning portfolio	\$222,099	\$194,003	\$250,267		
New debt investments	40,525	139,256	59,858		
Less refinanced debt investments	(2,479)	(3,700)			
Net new debt investments	38,046	135,556	59,858		
Investment in controlled affiliated investments	4,069				
Principal received on investments	(13,977)	(30,477)	(49,403)		
Early pay-offs	(20,325)	(72,613)	(46,357)		
Accretion of debt investment fees	1,081	1,881	1,562		
New debt investment fees	(1,509)	(1,705)	(931)		
New equity	1,016		84		
Sale of investments	(3,066)	(1,840)	(984)		
Net realized loss on investments	(302)	(21,191)	(7,696)		
Net unrealized (depreciation) appreciation on investments	(665)	18,485	(12,397)		
Ending portfolio	\$226,467	\$222,099	\$194,003		

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

The following table shows our debt investments by industry sector as of June 30, 2018 and December 31, 2017 and 2016:

	June 30, 2018			December 31, 2017			December 31, 2016		
	Debt	Percentage		Debt	Percentage		Debt	Percentage	
	Investments of	Total		Investments of	Total		Investments of	Total	
	at Fair	Portfolio		at Fair	Portfolio		at Fair	Portfolio	
	Value			Value			Value		
	(Dollars in thousands)								
Life Science									
Biotechnology	\$25,448	12.5	%	\$15,015	7.4	%	\$40,612	21.8	%
Drug Delivery	1,473	0.7		6,830	3.4				
Medical Device	32,985	16.2		36,173	17.7		13,003	7.0	
Technology									
Communications	23,583	11.6		19,549	9.6		76	0.1	
Consumer-Related	3,622	1.8		10,918	5.3		20,631	11.1	
Internet and Media	38,144	18.8		38,899	19.1		7,933	4.2	
Materials	8,541	4.2		9,324	4.6		9,874	5.3	
Networking							3,306	1.8	
Power Management	853	0.4		1,234	0.6		2,220	1.2	
Semiconductors	3,379	1.7		3,345	1.6		7,528	4.0	
Software	48,223	23.7		53,994	26.5		53,349	28.7	
Cleantech									
Energy Efficiency							1,942	1.0	
Waste Recycling							5,964	3.2	
Healthcare Information and									
Services									
Diagnostics							4,081	2.2	
Other							5,770	3.1	
Software	17,208	8.4		8,512	4.2		9,897	5.3	
Total	\$203,459	100.0	%	\$203,793	100.0	%	\$186,186	100.0	%

The largest debt investments in our portfolio may vary from period to period as new debt investments are originated and existing debt investments are repaid. Our five largest debt investments represented 30%, 29% and 24% of total debt investments outstanding as of June 30, 2018 and December 31, 2017 and 2016, respectively. No single debt investment represented more than 10% of our total debt investments as of June 30, 2018 or December 31, 2017 and 2016.

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We use an internal credit rating system which rates each debt investment 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 debt investment, there is potential for future loss of principal. A rating of 1 represents a deteriorating credit quality and a high degree of risk of loss of principal. Our internal credit rating system is not a national credit rating system. As of June 30, 2018, December 31, 2017 and 2016, our debt investments had a weighted average credit rating of 3.0. The following table shows the classification of our debt investment portfolio by credit rating as of June 30, 2018 and December 31, 2017 and 2016:

Credit Rating	June 30, 2018			December 31, 2017			December 31, 2016		
	Number of Debt Investments	at Fair Value	Percentage of Debt Investments	Number of Debt Investments	at Fair Value	Percentage of Debt Investment	Number of Debt Investments	at Fair Value	Percentage of Debt Investments
	(Dollars in thousands)								
4	4	\$ 19,685	9.7 %	4	\$ 18,701	9.2 %	6	\$ 29,721	16.0 %
3	25	166,317	81.7	25	176,560	86.6	28	131,605	70.6
2	4	17,457	8.6	3	5,632	2.8	6	13,360	7.2
1				1	2,900	1.4	4	11,500	6.2
Total	33	\$ 203,459	100.0 %	33	\$ 203,793	100.0 %	44	\$ 186,186	100.0 %

As of June 30, 2018, there were no debt investments with an internal credit rating of 1. As of December 31, 2017, there was one debt investment with an internal credit rating of 1, with a cost of \$3.0 million and a fair value of \$2.9 million. As of December 31, 2016, there were four debt investments with an internal credit rating of 1, with a cost of \$26.2 million and a fair value of \$11.5 million.

Horizon Secured Loan Fund I LLC

On June, 1 2018, we and Arena Sunset SPV, LLC, or Arena, formed a joint venture, HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. HSLFI was formed as a Delaware limited liability company and is not consolidated by either us or Arena for financial reporting purposes. Investments held by HSLFI are measured at fair value. As of June 30, 2018, HSLFI had total assets of \$9.6 million. HSLFI's portfolio consisted of debt investments in one portfolio company as of June 30, 2018. As of June 30, 2018, HSLFI had no investments on non-accrual status. HSLFI invests in portfolio companies in the same industries in which we may directly invest.

We provide capital (in the form of cash or securities in portfolio companies) to HSLFI in exchange for limited liability company equity interests in HSLFI. As of June 30, 2018, we and Arena each owned 50.0% of the equity interests of HSLFI. Our investment in HSLFI consisted of an equity contribution of \$4.0 as of June 30, 2018. As of June 30, 2018, we had commitments to fund equity interests in HSLFI of \$25.0 million, of which \$21.0 was unfunded.

We and Arena each appointed two members to HSLFI's four-person board of managers. All material decisions with respect to HSLFI, including those involving its investment portfolio, require unanimous approval of a quorum of the

board of managers. Quorum is defined as (i) the presence of two members of the board of managers; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of managers, provided that the individual that was elected, designated or appointed by the member with only one individual present will be entitled to cast two votes on each matter; or (iii) the presence of all four members of the board of managers.

Horizon Funding I, LLC, or HFI, was formed as a Delaware limited liability company on June 1, 2018, with HSLFI as its sole equity member. HFI is a special purpose bankruptcy-remote entity and is a separate legal entity from HSLFI. Any assets conveyed to HFI are not available to creditors of HSLFI or any other entity other than HFI's lenders.

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In addition, on June 1, 2018, HSLFI entered into a sale and servicing agreement with HFI, as Issuer, and us, as Servicer, pursuant to which HSLFI will sell or contribute to HFI certain secured loans made to certain portfolio companies. HFI entered into a Note Funding Agreement with several entities owned or affiliated with New York Life Insurance Company, or the Noteholders, for an aggregate purchase price of up to \$100.0 million, with an accordion feature of up to \$200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. The Note Funding Agreement has an investment period that ends on June 1, 2020, if not extended, followed by a five year amortization period and a scheduled final payment date of June 10, 2025, subject to any extension of the investment period. The interest rate is based on the three year USD mid-market swap rate plus a margin of between 2.75% and 3.25% depending on the rating of the notes at the time the amount is borrowed. There were no advances made by the Noteholders as of June 30, 2018.

The following table shows a summary of HSLFI's investment portfolio:

	For the period June 1, 2018 through June 30, 2018
Total investments at fair value	\$ 8,137
Dollar-weighted annualized yield on average debt investments ⁽¹⁾	11.0 %
Number of portfolio companies in the HSLFI	1
Largest portfolio company investment at fair value	\$ 8,137

HSLFI calculates 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 (1) on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The yield on dollar-weighted average debt investments represents the portfolio yield and does not reflect expenses.

The following table shows HSLFI's individual investments as of June 30, 2018:

Portfolio Company ⁽¹⁾	Sector	Type of Investment ⁽²⁾⁽³⁾⁽⁴⁾	Principal Amount	Cost of Investments ⁽⁵⁾ (In thousands)	Fair Value ⁽⁶⁾
Debt Investments Technology					
New Signature US, Inc. ⁽⁷⁾	Software	Term Loan (10.59% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/21)	\$ 8,250	\$ 8,080	\$ 8,080
Total Debt Investments	Technology			8,080	8,080
Warrant Investments Technology					
BSI Platform Holdings, LLC ⁽⁷⁾	Software	412,500 Preferred Stock Warrants		57	57

Total Warrant Investments	Technology	57	57
Total Portfolio Investment Assets		\$ 8,137	\$8,137

- (1) All investments of HSLFI are in entities which are organized under the laws of the United States and have a principal place of business in the United States.
- All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to HSLFI's debt investments. Interest rate is the annual interest rate on the debt investment and does not include ETPs and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt
- (2) investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on LIBOR are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of June 30, 2018 is provided.

