Horizon Technology Finance Corp
Form 10-Q
July 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO

COMMISSION FILE NUMBER: 814-00802

HORIZON TECHNOLOGY FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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 x 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company ¨			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of July 31, 2018 was 11,528,985.

HORIZON TECHNOLOGY FINANCE CORPORATION

FORM 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Assets and Liabilities (Unaudited)

(Dollars in thousands, except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Non-affiliate investments at fair value (cost of $216,364 and $219,303, respectively)	$215,102	$ 218,600
Non-controlled affiliate investments at fair value (cost of $7,677 and $3,774, respectively) (Note 5)	7,296	3,499
Controlled affiliate investments at fair value (cost of $4,069 and $0, respectively) (Note 5)	4,069	—
Total investments at fair value (cost of $228,110 and $223,077, respectively) (Note 4)	226,467	222,099
Cash	10,840	6,594
Interest receivable	4,053	3,986
Other assets	1,966	1,467
Total assets	$243,326	$ 234,146
Liabilities		
Borrowings (Note 7)	$104,214	$ 94,075
Distributions payable	3,458	3,456
Base management fee payable (Note 3)	387	379
Incentive fee payable (Note 3)	823	541
Other accrued expenses	673	620
Total liabilities	109,555	99,071
Commitments and Contingencies (Note 8)		
Net assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 11,695,229 and 11,687,871 shares issued and 11,527,764 and 11,520,406 shares outstanding as of	12	12

June 30, 2018 and December 31, 2017, respectively		
Paid-in capital in excess of par	179,720	179,641
Distributions in excess of net investment income	(2,314)	(1,898)
Net unrealized depreciation on investments	(1,643)	(978)
Net realized loss on investments	(42,004)	(41,702)
Total net assets	133,771	135,075
Total liabilities and net assets	$243,326	$ 234,146
Net asset value per common share	$11.60	$ 11.72

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Operations (Unaudited)

(Dollars in thousands, except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Investment income				
Interest income on investments				
Interest income on non-affiliate investments	$6,675	$5,418	$13,290	$11,697
Interest income on non-controlled affiliate investments	198	—	336	—
Total interest income on investments	6,873	5,418	13,626	11,697
Fee income				
Prepayment fee income on non-affiliate investments	175	327	312	788
Fee income on non-affiliate investments	265	133	550	356
Total investment income	7,313	5,878	14,488	12,841
Expenses				
Interest expense	1,451	1,084	2,935	2,401
Base management fee (Note 3)	1,088	888	2,202	1,862
Performance based incentive fee (Note 3)	982	405	1,527	836
Administrative fee (Note 3)	171	187	354	381
Professional fees	263	324	708	830
General and administrative	227	236	421	410
Total expenses	4,182	3,124	8,147	6,720
Performance based incentive fee waived (Note 3)	(159)	—	(159)	—
Net expenses	4,023	3,124	7,988	6,720
Net investment income	3,290	2,754	6,500	6,121
Net realized and unrealized loss on investments				
Net realized (loss) gain on non-affiliate investments	(153)	176	(302)	(10,670)
Net realized (loss) gain on investments	(153)	176	(302)	(10,670)
Net unrealized (depreciation) appreciation on non-affiliate investments	(227)	(2,197)	(560)	8,934
Net unrealized appreciation (depreciation) on non-controlled affiliate investments	20	—	(105)	—
Net unrealized (depreciation) appreciation on investments	(207)	(2,197)	(665)	8,934
Net realized and unrealized loss on investments	(360)	(2,021)	(967)	(1,736)
Net increase in net assets resulting from operations	$2,930	$733	$5,533	$4,385
Net investment income per common share	$0.29	$0.24	$0.56	$0.53

Net increase in net assets per common share	$0.25	$0.06	$0.48	$0.38
Distributions declared per share	$0.30	$0.30	$0.60	$0.60
Weighted average shares outstanding	11,525,874	11,517,271	11,524,024	11,515,074

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets (Unaudited)

(Dollars in thousands, except share data)

