

Horizon Technology Finance Corp  
Form 10-Q  
August 07, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012 OR**

**OR**

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

**FOR THE TRANSITION PERIOD FROM** \_\_\_\_\_ **TO** \_\_\_\_\_

**COMMISSION FILE NUMBER: 814-00802**

**HORIZON TECHNOLOGY FINANCE CORPORATION**

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

**DELAWARE**

*(State or other jurisdiction of incorporation or organization)*

**27-2114934**

*(I.R.S. Employer Identification No.)*

**312 Farmington Avenue**  
**Farmington, CT**  
*(Address of principal executive offices)*

**06032**  
*(Zip Code)*

**Registrant's telephone number, including area code (860) 676-8654**  
**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.001 per share	The NASDAQ Global Select Market

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

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

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

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

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

As of August 7, 2012, the Registrant had 9,551,348 shares of common stock, \$0.001 par value, outstanding.

**HORIZON TECHNOLOGY FINANCE CORPORATION****FORM 10-Q****TABLE OF CONTENTS**

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## Forward-Looking Statements

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

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

- our ability to access capital and any future financings by us;
- the ability of our Advisor to attract and retain highly talented professionals; and
- the impact of changes to tax legislation and, generally, our tax position.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2011 and elsewhere in this quarterly report on Form 10-Q.

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

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

	June 30, 2012	December 31, 2011
<b>Assets</b>		
Non-affiliate investments at fair value (cost of \$199,053 and \$180,651, respectively) (Note 4)	\$ 195,600	\$ 178,013
Investment in money market funds	6,329	13,518
Cash	1,177	1,298
Interest receivable	3,220	2,985
Other assets (Note 2)	3,472	1,997
<b>Total assets</b>	<b>\$ 209,798</b>	<b>\$ 197,811</b>
<b>Liabilities</b>		
Borrowings (Note 6)	\$ 80,377	\$ 64,571
Base management fee payable (Note 3)	350	330
Incentive fee payable (Note 3)	412	1,766
Other accrued expenses	799	1,260
<b>Total liabilities</b>	<b>81,938</b>	<b>67,927</b>
<b>Net assets</b>		
Preferred stock, par value \$0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2012 and December 31, 2011	—	—
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 7,642,348 and 7,636,532 shares outstanding as of June 30, 2012 and December 31, 2011, respectively	8	8
Paid-in capital in excess of par	124,607	124,512
Accumulated undistributed net investment income	3,701	4,965
Net unrealized depreciation on investments	(3,453 )	(2,659 )
Net realized gains on investments	2,997	3,058
<b>Total net assets</b>	<b>127,860</b>	<b>129,884</b>
<b>Total liabilities and net assets</b>	<b>\$ 209,798</b>	<b>\$ 197,811</b>
Net asset value per common share	\$ 16.73	\$ 17.01

See Notes to Consolidated Financial Statements

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

	For the Three Months Ended June		For the Six Months Ended June	
	30,	2011	30,	2011
	2012		2012	2011
Investment income				
Interest income on non-affiliate investments	\$ 5,467	\$ 5,889	\$ 11,377	\$ 10,782
Interest income on money market funds	—	23	—	88
Fee income on non-affiliate investments	15	58	730	560
Total investment income	5,482	5,970	12,107	11,430
Expenses				
Interest expense	990	558	1,665	1,368
Base management fee (Note 3)	961	1,062	1,955	2,137
Performance based incentive fee (Note 3)	412	1,611	1,250	2,140
Administrative fee (Note 3)	246	223	502	518
Professional fees	292	227	599	545
General and administrative	323	309	525	514
Total expenses	3,224	3,990	6,496	7,222
Net investment income	2,258	1,980	5,611	4,208
Net realized and unrealized (loss) gain on investments				
Net realized (loss) gain on investments	(60 )	5,355	(61 )	5,561
Net unrealized appreciation (depreciation) on investments	18	(3,512 )	(794 )	(2,318 )
Net realized and unrealized (loss) gain on investments	(42 )	1,843	(855 )	3,243
Net increase in net assets resulting from operations	\$ 2,216	\$ 3,823	\$ 4,756	\$ 7,451
Net investment income per common share	\$ 0.30	\$ 0.26	\$ 0.74	\$ 0.55
Change in net assets per common share	\$ 0.29	\$ 0.50	\$ 0.62	\$ 0.98
Weighted average shares outstanding	7,640,833	7,601,375	7,638,721	7,597,420