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ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable debt investment, including upon any prepayment, and are a fixed percentage of the original principal balance of the debt investments unless otherwise noted. Interest will accrue during the life of the debt investment on each ETP and will be recognized as non-cash income until it is actually paid.

(4) Warrants are non-income producing.

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

(6) The fair value of the investment was valued using significant unobservable inputs.

(7) New Signature US, Inc. is a subsidiary of BSI Platform Holdings, LLC.

The following table provides HSLFI's unfunded commitments by portfolio company as of June 30, 2018:

	June 30, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
New Signature US, Inc.	\$ 3,000	\$ 30
Total	\$ 3,000	\$ 30

The following tables show certain summarized financial information for HSLFI as of June 30, 2018 and for the period June 1, 2018 through June 30, 2018:

	June 30, 2018 (In thousands)
Selected Statement of Assets and Liabilities Information	
Total investments at fair value (cost of \$8,137)	\$ 8,137
Cash and cash equivalents	56
Other assets	1,388
Total assets	\$ 9,581
Other liabilities	\$ 1,511
Total liabilities	1,511
Members' equity	8,070
Total liabilities and members' equity	\$ 9,581

	For the period June 1, 2018 through June 30, 2018 (In thousands)
Selected Statements of Operations Information	
Interest income on investments	\$ 5

Total expenses	\$ 22
Net decrease in net assets resulting from operations	\$ (17)

Consolidated results of operations for the three and six months ended June 30, 2018 and 2017

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.

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The following table shows consolidated results of operations for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,	
	2018	2017
	(In thousands)	
Total investment income	\$ 7,313	\$ 5,878
Total expenses	4,182	3,124
Performance based incentive fee waived	(159)	
Net expenses	4,023	3,124
Net investment income	3,290	2,754
Net realized (loss) gain on investments	(153)	176
Net unrealized depreciation on investments	(207)	(2,197)
Net increase in net assets resulting from operations	\$ 2,930	\$ 733
Average debt investments, at fair value	\$ 191,765	\$ 159,879
Average borrowings outstanding	\$ 88,672	\$ 56,989

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

Investment income

Total investment income increased by \$1.4 million, or 24.4%, to \$7.3 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. For the three months ended June 30, 2018, total investment income consisted primarily of \$6.9 million in interest income from investments, which included \$1.4 million in income from the accretion of origination fees and ETPs and \$0.4 million in fee income. Interest income on investments increased by \$1.5 million, or 26.9%, for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. Interest income on investments increased primarily due to an increase of \$31.9 million, or 19.9%, in the average size of our investment portfolio and an increase in one month LIBOR which is the base rate for most of our variable rate debt investments for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. Fee income, which includes success fee and prepayment fee income on debt investments, remained flat for the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

For the three months ended June 30, 2018 and 2017, our dollar-weighted annualized yield on average debt investments (excluding any yield from warrants, equity, other investments and HSLFI) was 15.3% and 14.7%, respectively. We calculate the dollar-weighted yield on average debt investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average debt investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

For the three months ended June 30, 2018 and 2017, our investment portfolio (including any yield from warrants,

equity and other investments but excluding any yield from HSLFI) had an overall total yield of 13.9% and 13.5%, respectively. We calculate the dollar-weighted yield on average investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of investments outstanding (excluding HSLFI) on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

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Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 32% and 28% of investment income for the three months ended June 30, 2018 and 2017, respectively.

Expenses

Net expenses increased by \$0.9 million, or 28.8%, to \$4.0 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by \$0.4 million, or 33.9%, to \$1.5 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of \$31.7 million, or 55.6%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017, which was partially offset by a decrease in our effective cost of debt.

Base management fee expense increased by \$0.2 million, or 22.5%, to \$1.1 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. Base management fee increased primarily due to an increase of \$31.9 million, or 19.9%, in the average size of our investment portfolio for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017.

On March 6, 2018, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2018 and ending on December 31, 2018. Such waived incentive fees will not be subject to recoupment. During the three months ended June 30, 2018, our Advisor waived performance based incentive fees of \$0.2 million which our Advisor would have otherwise earned. This resulted in \$0.2 million of reduced expense and additional net investment income for the three months ended June 30, 2018.

Performance based incentive fee expense, net of the waiver above, increased by \$0.4 million, or 103.2%, to \$0.8 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 due to an increase in the cap on incentive fees, or the Incentive Fee Cap, calculated based on the incentive fee cap and deferral mechanism in our Investment Management Agreement. This resulted in \$0.2 million of reduced expense and additional net investment income for the three months ended June 30, 2017. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap for the three months ended June 30, 2017 due to the cumulative incentive fees paid exceeding 20% of cumulative pre-incentive fee net return since July 1, 2014.

Administrative fee expense, professional fees and general and administrative remained flat at \$0.7 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

Net realized gains and losses and net unrealized appreciation and depreciation

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

appreciation or depreciation when gains or losses are realized.

During the three months ended June 30, 2018, we realized net losses totaling \$0.2 million primarily due to the write off of warrants in four portfolio companies. During the three months ended June 30, 2017, we realized net gains totaling \$0.2 million primarily due to the realized gains on the sale of equity received upon the exercise of warrants.

During the three months ended June 30, 2018, net unrealized depreciation on investments totaled \$0.2 million which was primarily due to unrealized depreciation on two public warrant investments. During

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the three months ended June 30, 2017, net unrealized depreciation on investments totaled \$2.2 million which was primarily due to the unrealized depreciation on two debt investments.

Comparison of the six months ended June 30, 2018 and 2017

The following table shows consolidated results of operations for the six months ended June 30, 2018 and 2017:

	For the Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Total investment income	\$ 14,488	\$ 12,841
Total expenses	8,147	6,720
Performance based incentive fee waived	(159)	
Net expenses	7,988	6,720
Net investment income	6,500	6,121
Net realized loss on investments	(302)	(10,670)
Net unrealized (depreciation) appreciation on investments	(665)	8,934
Net increase in net assets resulting from operations	\$ 5,533	\$ 4,385
Average debt investments, at fair value	\$ 196,143	\$ 170,225
Average borrowings outstanding	\$ 92,005	\$ 71,442

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

Investment income

Total investment income increased by \$1.6 million, or 12.8%, to \$14.4 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. For the six months ended June 30, 2018, total investment income consisted primarily of \$13.6 million in interest income from investments, which included \$2.6 million in income from the accretion of origination fees and ETPs and \$0.9 million in fee income. Interest income on investments increased by \$1.9 million, or 16.5%, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Interest income on investments increased primarily due to an increase of \$25.9 million, or 15.2%, in the average size of our investment portfolio for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by \$0.3 million, or 24.7%, to \$0.9 million primarily due to a decrease in fees earned on lower principal prepayments received during the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

For the six months ended June 30, 2018 and 2017, our dollar-weighted annualized yield on average debt investments (excluding any yield from warrants, equity, other investments and HSLFI) was 14.8% and 15.1%, respectively. We calculate the dollar-weighted yield on average debt investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average debt investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

For the six months ended June 30, 2018 and 2017, our investment portfolio (including any yield from warrants, equity and other investments but excluding any yield from HSLFI) had an overall total yield of 13.5% and 14.1%, respectively. We calculate the dollar-weighted yield on average investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of investments outstanding (excluding HSLFI) 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

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period. The dollar-weighted annualized yield on average investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 31% and 21% of investment income for the six months ended June 30, 2018 and 2017, respectively.

Expenses

Net expenses increased by \$1.3 million, or 18.9%, to \$8.0 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense increased by \$0.5 million, or 22.2%, to \$2.9 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of \$20.6 million, or 28.8%, for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017, which was partially offset by a decrease in our effective cost of debt.

Base management fee expense increased by \$0.3 million, or 18.3%, to \$2.2 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. Base management fee increased primarily due to an increase of \$25.9 million, or 15.2%, in the average size of our investment portfolio for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017.