	Common Stock		Paid-In Capital in Excess of	Distributions in Excess of Net Investment	Net Unrealized Depreciation on	Net Realized Loss on	Total Net
	Shares	Amount	Par	Income	Investments	Investments	Assets
Balance at December 31, 2016	11,510,424	$ 12	$ 179,551	$ (397)	$ (19,463)	$ (20,511)	$ 139,192
Net increase in net assets resulting from operations	—	—	—	6,121	8,934	(10,670)	4,385
Issuance of common stock under dividend reinvestment plan	8,756	—	96	—	—	—	96
Distributions declared	—	—	—	(6,911)	—	—	(6,911)
Balance at June 30, 2017	11,519,180	$ 12	$ 179,647	$ (1,187)	$ (10,529)	$ (31,181)	$ 136,762
Balance at December 31, 2017	11,520,406	$ 12	$ 179,641	$ (1,898)	$ (978)	$ (41,702)	$ 135,075
Net increase in net assets resulting from operations	—	—	—	6,500	(665)	(302)	5,533
Issuance of common stock under dividend reinvestment plan	7,358	—	79	—	—	—	79
Distributions declared	—	—	—	(6,916)	—	—	(6,916)
Balance at June 30, 2018	11,527,764	$ 12	$ 179,720	$ (2,314)	$ (1,643)	$ (42,004)	$ 133,771

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 5,533	$ 4,385
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization of debt issuance costs	285	255
Net realized loss on investments	302	10,670
Net unrealized depreciation (appreciation) on investments	665	(8,934)
Purchase of investments	(38,046)	(47,990)
Principal payments received on investments	34,302	60,260
Investment in controlled affiliate investments	(4,069)	—
Proceeds from sale of investments	3,066	1,572
Equity received in settlement of fee income	(225)	—
Changes in assets and liabilities:		
Decrease in interest receivable	212	517
(Increase) decrease in end-of-term payments	(279)	1,013
Decrease in unearned income	(363)	(248)
(Increase) decrease in other assets	(98)	252
Increase (decrease) in other accrued expenses	53	(178)
Increase (decrease) in base management fee payable	8	(29)
Increase in incentive fee payable	282	405
Net cash provided by operating activities	1,628	21,950
Cash flows from financing activities:		
Advances on credit facility	20,000	15,000
Repayment of credit facility	(10,000)	(55,000)
Distributions paid	(6,835)	(6,812)
Debt issuance costs	(547)	—
Net cash provided by (used in) financing activities	2,618	(46,812)
Net increase (decrease) in cash	4,246	(24,862)
Cash:		
Beginning of period	6,594	37,135
End of period	$ 10,840	$ 12,273
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,617	$ 2,260
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$ 550	$ 1,087
Distributions payable	$ 3,458	$ 3,456

End-of-term payments receivable	$ 3,215	$ 3,651

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (12)
Non-Affiliate Investments — 160.8% (8)					
Non-Affiliate Debt Investments — 147.2% (8)					
Non-Affiliate Debt Investments — Life Science — 44.8% (8)					
Celsion Corporation (2)(5)	Biotechnology	Term Loan (9.72% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	$ 2,500	$ 2,442	$ 2,442
		Term Loan (9.72% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,442	2,442
		Term Loan (9.72% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,442	2,442
		Term Loan (9.72% cash (Libor + 7.63%; Floor 9.63%), 4.00% ETP, Due 7/1/22)	2,500	2,442	2,442
Palatin Technologies, Inc. (2)(5)	Biotechnology	Term Loan (10.50% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	1,000	990	990
		Term Loan (10.50% cash (Libor + 8.50%; Floor 9.00%), 3.44% ETP, Due 1/1/19)	1,000	1,000	1,000
		Term Loan (10.50% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	2,167	2,148	2,148
		Term Loan (10.50% cash (Libor + 8.50%; Floor	2,167	2,167	2,167