See Notes to Consolidated Financial Statements

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

	Common Stock		Paid-In Capital in Excess of Par	Accumulated Undistributed (Distributions in Excess of) Net Investment Income	Net Unrealized Appreciation (Depreciation) on Investments	Net Realized Gains (Loss) on Investments	Total Net Assets
	Shares	Amount					
Balance at December 31, 2010	7,593,421	\$ 8	\$ 123,836	\$ (143 )	\$ 3,043	\$ 451	\$ 127,195
Net increase in net assets resulting from operations	—	—	—	4,208	(2,318 )	5,561	7,451
Issuance of common stock under dividend reinvestment plan	20,104	—	316	—	—	—	316
Dividends declared	—	—	—	(2,506 )	—	—	(2,506 )
Balance at June 30, 2011	7,613,525	\$ 8	\$ 124,152	\$ 1,559	\$ 725	\$ 6,012	\$ 132,456
Balance at December 31, 2011	7,636,532	\$ 8	\$ 124,512	\$ 4,965	\$ (2,659 )	\$ 3,058	\$ 129,884
Net increase in net assets resulting from operations	—	—	—	5,611	(794 )	(61 )	4,756
Issuance of common stock under dividend reinvestment plan	5,816	—	95	—	—	—	95
Dividends declared	—	—	—	(6,875 )	—	—	(6,875 )
Balance at June 30, 2012	7,642,348	\$ 8	\$ 124,607	\$ 3,701	\$ (3,453 )	\$ 2,997	\$ 127,860

See Notes to Consolidated Financial Statements



**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)**  
**(In thousands)**

	For the Six Months Ended June	
	30,	2011
	2012	2011
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 4,756	\$ 7,451
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Amortization of debt issuance costs	151	194
Net realized loss (gain) on investments	61	(5,729 )
Net unrealized depreciation on investments	794	2,318
Purchase of investments	(50,256 )	(71,156 )
Principal payments received on investments	32,120	19,700
Proceeds from sale of investments	38	5,383
Stock received in settlement of fee income	—	(482 )
Changes in assets and liabilities:		
Net decrease in investment in money market funds	7,189	23,968
Increase in interest receivable	(235 )	(763 )
(Decrease) increase in unearned loan income	(344 )	99
Increase in other assets	(324 )	(141 )
(Decrease) increase in other accrued expenses	(461 )	123
Increase (decrease) in base management fee payable	20	(11 )
(Decrease) increase in incentive fee payable	(1,354 )	1,197
Net cash used in operating activities	(7,845 )	(17,849 )
Cash flows from financing activities:		
Proceeds from issuance of senior notes	33,000	—
Net decrease in revolving borrowings	(17,194 )	(13,478 )
Dividends paid	(6,780 )	(2,190 )
Debt issuance costs	(1,302 )	—
Net cash provided by (used in) financing activities	7,724	(15,668 )
Net decrease in cash	(121 )	(33,517 )
Cash:		
Beginning of period	1,298	37,689
End of period	\$ 1,177	\$ 4,172
Cash paid for interest	\$ 1,449	\$ 1,140
Supplemental non-cash investing and financing activities:		
Warrant investments received & recorded as unearned loan income	\$ 622	\$ 1,082
Receivables resulting from sales of investments	\$ —	\$ 489

Decrease in interest rate swap liability	\$ —	\$ (159 )
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See Notes to Consolidated Financial Statements

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**Horizon Technology Finance Corporation and Subsidiaries**

**Consolidated Schedule of Investments**

**June 30, 2012**

**(In thousands)**

Portfolio Company	Type of Sector Investment	Interest Rate (3)(7)	Principal	Cost of	Fair
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