On March 6, 2018, our Advisor irrevocably waived the receipt of incentive fees related to the amounts previously deferred that it may be entitled to receive under the Investment Management Agreement for the period commencing on January 1, 2018 and ending on December 31, 2018. Such waived incentive fees will not be subject to recoupment. During the six months ended June 30, 2018, our Advisor waived performance based incentive fees of \$0.2 million which our Advisor would have otherwise earned. This resulted in \$0.2 million of reduced expense and additional net investment income for the six months ended June 30, 2018.

Performance based incentive fee expense, net of waiver, increased by \$0.5 million, or 63.6%, to \$1.4 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 due to an increase in the Incentive Fee Cap calculated based on the incentive fee cap and deferral mechanism in our Investment Management Agreement. This resulted in \$0.2 million and \$0.6 million, respectively, of reduced expense and additional net investment income for the six months ended June 30, 2018 and 2017. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap for the six months ended June 30, 2018 due to the cumulative incentive fees paid exceeding 20% of cumulative pre-incentive fee net return during the applicable quarter and the 11 preceding full calendar quarters. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap for the six months ended June 30, 2017 due to the cumulative incentive fees paid exceeding 20% of cumulative pre-incentive fee net return since July 1, 2014.

Administrative fee expense, professional fees and general and administrative remained flat for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Net realized gains and losses and net unrealized appreciation and depreciation

Realized gains or losses on investments are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized. Realized gains or losses on investments include 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 six months ended June 30, 2018, we realized net losses totaling \$0.3 million primarily due to the write off of warrants in seven portfolio companies. During the six months ended June 30, 2017, we

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realized net losses totaling \$10.7 million primarily due to the resolution of two debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants.

During the six months ended June 30, 2018, net unrealized depreciation on investments totaled \$0.7 million which was primarily due to the unrealized depreciation on one debt investment and the unrealized depreciation on two public warrant investments. During the six months ended June 30, 2017, net unrealized appreciation on investments totaled \$8.9 million which was primarily due to reversal of previously recorded unrealized depreciation on two debt investments that were settled during the period, partially offset by the unrealized depreciation on two debt investments.

Consolidated results of operations for the years ended December 31, 2017, 2016 and 2015

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.

The following table shows consolidated results of operations for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
	(In thousands)		
Total investment income	\$25,777	\$32,984	\$31,110
Total expenses	13,534	15,972	17,460
Management and performance based incentive fees waived	(79)		(346)
Net expenses	13,455	15,972	17,114
Net investment income before excise tax	12,322	17,012	13,996
Provision (credit) for excise tax	25	(87)	
Net investment income	12,297	17,099	13,996
Net realized loss on investments	(21,191)	(7,776)	(1,650)
Net unrealized appreciation (depreciation) on investments	18,485	(14,236)	(490)
Net increase (decrease) in net assets resulting from operations	\$9,591	\$(4,913)	\$11,856
Average debt investments, at fair value	\$170,685	\$221,257	\$219,848
Average borrowings outstanding	\$75,960	\$102,875	\$87,976

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

Investment income

Total investment income decreased by \$7.2 million, or 21.8%, to \$25.8 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. For the year ended December 31, 2017, total investment income consisted primarily of \$23.8 million in interest income from investments, which included \$5.8 million in income from

the accretion of origination fees and ETPs and \$2.0 million in fee income. Interest income on investments decreased by \$7.6 million, or 24.3%, to \$23.8 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Interest income on investments decreased primarily due to a decrease of \$50.6 million, or 22.9%, in the average size of our investment portfolio for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Our average investment portfolio decreased during the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily as a result of prepayments of existing investments which occurred late in 2016. These prepayments resulted in a lower beginning balance for 2017 and investment growth did not occur until the last quarter of 2017. Fee income, which includes success fee and prepayment fee income on debt

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investments, increased by \$0.4 million, or 26.9%, primarily due to fees earned on higher principal prepayments received during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Total investment income increased by \$1.9 million, or 6.0%, to \$33.0 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. For the year ended December 31, 2016, total investment income consisted primarily of \$31.4 million in interest income from investments, which included \$8.3 million in income from the accretion of origination fees and ETPs and \$1.6 million in fee income. Interest income on investments increased by \$2.7 million, or 9.6%, to \$31.4 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Interest income on investments increased primarily due to the larger amount of ETPs earned during the year ended December 31, 2016 compared to the year ended December 31, 2015. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by \$0.9 million, or 35.5%, primarily due to a lower average prepayment fee rate earned during the year ended December 31, 2016 compared to the year ended December 31, 2015, along with a lower amount of success fees earned during the year ended December 31, 2016 compared to the year ended December 31, 2015.

For the years ended December 31, 2017, 2016 and 2015, our dollar-weighted yield on average debt investments (excluding any yield from warrants, equity and other investments) was 15.1%, 14.9% and 14.2%, respectively. We calculate the yield on dollar-weighted average debt investments for any period as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted yield on average debt investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

For the years ended December 31, 2017, 2016 and 2015, our investment portfolio (including any yield from warrants, equity and other investments) had an overall total yield of 14.0%, 14.4% and 13.7%, respectively. We calculate the yield on dollar-weighted average investments for any period as (1) total investment income during the period divided by (2) the average of the fair value of investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted yield on average investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

Investment income, consisting of interest income and fees on debt investments, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments in the aggregate accounted for 14%, 17% and 14% of investment income for the years ended December 31, 2017, 2016 and 2015, respectively.

Expenses

Total net expenses decreased by \$2.5 million, or 15.8%, to \$13.5 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Total net expenses decreased by \$1.1 million, or 6.7%, to \$16.0 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Total expenses for each period consisted of interest expense, base management fee, incentive and administrative fees, professional fees and general and administrative expenses.

Interest expense decreased by \$0.7 million, or 12.1%, to \$5.2 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Interest expense, which includes the amortization of debt issuance costs, decreased primarily due to a decrease in average borrowings of \$26.9 million, or 26.2%, which was partially

offset by the acceleration of \$0.2 million of unamortized debt issuance costs related to the redemption of our 7.375% notes due 2019, or the 2019 Notes, and an increase in our effective cost of debt for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Interest expense increased by \$0.1 million, or 2.1%, to \$5.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of \$14.9 million, or 16.9%, which was partially offset by a decrease in our effective cost of debt for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

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Base management fee expense decreased by \$0.9 million, or 19.9%, to \$3.8 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Base management fee expense decreased primarily due to a decrease of \$50.6 million, or 22.9%, in the average size of our investment portfolio for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Base management fee expense increased by \$0.3 million, or 7.4%, to \$4.7 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, after giving effect to waivers of \$0.3 million in base management fees for the year ended December 31, 2015. Base management fee increased for the year ended December 31, 2016 compared to December 31, 2015 primarily due to the waiver of base management fees of \$0.3 million in 2015 in connection with the public offering of our common stock that closed on March 24, 2015, or the 2015 Offering.

As noted above, our Advisor agreed to waive its base management fee relating to the proceeds raised in the 2015 Offering, to the extent such fee was not otherwise waived and regardless of the application of the proceeds raised, until the earlier to occur of (i) March 31, 2016 or (ii) the last day of the second consecutive calendar quarter in which our net investment income exceeded distributions declared on shares of our common stock for the applicable quarter. During the year ended December 31, 2015, our Advisor waived \$0.3 million of base management fees. As of December 31, 2015, condition (ii) above had been met, as our net investment income exceeded distributions declared for the quarters ended September 30, 2015 and December 31, 2015.

Performance based incentive fee expense, net of waivers, decreased by \$0.5 million, or 23.1%, to \$1.6 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Performance based incentive fee expense decreased due to a decrease of \$5.3 million, or 27.5%, to \$13.9 million in Pre-Incentive Fee Net Investment Income for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The Incentive Fee Cap and Deferral Mechanism resulted in \$1.1 million of reduced incentive fee expense and thus increased net investment income for the year ended December 31, 2017. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism during the year ended December 31, 2017 due to the cumulative incentive fees paid to the Advisor exceeding the Cumulative Pre-Incentive Fee Net Return during the Incentive Fee Look-Back Period. (See Item 1 above, Investment Management Agreement.) Performance based incentive fee expense decreased by \$1.4 million, or 39.3%, to \$2.1 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Performance based incentive fee expense decreased because the incentive fee expense for the three months ended September 30, 2016 and December 31, 2016 was limited by the incentive fee cap and deferral mechanism under our Investment Management Agreement. This resulted in \$1.7 million of reduced expense and additional net investment income for the year ended December 31, 2016. The incentive fee on pre-incentive fee net investment income was subject to the incentive fee cap and deferral mechanism due to net realized and unrealized losses in the portfolio during the year ended December 31, 2016 totaling \$22.0 million.