		9.00%), 3.27% ETP, Due 8/1/19)			
vTv Therapeutics Inc. (2)(5)	Biotechnology	Term Loan (12.00% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	5,729	5,687	5,674
		Term Loan (12.00% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,709	3,701
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	Term Loan (10.40% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	1,600	1,473	1,473
Aerin Medical, Inc. (2)	Medical Device	Term Loan (9.45% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,883	3,883
		Term Loan (9.45% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,960	2,960
		Term Loan (9.45% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,960	2,960
Conventus Orthopaedics, Inc. (2)	Medical Device	Term Loan (10.00% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,939	3,939
		Term Loan (10.00% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,939	3,939
		Term Loan (10.00% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,939	3,939
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (10.43% cash (Libor + 8.43%; Floor 10.00%), 6.00% ETP, Due 9/1/21)	4,000	3,481	3,481
VERO Biotech LLC (2)	Medical Device	Term Loan (10.00% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,942	3,942
		Term Loan (10.00% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,942	3,942
				59,927	59,906

Total Non-Affiliate Debt Investments — Life Science					
Non-Affiliate Debt Investments — Technology — 89.7% (8)					
Audacy Corporation (2)	Communications	Term Loan (9.90% cash (Libor + 7.90%; Floor 9.50%), 5.00% ETP, Due 7/1/22)	4,000	3,928	3,928
Intelepeer Holdings, Inc. (2)	Communications	Term Loan (11.95% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,897	3,897
		Term Loan (11.95% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,937	3,937
		Term Loan (11.95% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,937	3,937
PebblePost, Inc. (2)	Communications	Term Loan (11.26% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,942	3,942
		Term Loan (11.26% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,942	3,942
SavingStar, Inc. (2)	Consumer-related Technologies	Term Loan (12.40% cash (Libor + 10.40%; Floor 10.90%), 4.25% ETP, Due 6/1/20)	1,916	1,895	1,895
		Term Loan (12.40% cash (Libor + 10.40%; Floor 10.90%), 3.80% ETP, Due 11/1/20)	1,778	1,727	1,727
IgnitionOne, Inc. (2)	Internet and Media	Term Loan (12.23% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,852	2,852

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (12)
		Term Loan (12.23% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,852	2,852
		Term Loan (12.23% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,852	2,852
		Term Loan (12.23% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,852	2,852
Jump Ramp Games, Inc. (2)	Internet and Media	Term Loan (11.73% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,951	3,951
Kixeye, Inc. (2)	Internet and Media	Term Loan (11.60% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,825	2,724	2,724
		Term Loan (11.60% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	2,825	2,778	2,778
Rocket Lawyer Incorporated (2)	Internet and Media	Term Loan (11.40% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,942	3,942
		Term Loan (11.40% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,942	3,942
		Term Loan (11.40% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 11/1/21)	2,000	1,968	1,968
Verve Wireless, Inc. (2)	Internet and Media	Term Loan (10.80% cash (Libor + 8.80%; Floor 10.80%), 3.33% ETP, Due 9/1/21)	3,600	3,448	3,448
Zinio Holdings, LLC (2)	Internet and Media	Term Loan (13.25% cash (Libor + 11.25%; Floor	4,000	3,983	3,983

		11.75%), 6.00% ETP, Due 2/1/20)			
The NanoSteel Company, Inc. (2)	Materials	Term Loan (11.50% cash (Libor + 9.50%; Floor	4,237	4,158	4,158
		10.00%), 7.20% ETP, Due 5/1/20)			
		Term Loan (11.50% cash (Libor + 9.50%; Floor	2,118	2,090	2,090
		10.00%), 6.45% ETP, Due 5/1/20)			
		Term Loan (11.50% cash (Libor + 9.50%; Floor	2,327	2,293	2,293
		10.00%), 5.85% ETP, Due 7/1/20)			
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (12.70% cash (Libor + 10.70%; Floor	875	853	853
		11.20%), 3.32% ETP, Due 9/1/19)			
Luxtera, Inc.	Semiconductors	Term Loan (11.75% cash (Prime + 6.75%),	2,000	1,923	1,923
		Due 3/28/20)			
		Term Loan (11.75% cash (Prime + 6.75%),	1,500	1,456	1,456
		Due 3/28/20)			
Bridge2 Solutions, LLC. (2)	Software	Term Loan (11.25% cash (Libor + 9.25%; Floor	5,000	4,806	4,806
		10.50%), 2.00% ETP, Due 11/1/21)			
		Term Loan (11.25% cash (Libor + 9.25%; Floor	5,000	4,781	4,781
		10.50%), 2.00% ETP, Due 11/1/21)			
Education Elements, Inc. (2)	Software	Term Loan (12.00% cash (Libor + 10.00%; Floor	400	395	395
		10.50%), 4.00% ETP, Due 1/1/19)			
		Term Loan (12.00% cash (Libor + 10.00%; Floor	650	641	641
		10.50%), 4.00% ETP, Due 8/1/19)			
Metricly, Inc.	Software	Term Loan (14.25% cash (Libor + 12.25%; Floor	88	88	88
		12.50%), 3.33% ETP, Due 9/1/18)			
New Signature US, Inc. (2)(13)	Software	Term Loan (10.59% cash (Libor + 8.50%; Floor	2,750	2,693	2,693
		10.50%), 3.50% ETP, Due 7/1/22)			
ShopKeep.com, Inc. (2)	Software	Term Loan (11.95% cash (Libor + 9.95%; Floor	5,400	5,316	5,316
		10.45%), 4.08% ETP, Due 10/1/20)			
		Term Loan (11.95% cash (Libor + 9.95%; Floor	3,800	3,736	3,736
		10.45%), 3.55% ETP, Due 2/1/21)			
SIGNiX, Inc.	Software	Term Loan (13.00% cash (Libor + 11.00%; Floor	2,090	2,009	1,652
		11.50%), 6.17% ETP, Due 2/1/20)			
Weblinc Corporation (2)	Software	Term Loan (12.25% cash (Libor + 10.25%; Floor	3,000	2,958	2,958
		11.25%), 3.00% ETP, Due 3/1/21)			
xAd, Inc. (2)	Software	Term Loan (10.70% cash (Libor + 8.70%; Floor	5,000	4,909	4,909

10.00%), 4.75% ETP, Due 11/1/21)			
Term Loan (10.70% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,909	4,909
Term Loan (10.70% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,945	2,945
Term Loan (10.70% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,964	1,964

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (12)
Total Non-Affiliate Debt Investments — Technology				120,272	119,915
Non-Affiliate Debt Investments — Healthcare information and services — 12.7% (8)					
Catasys, Inc. (2)(5)	Software	Term Loan (9.80% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,475	2,475
		Term Loan (9.80% cash (Libor + 7.75%; Floor 9.75%), 6.00% ETP, Due 3/1/22)	2,500	2,475	2,475
HealthEdge Software, Inc. (2)	Software	Term Loan (10.25% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,864	4,864
		Term Loan (10.25% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,699	3,699
		Term Loan (10.25% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 4/1/23)	3,750	3,695	3,695
Total Non-Affiliate Debt Investments — Healthcare information and services				17,208	17,208
Total Non- Affiliate Debt Investments				197,407	197,029
Non-Affiliate Warrant Investments — 6.8% (8)					
Non-Affiliate Warrants — Life Science — 1.4% (8)					
ACT Biotech Corporation	Biotechnology	431,201 Preferred Stock Warrants		25	—
	Biotechnology			122	—