Administrative fee expense decreased by \$0.2 million, or 19.6%, to \$0.7 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Administrative fee expense decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Administrative fee expense decreased by \$0.3 million, or 22.7%, to \$0.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Administrative fee expense decreased primarily due to a decrease in our allocated costs of compensation incurred by the Advisor on our behalf for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

In 2017 and 2016, we elected to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. For the years ended December 31, 2017 and 2016, we elected to carry forward taxable income in excess of current year distributions of \$1.0 million and \$1.8 million, respectively. At December 31, 2017 and 2016, excise tax payable of \$0.03 million and \$0.1 million, respectively, was recorded.

Professional fees and general and administrative expenses primarily include legal and audit fees and insurance premiums. These expenses were \$2.2 million, \$2.3 million and \$2.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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Net realized gains and losses and net unrealized appreciation and depreciation

Realized gains or losses on investments are measured by the difference between the net proceeds from the repayment or sale and the cost basis of our investments without regard to unrealized appreciation or depreciation previously recognized. Realized gains or losses on investments include 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, 2017, we realized net losses totaling \$21.2 million primarily due to the resolution of four debt investments partially offset by realized gains on the sale of equity received upon the exercise of warrants. One debt investment was settled, which resulted in a realized loss of \$5.8 million and unrealized appreciation of \$5.8 million. One debt investment was settled for net cash proceeds of \$1.3 million, which resulted in a realized loss of \$3.0 million and unrealized appreciation of \$2.8 million. Two debt investments were settled for a royalty and sale agreements collectively fair valued at \$7.5 million, which resulted in a realized loss of \$12.4 million and unrealized appreciation of \$11.8 million. During the year ended December 31, 2016, we realized net losses totaling \$7.8 million primarily due to the resolution of three debt investments. One debt investment was settled for net cash proceeds of \$3.6 million, which resulted in a realized loss of \$4.5 million and unrealized appreciation of \$4.6 million. One debt investment was settled for net cash proceeds of \$0.2 million and a royalty and sale agreement fair valued at \$0.4 million, which resulted in a realized loss of \$2.2 million and unrealized appreciation of \$2.2 million. One debt investment was settled for cash proceeds which resulted in a realized loss of \$0.9 million and unrealized appreciation of \$0.7 million. During the year ended December 31, 2015, we realized net losses totaling \$1.7 million primarily due to the resolution of one debt investment partially offset by realized gains on the sale of equity received upon the exercise of warrants. The debt investment was settled for a net cash payment of \$4.9 million, which resulted in a realized loss of \$1.8 million and unrealized appreciation of \$1.8 million.

During the year ended December 31, 2017, net unrealized appreciation on investments totaled \$18.5 million which was primarily due to the reversal of previously recorded unrealized depreciation on four debt investments that were settled during the period. During the year ended December 31, 2016, net unrealized depreciation on investments totaled \$14.2 million which was primarily due to the unrealized depreciation on three debt investments offset by the reversal of previously recorded unrealized depreciation on one debt investment. During the year ended December 31, 2015, net unrealized depreciation on investments totaled \$0.5 million which was primarily due to the unrealized depreciation on one debt investment offset by the reversal of previously recorded unrealized depreciation on one debt investment that was settled during the period, described above.

Liquidity and capital resources

As of June 30, 2018 and December 31, 2017 and 2016, we had cash of \$10.8 million, \$6.6 million and \$37.1 million, respectively. Cash is available to fund new investments, reduce borrowings, pay expenses, repurchase common stock and pay distributions. Our primary sources of capital have been from our public and private equity offerings, use of our revolving credit facilities, issuance of our 7.375% notes due 2019, or the 2019 Notes and issuance of the 2022 Notes.

On April 27, 2018, our Board extended a previously authorized stock repurchase program which allows us to repurchase up to \$5.0 million of our common stock at prices below our net asset value per share as reported in our most recent consolidated financial statements. Under the repurchase program, we may, but are not obligated to,

repurchase shares of our outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by us will comply with the requirements of Rule 10b-18 under the Exchange Act and any applicable requirements of the 1940 Act. Unless extended by our Board, the repurchase program will terminate on the earlier of June 30, 2019 or the repurchase of \$5.0 million of our common stock. During the three and six months ended June 30, 2018, we did not make any repurchases of our common stock. During the year ended December 31, 2017, we repurchased 5,923 shares of our common stock at an average price of \$9.97 on the open market at a total cost of \$0.1 million. During the year ended December 31, 2016, we repurchased 48,160 shares of our common stock at an average price of \$10.66 on the open market for a total cost of \$0.5 million. During the year ended

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December 31, 2015, we repurchased 113,382 shares of our common stock at an average price of \$11.53 on the open market for a total cost of \$1.3 million. From the inception of the stock repurchase program through June 30, 2018, we repurchased 167,465 shares of our common stock at an average price of \$11.22 on the open market at a total cost of \$1.9 million.

At June 30, 2018 and December 31, 2017 and 2016, the outstanding principal balance under the Key Facility was \$68.0 million, \$58.0 million and \$63.0 million, respectively. As of June 30, 2018 and December 31, 2017 and 2016, we had borrowing capacity under the Key Facility of \$32.0 million, \$37.0 million and \$32.0 million, respectively. At June 30, 2018 and December 31, 2017 and 2016, \$20.6 million, \$23.6 million and \$4.6 million, respectively, was available, subject to existing terms and advance rates.

Our operating activities provided cash of \$1.6 million for the six months ended June 30, 2018, and our financing activities provided cash of \$2.6 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments. Our financing activities provided cash primarily from advances on our Key Facility, partially offset by cash used to repay our Key Facility and pay distributions to our stockholders.

Our operating activities provided cash of \$22.0 million for the six months ended June 30, 2017, and our financing activities used cash of \$46.8 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to repay the Key Facility and pay distributions to our stockholders.

Our operating activities used cash of \$14.8 million for the year ended December 31, 2017, and our financing activities used cash of \$15.7 million for the same period. Our operating activities used cash primarily for investments made in portfolio companies, partially offset by principal payments received on our debt investments. Our financing activities used cash primarily to redeem the 2019 Notes, pay down the Key Facility and pay distributions to our stockholders, partially offset by the issuance of the 2022 Notes.

Our operating activities provided cash of \$52.3 million for the year ended December 31, 2016, and our financing activities used cash of \$35.9 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay off our Asset-Backed Notes and pay distributions to our stockholders.

Our operating activities used cash of \$31.3 million for the year ended December 31, 2015, and our financing activities provided cash of \$43.7 million for the same period. Our operating activities used cash primarily for investments made in portfolio companies, partially offset by principal payments received on our debt investments. Our financing activities provided cash primarily from the 2015 Offering and advances on our Key Facility of \$58.0 million, which was partially offset by cash used to pay down our Asset-Backed Notes, pay distributions to our stockholders and repurchase common stock under the stock repurchase program.

Our primary use of available funds is to make debt 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 to the extent permitted by the 1940 Act.

In order to remain subject to taxation as a RIC, we intend to distribute to our stockholders all or substantially all of our investment company taxable income. In addition, as a BDC, we are currently required to maintain asset coverage of at least 200%. This requirement limits the amount that we may borrow.