Alpine Immune Sciences, Inc. (5)		4,634 Common Stock Warrants		
Argos Therapeutics, Inc. (2)(5)	Biotechnology	3,656 Common Stock Warrants	33	—
Celsion Corporation (2)(5)	Biotechnology	190,522 Common Stock Warrants	145	131
Rocket Pharmaceuticals Corporation (5)	Biotechnology	1,763 Common Stock Warrants	17	—
Palatin Technologies, Inc. (2)(5)	Biotechnology	608,058 Common Stock Warrants	51	136
Revance Therapeutics, Inc. (5)	Biotechnology	34,113 Common Stock Warrants	68	452
Sample6, Inc. (2)	Biotechnology	661,956 Preferred Stock Warrants	53	26
Strongbridge U.S. Inc. (2)(5)	Biotechnology	160,714 Common Stock Warrants	72	601
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)	Biotechnology	95,293 Common Stock Warrants	44	—
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	320,612 Common Stock Warrants	95	22
AccuVein Inc. (2)	Medical Device	1,174,881 Preferred Stock Warrants	24	28
Aerin Medical, Inc. (2)	Medical Device	1,818,182 Preferred Stock Warrants	66	69
Conventus Orthopaedics, Inc. (2)	Medical Device	720,000 Preferred Stock Warrants	95	100
Lantos Technologies, Inc. (2)	Medical Device	1,715,926 Common Stock Warrants	253	285
Mitralign, Inc. (2)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)	Medical Device	29,102 Preferred Stock Warrants	33	—
ReShape Lifesciences Inc. (5)	Medical Device	134 Common Stock Warrants	347	—
Tryton Medical, Inc. (2)	Medical Device	122,362 Preferred Stock Warrants	15	13
VERO Biotech LLC (2)	Medical Device	800 Common Stock Warrants	53	56
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			1,681	1,920
Non-Affiliate Warrants — Technology — 4.8% (8)				
Audacy Corporation (2)	Communications	176,134 Preferred Stock Warrants	33	33
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	33	24
Intelepeer Holdings, Inc. (2)	Communications	2,256,549 Preferred Stock Warrants	149	115
PebblePost, Inc. (2)	Communications		92	97

		598,850 Preferred Stock Warrants		
Additech, Inc. (2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	33
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	821
Le Tote, Inc. (2)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	370
Rhapsody International Inc. (2)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
SavingStar, Inc. (2)	Consumer-related Technologies	850,439 Preferred Stock Warrants	104	—
IgnitionOne, Inc. (2)	Internet and Media	262,910 Preferred Stock Warrants	671	665
Jump Ramp Games, Inc. (2)	Internet and Media	159,766 Preferred Stock Warrants	32	33
Kixeye, Inc. (2)	Internet and Media	791,251 Preferred Stock Warrants	75	78
Rocket Lawyer Incorporated (2)	Internet and Media	261,721 Preferred Stock Warrants	92	76
Verve Wireless, Inc. (2)	Internet and Media	112,805 Common Stock Warrants	120	120
The NanoSteel Company, Inc. (2)	Materials	379,360 Preferred Stock Warrants	187	523
Powerhouse Dynamics, Inc. (2)	Power Management	348,838 Preferred Stock Warrants	32	22
Avalanche Technology, Inc. (2)	Semiconductors	202,602 Preferred Stock Warrants	101	38
eASIC Corporation (2)	Semiconductors	40,445 Preferred Stock Warrants	25	29
Kaminario, Inc.	Semiconductors	4,800,000 Preferred Stock Warrants	59	96
Luxtera, Inc.(2)	Semiconductors	3,546,553 Preferred Stock Warrants	213	364

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (12)
Soraa, Inc. (2)	Semiconductors	203,616 Preferred Stock Warrants		80	450
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants		113	104
Bridge2 Solutions, Inc. (2)	Software	125,458 Common Stock Warrants		432	765
BSI Platform Holdings, LLC (2)(13)	Software	137,500 Preferred Stock Warrants		19	19
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants		14	106
Education Elements, Inc. (2)	Software	238,121 Preferred Stock Warrants		28	29
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants		22	286
Metricly, Inc.	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)	Software	321,428 Preferred Stock Warrants		12	38
ShopKeep.com, Inc. (2)	Software	193,962 Preferred Stock Warrants		118	115
SIGNiX, Inc.	Software	133,560 Preferred Stock Warrants		225	36
Skyword, Inc.	Software	301,056 Preferred Stock Warrants		48	3
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants		55	138
Sys-Tech Solutions, Inc. (2)	Software	375,000 Preferred Stock Warrants		242	464
Weblinc Corporation (2)	Software	195,122 Preferred Stock Warrants		42	—
xAd, Inc. (2)	Software	4,343,350 Preferred Stock Warrants		177	294