On March 23, 2018, President Trump signed into law the Small Business Credit Availability Act as part of an omnibus spending bill, which, among other things, amends the 1940 Act to reduce the minimum required asset coverage applicable to BDCs under the 1940 Act from 200% to 150% if certain approval and disclosure requirements are met. Before such reduced asset coverage requirement can apply to us, such reduced asset coverage requirement must be approved by either (a) a majority of our directors who have no financial interest in such approval and a majority of our directors who are not interested persons, as defined

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by the 1940 Act, of us in which case such reduced asset coverage requirement would take effect on the first anniversary of the date of such Board approval, or (b) a majority of votes cast by our stockholders at a special or annual meeting at which a quorum is present, in which case such reduced asset coverage requirement shall take effect on the day after such approval. On June 7, 2018, a required majority (as defined in Section 57(o) of the 1940 Act) of our Board approved the reduced asset coverage requirements and separately recommended that our stockholders approve the reduced asset coverage requirements at a special meeting of our stockholders. As a result, our asset coverage requirements applicable to senior securities are expected to decrease from 200% to 150% effective June 7, 2019, unless earlier approved by a majority of votes cast at the special meeting, which we intend to hold in the fall of 2018. In that case, the modified asset coverage requirements would be effective with respect to us on the day immediately following such stockholder approval.

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

Current borrowings

The following table shows our borrowings as of June 30, 2018 and December 31, 2017 and 2016:

	June 30, 2018			December 31, 2017			December 31, 2016		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
(In thousands)									
Key Facility	\$100,000	\$68,000	\$32,000	\$95,000	\$58,000	\$37,000	\$95,000	\$63,000	\$32,000
2022 Notes	37,375	37,375		37,375	37,375				
2019 Notes							33,000	33,000	
Total before debt issuance costs	137,375	105,375	32,000	132,375	95,375	37,000	128,000	96,000	32,000
Unamortized debt issuance costs attributable to term borrowings		(1,161)			(1,300)			(403)	
Total borrowings outstanding, net	\$137,375	\$104,214	\$32,000	\$132,375	\$94,075	\$37,000	\$128,000	\$95,597	\$32,000

We entered into the Key Facility effective November 4, 2013. The interest rate on the Key Facility is based upon the one-month LIBOR plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 2.09%, 1.56% and 0.77% as of June 30, 2018 and December 31, 2017 and 2016, respectively. The interest rates in effect are 5.23%, 4.61% and 4.00% as of June 30, 2018 and December 31, 2017 and 2016, respectively. The Key Facility requires the payment of an unused line fee in an amount equal to 0.50% of any unborrowed amount available under the facility annually.

The Key Facility has an accordion feature which allows for an increase in the total loan commitment to \$150 million.

The Key Facility is collateralized by debt investments held by Horizon Credit II LLC, or Credit II, and permits an advance rate of up to fifty percent (50%) of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require us to maintain a minimum net worth, to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and to comply with portfolio company concentration limits as defined in the related loan agreement. The period during which we may request advances under the Key Facility, or the Revolving Period, extends through April 6, 2021. 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 debt investments to our portfolio companies. The maturity of the Key Facility, the date on which all outstanding advances under the Key Facility are due and payable, is on April 6, 2023.

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On March 23, 2012, we issued and sold an aggregate principal amount of \$30.0 million 2019 Notes, and on April 18, 2012, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional \$3.0 million of the 2019 Notes. The 2019 Notes had a stated maturity of March 15, 2019 and were redeemable in whole or in part at our option at any time or from time to time at a redemption price of \$25 per security plus accrued and unpaid interest. The 2019 Notes bore 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 were our direct, unsecured obligations and (1) ranked equally in right of payment with our future unsecured indebtedness; (2) were senior in right of payment to any of our future indebtedness that expressly provided it was subordinated to the 2019 Notes; (3) were effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that was initially unsecured to which we subsequently granted security), to the extent of the value of the assets securing such indebtedness and (4) were structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. On October 30, 2017, or the Redemption Date, we redeemed all of the issued and outstanding 2019 Notes in an aggregate principal amount of \$33.0 million and paid accrued interest of \$0.3 million. The 2019 Notes were delisted effective on the Redemption Date.

On September 29, 2017, we issued and sold an aggregate principal amount of \$32.5 million 2022 Notes, and on October 11, 2017, pursuant to the underwriters' 30-day option to purchase additional notes, we sold an additional \$4.9 million of the 2022 Notes. The 2022 Notes have a stated maturity of September 15, 2022 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 15, 2019 at a redemption price of \$25 per security plus accrued and unpaid interest. The 2022 Notes bear interest at a rate of 6.25% per year payable quarterly on March 15, June 15, September 15 and December 15 of each year. The 2022 Notes are our direct, unsecured obligations and (1) rank equally in right of payment with our current and future unsecured indebtedness; (2) are senior in right of payment to any of our future indebtedness that expressly provides it is subordinated to the 2022 Notes; (3) are effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness and (4) are structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries. As of June 30, 2018, we were in material compliance with the terms of the 2022 Notes. The 2022 Notes are listed on the New York Stock Exchange under the symbol HTFA .

Other assets

As of June 30, 2018 and December 31, 2017 and 2016, other assets were \$2.0 million, \$1.5 million and \$2.1 million, respectively, which is primarily comprised of debt issuance costs and prepaid expenses.

Contractual obligations and off-balance sheet arrangements

The following table shows our significant contractual payment obligations and off-balance sheet arrangements as of June 30, 2018:

	Payments due by period				
	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	After 5 years
	(In thousands)				
Borrowings	\$ 105,375	\$	\$ 57,295	\$ 48,080	\$
Unfunded commitments	20,200	14,200	6,000		
Total	\$ 125,575	\$ 14,200	\$ 63,295	\$ 48,080	\$

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 June 30, 2018, we had unfunded commitments of \$20.2 million. These commitments are subject to the same underwriting and ongoing portfolio maintenance requirements as are the financial instruments that we hold on our balance sheet. In addition, these commitments are often subject to financial or non-financial milestones and other conditions to borrowing that must be achieved before the commitment can be drawn. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash

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requirements. We regularly monitor our unfunded commitments and anticipated refinancings, maturities and capital raising, to ensure that we have sufficient liquidity to fund such unfunded commitments. As of June 30, 2018, we reasonably believed that our assets would provide adequate financial resources to satisfy all of our unfunded commitments.

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

Distributions

In order to qualify and be subject to tax as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. Generally, in order to qualify as a RIC, we must derive at least 90% of our gross income for each tax year from dividends, interest, payments with respect to certain securities, loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to our business of investing in stock or other securities. We must also meet certain asset diversification requirements at the end of each quarter of each tax year. Failure to meet these diversification requirements on the last day of a quarter may result in us having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may cause us to incur substantial losses.

In addition, in order to be subject to tax as a RIC and to avoid the imposition of corporate-level tax on the income and gains we distribute to our stockholders in respect of any tax year, we are required under the Code to distribute as dividends to our stockholders out of assets legally available for distribution each tax year an amount generally at least equal to 90% of the sum of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any. Additionally, in order to avoid the imposition of a U.S. federal excise tax, we are required to distribute, in respect of each calendar year, dividends to our stockholders of an amount at least equal to the sum of 98% of our calendar year net ordinary income (taking into account certain deferrals and elections); 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one year period ending on October 31 of such calendar year; and any net ordinary income and capital gain net income for preceding calendar years that were not distributed during such calendar years and on which we previously did not incur any U.S. federal income tax. If we fail to qualify as a RIC for any reason and become subject to corporate tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. In addition, we could be required to recognize unrealized gains, incur substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings in a tax year fall below the total amount of our distributions made to stockholders in respect of such tax 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 review any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or

gains.

We have adopted an "opt out" DRIP for our common stockholders. As a result, if we declare a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically "opts out" of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes, stockholders participating in our

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DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading above net asset value, a stockholder receiving distributions in the form of additional shares of our common stock will be treated as receiving a distribution of an amount equal to the fair market value of such shares of our common stock. We may use newly issued shares to implement the DRIP, or we may purchase shares in the open market in connection with our obligations under the DRIP.

Related party transactions

We have entered into the Investment Management Agreement with the Advisor. The Advisor is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Our investment activities are managed by the Advisor and supervised by the Board, the majority of whom are independent directors. Under the Investment Management Agreement, we have agreed to pay the Advisor a base management fee as well as an incentive fee. During the six months ended June 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015, we paid the Advisor \$3.6 million, \$2.7 million, \$5.4 million, \$6.9 million and \$7.9 million, respectively, pursuant to the Investment Management Agreement.

Our Advisor is 60% owned by HTF Holdings LLC, which is 100% owned by HTF. By virtue of their ownership interest in HTF, our Chief Executive Officer, Robert D. Pomeroy, Jr. and our President, Gerald A. Michaud, may be deemed to control our Advisor.

We have also entered into the Administration Agreement with the Advisor. Under the Administration Agreement, 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, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. In addition, pursuant to the terms of the Administration Agreement the Advisor provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. During the six months ended June 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015, we paid the Advisor \$0.4 million, \$0.4 million, \$0.7 million, \$0.9 million and \$1.1 million, respectively, pursuant to the Administration Agreement.

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

We believe that we derive substantial benefits from our relationship with our Advisor. Our Advisor may manage other investment vehicles, or Advisor Funds, with the same investment strategy as us. The Advisor may provide us an opportunity to co-invest with the Advisor Funds. Under the 1940 Act, absent receipt of exemptive relief from the SEC, we and our affiliates are precluded from co-investing in negotiated investments. On November 27, 2017, we were granted exemptive relief from the SEC which permits us to co-invest with Advisor Funds, subject to certain conditions. See Risk Factors Risks related to our business and structure Our ability to enter into transactions with our affiliates is restricted, which may limit the scope of investments available to us.

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 Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board's, or FASB's, Accounting Standards Codification as amended, or ASC, 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

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the valuation technique, into a three-level fair value hierarchy. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

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

- Level 1** Quoted prices in active markets for identical assets and liabilities.
 - Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
 - Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.
- Our Board determines the fair value of investments in good faith, based on the input of management, the audit committee and independent valuation firms that have been engaged at the direction of our Board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing twelve-month period under our valuation policy and a consistently applied valuation process. The Board conducts this valuation process at the end of each fiscal quarter, with 25% (based on fair value) of our valuation of portfolio companies that do not have a readily available market quotations subject to review by an independent valuation firm.

Income recognition

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if we otherwise do not expect to receive interest and principal repayments, the debt investment is placed on non-accrual status and the recognition of interest income may be discontinued. Interest payments received on non-accrual debt investments may be recognized as income, on a cash basis, or applied to principal depending upon management's judgment at the time the debt investment is placed on non-accrual status. For the six months ended June 30, 2018 and 2017, we did not recognize any interest income from debt investments on non-accrual status. For the year ended December 31, 2017, we recognized as interest income interest payments of \$0.1 million received from one portfolio company whose debt investment was on non-accrual status. For the year ended December 31, 2016, we did not recognize interest income from debt investments on non-accrual status. For the year ended December 31, 2015, we recognized as interest income interest payments of \$0.2 million received from one portfolio company whose debt investment was on non-accrual status.

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

a level yield adjustment over the respective term of the debt investment. All other income is recorded into income when earned. Fees for counterparty debt investment commitments with multiple debt investments are allocated to each debt investment based upon each debt

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investment's relative fair value. When a debt investment is placed on non-accrual status, the amortization of the related fees and unearned income is discontinued until the debt investment is returned to accrual status.

Certain debt investment agreements also require the borrower to make an ETP that is accrued into income over the life of the debt investment 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 as loan fees and record them as unearned income on the grant date. The unearned income is recognized as interest income over the contractual life of the related debt investment in accordance with our income recognition policy. Subsequent to 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 and losses from the disposition of the warrants or stock acquired from the exercise of warrants are recognized as realized gains and losses on investments.

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

Income taxes

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid the imposition of corporate-level U.S. federal income tax on the amounts we distribute to our stockholders, among other things, we are required to meet certain source of income and asset diversification requirements, and we must timely distribute dividends to our stockholders out of assets legally available for distribution each tax year of an amount generally at least equal to 90% of our investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from incurring any material liability for 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 distributions into the next tax year and incur 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 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 ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946, *Financial Services – Investment Companies*. 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 June 30, 2018 and December 31, 2017 and 2016.

Recently adopted accounting pronouncement

In April 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which amends existing revenue recognition guidance to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual and

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interim periods beginning after December 15, 2017. As required, we adopted ASU 2014-09 effective January 1, 2018, and such adoption did not have an impact on our consolidated financial statements and disclosures.

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 debt investments within our portfolio were primarily at floating rates. We expect that our debt investments in the future will primarily have floating interest rates. As of June 30, 2018, December 31, 2017 and 2016, 99%, 99% and 96%, respectively, of the outstanding principal amount of our debt investments bore interest at floating rates. The initial commitments to lend to our portfolio companies are usually based on a floating LIBOR index.

Based on our June 30, 2018 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income), the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

Change in basis points	Interest Income (In thousands)	Interest Expense	Change in Net Assets ⁽¹⁾
Up 300 basis points	\$ 5,916	\$ 2,068	\$ 3,848
Up 200 basis points	\$ 3,864	\$ 1,379	\$ 2,485
Up 100 basis points	\$ 1,813	\$ 689	\$ 1,124
Down 300 basis points	\$ (2,221)	\$ (850)	\$ (1,371)
Down 200 basis points	\$ (2,221)	\$ (850)	\$ (1,371)
Down 100 basis points	\$ (1,790)	\$ (689)	\$ (1,101)

(1) Excludes the impact of incentive fees based on pre-incentive fee net investment income.

While our 2022 Notes bear interest at a fixed rate, our Key Facility has a floating interest rate provision, subject to a floor of 0.75% per annum, based on a LIBOR index which resets monthly, and any other credit facilities into which we enter in the future may have floating interest rate provisions. We have used hedging instruments in the past to protect us against interest rate fluctuations and we may use them in the future. Such instruments may include caps, 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 expect to 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 could increase, which would reduce our net investment income.

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Information about our senior securities is shown in the following table as of June 30, 2018 and December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011 and 2010. The information as of December 31, 2017, 2016, 2015, 2014 and 2013 was included in or derived from our consolidated financial statements for the year ended December 31, 2017, which were audited by RSM US LLP, our independent registered public accounting firm. This information about our senior securities should be read in conjunction with our audited consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities ⁽¹⁾	Asset Coverage per Unit ⁽²⁾	Involuntary Liquidation Preference per Unit ⁽³⁾	Average Market Value per Unit ⁽⁴⁾
(in thousands, except unit data)				
Credit facilities				
2018 (as of June 30)	\$ 68,000	\$ 3,517		N/A
2017	\$ 58,000	\$ 3,973		N/A
2016	\$ 63,000	\$ 3,733		N/A
2015	\$ 68,000	\$ 4,048		N/A
2014	\$ 10,000	\$ 22,000		N/A
2013	\$ 10,000	\$ 25,818		N/A
2012	\$ 56,020	\$ 4,177		N/A
2011	\$ 64,571	\$ 3,012		N/A
2010	\$ 87,425	\$ 2,455		N/A
2022 Notes				
2018 (as of June 30)	\$ 37,375	\$ 6,399		\$ 25.63
2017	\$ 37,375	\$ 6,166		\$ 25.66
2019 Notes				
2018 (as of June 30)				
2017				
2016	\$ 33,000	\$ 7,127		\$ 25.42
2015	\$ 33,000	\$ 8,342		\$ 25.26
2014	\$ 33,000	\$ 6,667		\$ 25.64
2013	\$ 33,000	\$ 7,824		\$ 25.70
2012	\$ 33,000	\$ 7,091		\$ 25.38
2013-1 Securitization				
2018 (as of June 30)				N/A
2017				N/A
2016				N/A
2015	\$ 14,546	\$ 18,926		N/A
2014	\$ 38,753	\$ 5,677		N/A
2013	\$ 79,343	\$ 3,254		N/A

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Class and Year	Total Amount Outstanding Exclusive of Treasury Securities ⁽¹⁾	Asset Coverage per Unit ⁽²⁾	Involuntary Liquidation Preference per Unit ⁽³⁾	Average Market Value per Unit ⁽⁴⁾
(in thousands, except unit data)				
Total senior securities				
2018 (as of June 30)	\$ 105,375	\$ 2,269		N/A
2017	\$ 95,375	\$ 2,416		N/A
2016	\$ 96,000	\$ 2,450		N/A
2015	\$ 115,546	\$ 2,383		N/A
2014	\$ 81,753	\$ 2,691		N/A
2013	\$ 122,343	\$ 2,110		N/A
2012	\$ 89,020	\$ 2,629		N/A
2011	\$ 64,571	\$ 3,012		N/A
2010	\$ 87,425	\$ 2,455		N/A

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

(2) Asset coverage per unit is the ratio of the original cost less accumulated depreciation, amortization or impairment of the Company's total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.