Total Non-Affiliate Warrants — Technology			4,021	6,384
Non-Affiliate Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc. (2)	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	100	112
Total Non-Affiliate Warrants — Cleantech			168	112
Non-Affiliate Warrants — Healthcare information and services — 0.5% (8)				
LifePrint Group, Inc. (2)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)	Diagnostics	3,156 Common Stock Warrants	54	—
Singulex, Inc.	Other Healthcare	294,231 Preferred Stock Warrants	44	45
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	65
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants	74	62
HealthEdge Software, Inc. (2)	Software	158,063 Preferred Stock Warrants	67	54
Medsphere Systems Corporation (2)	Software	7,097,792 Preferred Stock Warrants	60	214
Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants	95	212
Total Non-Affiliate Warrants — Healthcare information and services			523	654
Total Non-Affiliate Warrants			6,393	9,070
Non-Affiliate Other Investments — 5.8% (8)				
Espero Pharmaceuticals, Inc.	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc.	Medical Device	Royalty Agreement	205	700
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,190	100
Triple Double Holdings, LLC	Software	License Agreement	2,200	2,200
Total Non-Affiliate Other Investments			11,895	7,700
Non-Affiliate Equity — 1.0% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	785
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	141
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	28
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock	9	83
Verve Wireless, Inc. (2)	Internet and Media	100,598 Preferred Stock	225	225
TruSignal, Inc.	Software	32,637 Common Stock	41	41
Total Non-Affiliate Equity			669	1,303
Total Non-Affiliate Portfolio Investment Assets			$ 216,364	$ 215,102

Non-controlled Affiliate Investments — 5.5% (8)					
Non-controlled Affiliate Debt Investments — Technology — 4.8% (8)					
Decisyon, Inc.	Software	Term Loan (14.308% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	$ 1,523	$ 1,522	$ 1,443
		Term Loan (14.308% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 12/1/20)	833	785	744
		Term Loan (12.02% cash, Due 12/31/19)	250	250	237
		Term Loan (12.03% cash, Due 12/31/19)	250	250	237
		Term Loan (12.24% cash, Due 12/31/19)	750	750	711
		Term Loan (13.08% cash, Due 12/31/19)	300	300	284

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (12)
StereoVision Imaging, Inc.	Software	Term Loan (9.03% PIK (Libor + 7.03%; Floor 8.50%), 8.50% ETP, Due 9/1/21) (11)	3,200	2,798	2,774
Total Non-controlled Affiliate Debt Investments — Technology				6,655	6,430
Non-controlled Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc.	Software	82,967 Common Stock Warrants		46	—
Total Non-controlled Affiliate Warrants — Technology				46	—
Non-controlled Affiliate Equity — Technology — 0.7% (8)					
Decisyon, Inc.	Software	45,365,936 Common Stock		185	75
StereoVision Imaging, Inc.	Software	1,943,572 Common Stock		791	791
Total Non-controlled Affiliate Equity				976	866
Total Non-controlled Affiliate Portfolio Investment Assets				$ 7,677	$ 7,296
Controlled Affiliate Investments — 3.0% (8)					
Controlled Affiliate Equity — Financial — 3.0% (8)					
Horizon Secured Loan Fund I LLC (14)	Investment funds			$ 4,069	$ 4,069
Total Controlled Affiliate Equity				4,069	4,069
Total Controlled Affiliate Portfolio Investment Assets				$ 4,069	$ 4,069
Total Portfolio Investment Assets — 169.3%(8)				$ 228,110	$ 226,467

(1) All investments of the Company are in entities which are organized under the laws of the United States and have a principal place of business in the United States.

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

(3) All non-affiliate investments are investments in which the Company owns less than 5% of the voting securities of the portfolio company. All non-controlled affiliate investments are investments in which the Company owns 5% or more of the voting securities of the portfolio company. All controlled affiliate investments are investments in which the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement).

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company's debt investments. Interest rate is the annual interest rate on the debt investment and does not include end-of-term payments ("ETPs") and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on the London InterBank Offered Rate ("LIBOR") are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of June 30, 2018 is provided.

(5) Portfolio company is a public company.

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

(7) Warrants, Equity and Other Investments are non-income producing.

(8) Value as a percent of net assets.