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

(4) Not applicable to the Company's credit facilities and \$189.3 million securitization of secured loans we completed on June 28, 2013, or the 2013-1 Securitization, because such securities are not registered for public trading.

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BUSINESS

General

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries. We were formed on March 16, 2010 as a Delaware corporation for the purpose of acquiring, continuing and expanding the business of our wholly-owned subsidiary, Compass Horizon, and operating as an externally managed BDC under the 1940 Act. Our investment objective is to maximize our investment portfolio's total return by generating current income from the debt investments we make and capital appreciation from the warrants we receive when making such debt investments. We are focused on making secured debt investments to venture capital backed companies in our Target Industries. We also selectively provide Venture Loans to publicly traded companies in our Target Industries. Our debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or Senior Term Loans. Venture Lending is typically characterized by, (i) the making of a secured debt investment after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company's debt service obligations under the Venture Loan, (ii) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (iii) the relatively rapid amortization of the Venture Loan and (iv) the lender's receipt of warrants or other success fees with the making of the Venture Loan.

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated for 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 a portion of 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 (or 150% if certain approval and disclosure requirements are met). The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally do not have to pay corporate-level federal income taxes on our investment company taxable income and our net capital gain that we distribute to our stockholders as long as we meet certain source-of-income, distribution, asset diversification and other requirements.

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

Our portfolio

From the commencement of operations of our predecessor on March 4, 2008 through June 30, 2018, we funded debt investments to 163 portfolio companies and invested \$1.02 billion in debt investments. As of June 30, 2018, our debt investment portfolio consisted of 33 debt investments with an aggregate fair value of \$203.5 million. As of June 30, 2018, 98.3%, or \$200.0 million, of our debt investment portfolio at fair value consisted of Senior Term Loans. As of June 30, 2018, our net assets were \$133.8 million, and all of our debt investments were secured by all or a portion of the tangible and intangible assets of the applicable portfolio company. The debt investments in our portfolio are generally not rated by any rating agency. If the individual debt investments in our portfolio were rated, they would be rated below investment grade. Debt investments that are unrated or rated below investment grade are sometimes referred to as "junk bonds" and have predominantly speculative characteristics with respect to the issuer's capacity to pay

interest and repay principal.

For the six months ended June 30, 2018, our dollar-weighted annualized yield on average debt investments (excluding any yield from warrants, equity, other investments and HSLFI) was 14.8%. We calculate the dollar-weighted yield on average debt investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average debt investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

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For the six months ended June 30, 2018, our investment portfolio (including any yield from warrants, equity and other investments but excluding any yield from HSLFI) had an overall total yield of 13.5%. We calculate the dollar-weighted yield on average investments for any period as (1) total investment income (excluding income from HSLFI) during the period divided by (2) the average of the fair value of investments outstanding (excluding HSLFI) on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted annualized yield on average investments is higher than what investors will realize because it does not reflect our expenses or any sales load paid by investors.

As of June 30, 2018, our debt investments had a dollar-weighted average term of 47 months from inception and a dollar-weighted average remaining term of 36 months. As of June 30, 2018, substantially all of our debt investments had an original committed principal amount of between \$3 million and \$20 million, repayment terms of between 18 and 60 months and bore current pay interest at annual interest rates of between 9% and 14%.

For the six months ended June 30, 2018, our total return based on market value was (4.8)%. Total return based on market value is calculated as (x) the sum of (i) the closing sales price of our common stock on the last day of the period plus (ii) the aggregate amount of distributions paid per share during the period, less (iii) the closing sales price of our common stock on the first day of the period, divided by (y) the closing sales price of our common stock on the first day of the period.

In addition to our debt investments, as of June 30, 2018, we held warrants to purchase stock, predominantly preferred stock, in 69 portfolio companies, equity positions in eight portfolio companies and success fee arrangements in seven portfolio companies.

Horizon Secured Loan Fund I LLC

On June, 1 2018, we and Arena formed a joint venture, HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. HSLFI was formed as a Delaware limited liability company and is not consolidated by either us or Arena for financial reporting purposes. HSLFI invests in portfolio companies in the same industries in which we may directly invest.

We provide capital (in the form of cash or securities in portfolio companies) to HSLFI in exchange for limited liability company equity interests in HSLFI. As of June 30, 2018, we and Arena each owned 50.0% of the equity interests of HSLFI. Our investment in HSLFI consisted of an equity contribution of \$4.0 as of June 30, 2018. As of June 30, 2018, we had commitments to fund equity interests in HSLFI of \$25.0 million, of which \$21.0 was unfunded.

We and Arena each appointed two members to HSLFI's four-person board of managers. All material decisions with respect to HSLFI, including those involving its investment portfolio, require unanimous approval of a quorum of the board of managers. Quorum is defined as (i) the presence of two members of the board of managers; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of managers, provided that the individual that was elected, designated or appointed by the member with only one individual present will be entitled to cast two votes on each matter; or (iii) the presence of all four members of the board of managers.

HFI was formed as a Delaware limited liability company on June 1, 2018, with HSLFI as its sole equity member. HFI is a special purpose bankruptcy-remote entity and is a separate legal entity from HSLFI. Any assets conveyed to HFI are not available to creditors of HSLFI or any other entity other than HFI's lenders.

In addition, on June 1, 2018, HSLFI entered into a sale and servicing agreement with HFI, as Issuer, and us, as Servicer, pursuant to which HSLFI will sell or contribute to HFI certain secured loans made to certain portfolio companies. HFI entered into a Note Funding Agreement with the Noteholders for an aggregate purchase price of up to \$100.0 million, with an accordion feature of up to \$200.0 million at the mutual discretion and agreement of HSLFI and the Noteholders. The Note Funding Agreement has an investment period that ends on June 1, 2020, if not extended, followed by a five year amortization period and a scheduled final payment date of June 10, 2025, subject to any extension of the investment period. The interest rate is

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based on the three year USD mid-market swap rate plus a margin of between 2.75% and 3.25% depending on the rating of the notes at the time the amount is borrowed. There were no advances made by the Noteholders as of June 30, 2018.

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 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 of 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 led by five senior managers including Robert D. Pomeroy, Jr., our Chief Executive Officer, Gerald A. Michaud, our President, Daniel R. Trolino, 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 Investment 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 and public 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 or unsecured debt 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 principal and have a senior position to equity and unsecured debt 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 debt investments primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.

Enterprise value lending. We and our Advisor take an enterprise value approach to structuring and underwriting loans. 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 lien position against the enterprise value of each 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, ETPs, pre-payment fees, success 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 debt investment portfolio returns, in addition to interest and fees, we frequently obtain warrants to purchase the equity of our portfolio companies as additional consideration for making debt investments. The warrants we obtain generally include a

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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 by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. 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. For public companies, our Advisor typically relies on publicly reported quarterly financials.

Use of leverage. We use leverage to increase returns on equity through our Key Facility and our 2022 Notes. See 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, the specific terms of which will be described in the particular prospectus supplement relating to that series. See Description of Debt Securities That We May Issue and Description of Preferred Stock That We May Issue for additional information about the debt securities or preferred stock we may issue.

Customized debt investment documentation process. Our Advisor employs an internally managed documentation process that assures that each debt investment transaction is documented using our enterprise value debt investment documents specifically tailored to each transaction. Our Advisor uses experienced in-house senior legal counsel to oversee the documentation and negotiation of each of our transactions.

Active portfolio management. Because many of our portfolio companies are privately held, development-stage companies in our Target Industries, our Advisor employs a hands on approach to its portfolio management processes and procedures. Our Advisor requires the private portfolio companies to provide monthly financial information, and our Advisor participates in quarterly discussions with the management and investors of our portfolio companies. Our Advisor prepares monthly management reporting and internally rates each portfolio company.

Portfolio composition. Monitoring the composition of the portfolio is an important component of the overall growth and portfolio management strategy. Our Advisor monitors the portfolio regularly to avoid undue focus in any sub-industry, stage of development or geographic area. By regularly monitoring the portfolio for these factors we attempt to reduce the risk of down market cycles associated with any particular industry, development stage or geographic area.

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Market opportunity

We focus our investments primarily in four key industries of the emerging technology market: technology, life science, healthcare information and services and cleantech. The technology sectors we focus on include communications, networking, data storage, software, cloud computing, semiconductor, internet and media and consumer-related technologies. The life science sectors we focus on include biotechnology, drug discovery, drug delivery, bioinformatics and medical devices. The healthcare information and services sectors we focus on include diagnostics, electronic medical record services and software and other healthcare related services and technologies that improve efficiency and quality of administered healthcare. The cleantech sectors we focus on include alternative energy, power management, energy efficiency, green building materials and waste recycling. We refer to all of these companies as technology-related companies because the companies are developing or offering goods and services to businesses and consumers which utilize scientific knowledge, including techniques, skills, methods, devices and processes, to solve problems. We intend, under normal market conditions, to invest at least 80% of the value of our total assets in such companies.

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:

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

Debt investment support provided by cash proceeds from equity capital provided by venture capital and private equity firms. In many cases, a Venture Lender makes a Venture Loan to a portfolio company in conjunction with, or immediately after, a substantial venture capital or private equity investment in the portfolio company. This equity capital investment supports the debt investment by initially providing a source of cash to fund the portfolio company's debt service obligations. In addition, because the debt investment ranks senior in priority of payment to the equity capital investment, the portfolio company must repay that debt before the equity capital investors realize a return on their investment. If the portfolio company subsequently becomes distressed, its venture capital and private equity investors will likely have an incentive to assist it in avoiding a payment default, which could lead to foreclosure on the secured assets. We believe that the support of venture capital and private equity investors increases the likelihood that a Venture Loan will be repaid.

Relatively rapid amortization of debt investments. Venture Loans typically require that interest payments begin within one month of closing, and principal payments typically begin within twelve months of closing, thereby returning capital to the lender and reducing the capital at risk with respect to the investment. Because Venture Loans are typically made at the time of, or soon after, a portfolio company completes a significant venture capital or private equity financing, the portfolio company usually has sufficient funds to begin making scheduled principal and interest payments even if it is not then generating revenue and/or positive cash flow. If a portfolio company is able to increase its enterprise value during the term of the debt investment (which is typically between 24 and 48 months), the lender may also benefit from a reduced loan-to-value ratio, which reduces the risk of the debt investment.

Senior ranking to equity and collateralization. A Venture Loan is typically secured by some or all of the portfolio company's assets, thus making the Venture Loan senior in priority to the equity invested in the portfolio company. In many cases, if a portfolio company defaults on its loan, the value of this collateral will provide the lender with an opportunity to recover all or a portion of its investment. Because holders of equity interests in a portfolio company will generally lose their investments before the Venture Lender experiences losses, we believe that the likelihood of losing all of our invested capital in a Venture Loan is lower than would be the case with an equity investment.

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Potential equity appreciation through warrants. Venture Lenders are typically granted warrants in portfolio companies as additional consideration for making Venture Loans. The warrants permit the Venture Lender to purchase equity securities of the portfolio companies at the same price paid by the portfolio company's investors for such preferred stock in the most recent or next equity round of the portfolio company's financing. Historically, warrants granted to Venture Lenders have generally had a term of ten years and been valued in dollar amounts equal to between 5% and 20% of the principal loan amount at the time of issuance. Warrants provide Venture Lenders with an opportunity to participate in the potential growth in value of the portfolio company, thereby increasing the potential return on investment.

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

Venture Loans are typically less dilutive than venture capital and private equity financing. Venture Loans allow a company to access the cash necessary to implement its business plan without diluting the existing investors in the company. Typically, the warrants or other equity securities issued as part of a Venture Lending transaction result in only minimal dilution to existing investors as compared to the potential dilution of a new equity round of financing. *Venture Loans extend the time period during which a portfolio company can operate before seeking additional equity financing.* By using a Venture Loan, development-stage companies can postpone the need for their next round of equity financing, thereby extending their cash available to fund operations. This delay can provide portfolio companies with additional time to improve technology, achieve development milestones and, potentially, increase the company's valuation before seeking more equity investments.

Venture Loans allow portfolio companies to better match cash sources with uses. Debt is often used to fund infrastructure costs, including office space and laboratory equipment. The use of debt to fund infrastructure costs allows a portfolio company to spread these costs over time, thereby conserving cash at a stage when its revenues may not be sufficient to cover expenses. Similarly, working capital financing may be used to fund selling and administrative expenses ahead of anticipated corresponding revenue. In both instances, equity capital is preserved for research and development expenses or future expansion.

Competitive strengths

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

Consistently execute commitments and close transactions. Our Advisor and its senior management and investment professionals have an extensive track record of originating, underwriting and managing Venture Loans. Our Advisor and its predecessor have directly originated, underwritten and managed Venture Loans with an aggregate original principal amount over \$1.5 billion to more than 230 companies since operations commenced in 2004. In our experience, prospective portfolio companies prefer lenders that have demonstrated their ability to deliver on their commitments.

Robust direct origination capabilities. Our Advisor has significant experience originating Venture Loans in our Target Industries. This experience has given our Advisor 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's senior management team of experienced professionals has been together since our 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.

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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 230 companies in our Target Industries under the Horizon Technology Finance brand. Each of these companies is backed by one or more venture capital or private equity firms. We believe that the Horizon Technology Finance brand, as a competent, knowledgeable and active participant in the Venture Lending marketplace will continue to result in a significant number of referrals and prospective investment opportunities in our Target Industries.

Stages of development of venture capital and private equity-backed companies

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

Stages of Development

Investment criteria

We seek to invest in companies that vary 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.

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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 committed partners 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 its 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 market opportunities that capitalize on their competitive advantages. Competitive advantages may include unique technology, protected intellectual property, superior clinical results or significant market traction. As part of our investment analysis, we 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 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.

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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. The process includes obtaining and analyzing publicly available 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 primary element of the due diligence process is interviewing key existing investors of 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 Investment Officer and then submitted to our Advisor's investment committee for approval.

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 financing statements and, as applicable, may also include a landlord agreement, patent and trademark security grants, a subordination agreement, an intercreditor 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 Investment 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 or more frequent basis. Our Advisor requires all private companies to provide financial statements, typically monthly. For public companies, our Advisor

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typically relies on publicly reported quarterly financials. This allows our Advisor to identify any unexpected developments in the financial performance or condition of our portfolio company.

Our Advisor has developed a proprietary internal credit rating system to analyze the quality of our debt investments. Using this system, our Advisor analyzes and then rates the credit risk within the portfolio on a quarterly 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 than existed at the time of its original underwriting. A rating of 2 or 1 represents a deteriorating credit quality and an increased risk of loss of principal. 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 following table describes each rating level:

Rating

4	The portfolio company has performed in excess of our expectations 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 have no expected risk of principal loss.
3	The portfolio company has performed to our expectations as demonstrated by meeting 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. New loans are typically rated 3 when approved and thereafter 3-rated loans represent a standard risk profile, with no principal loss currently expected.
2	The portfolio company has performed below our expectations 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 of loss of principal. While no loss is currently anticipated for a 2-rated loan, there is potential for future loss of principal.

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Rating

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 of principal.

For a discussion of the ratings of our existing portfolio, see Management's Discussion and Analysis of Financial Condition and Results of Operations Debt investment 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.

Although we may receive fees for these services, pursuant to the Administration Agreement, we will reimburse our Advisor for its expenses related to providing such services on our behalf.

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

Employees

We do not have any employees. Each of our executive officers described under Management is an employee of our Advisor. 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.

Properties

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

Legal Proceedings

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

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PORTFOLIO COMPANIES

The following table sets forth certain information as of June 30, 2018 for each portfolio company in which we had a debt, equity or other investment. Other than these investments, our only relationships with our portfolio companies involve the managerial assistance we may separately provide to our portfolio companies, such services being ancillary to our investments, and the board observer or participation rights we may receive in connection with our investment. We do not control any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would control a portfolio company if we owned more than 25% of its voting securities.

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