(9) As of June 30, 2018, 1.8% of the Company's total investments on a cost and fair value basis, respectively, are in non-qualifying assets. Under the Investment Company Act of 1940, as amended (the "1940 Act"), the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

(10) 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. Therefore, a portion of the incentive fee the Company may pay its Advisor will be based on income that the Company has not yet received in cash.

(11) Debt investment has a payment-in-kind ("PIK") feature.

(12) Except for common stock in publicly traded companies, the fair value of the investment was valued using significant unobservable inputs.

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

(14) On June 1, 2018, the Company entered into an agreement with Arena Sunset SPV, LLC ("Arena") to co-invest through Horizon Secured Loan Fund I ("HSLFI"), a joint venture, which is expected 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. All HSLFI investment decisions require unanimous approval of a quorum of HSLFI's board of managers. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not believe it controls HSLFI for purposes of the 1940 Act or otherwise.

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (14)
Non-Affiliate Investments — 161.8% (8)					
Non-Affiliate Debt Investments — 148.4% (8)					
Non-Affiliate Debt Investments — Life Science — 43.0% (8)					
Palatin Technologies, Inc. (2)(5)	Biotechnology	Term Loan (9.87% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	$ 2,000	$ 1,980	$ 1,980
		Term Loan (9.87% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	3,167	3,139	3,139
vTv Therapeutics Inc. (2)(5)	Biotechnology	Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	6,250	6,196	6,196
		Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,700	3,700
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	Term Loan (9.77% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	3,500	3,400	3,400
		Term Loan (9.77% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	3,500	3,430	3,430
Aerin Medical, Inc. (2)	Medical Device	Term Loan (8.85% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,876	3,876
		Term Loan (8.85% cash (Libor + 7.45%; Floor	3,000	2,954	2,954

		8.75%), 4.00% ETP, Due 1/1/22)			
		Term Loan (8.85% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,954	2,954
Conventus Orthopaedics, Inc. (2)	Medical Device	Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
		Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
		Term Loan (9.49% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,928	3,928
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (11.87% PIK (Libor + 10.50%; Floor 11.50%), 8.91% ETP, Due 5/1/19) (13)	2,479	2,466	2,466
Mederi Therapeutics, Inc. (2)	Medical Device	Term Loan (13.01% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	163
		Term Loan (13.01% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	163
NinePoint Medical, Inc. (2)	Medical Device	Term Loan (10.12% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	2,667	2,645	2,645
		Term Loan (10.12% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	1,333	1,320	1,320
VERO Biotech LLC (2)	Medical Device	Term Loan (9.33% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,914	3,914
		Term Loan (9.33% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,934	3,934
Total Non-Affiliate Debt Investments — Life Science				58,038	58,018
Non-Affiliate Debt Investments — Technology — 99.1% (8)					
Intelepeer Holdings, Inc.	Communications		4,000	3,888	3,888

		Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)			
		Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,927	3,927
		Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,927	3,927
PebblePost, Inc. (2)	Communications	Term Loan (10.63% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,874	3,874
		Term Loan (10.63% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,933	3,933
Le Tote, Inc. (2)	Consumer-related Technologies	Term Loan (11.02% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	4,000	3,960	3,960
		Term Loan (11.02% cash (Libor + 9.65%; Floor 10.15%), 5.00% ETP, Due 3/1/20)	3,000	2,969	2,969
SavingStar, Inc. (2)	Consumer-related Technologies	Term Loan (11.77% cash (Libor + 10.40%; Floor 10.90%), 4.25% ETP, Due 6/1/20)	2,167	2,140	2,140
		Term Loan (11.77% cash (Libor + 10.40%; Floor 10.90%), 3.80% ETP, Due 11/1/20)	1,911	1,849	1,849
IgnitionOne, Inc. (2)	Internet and Media	Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832

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Horizon Technology Finance Corporation and Subsidiaries

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December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (14)
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
		Term Loan (11.60% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,832	2,832
Jump Ramp Games, Inc. (2)	Internet and Media	Term Loan (11.10% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,942	3,942
Kixeye, Inc. (2)	Internet and Media	Term Loan (10.97% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 9/1/21)	3,000	2,900	2,900
		Term Loan (10.97% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 9/1/21)	3,000	2,945	2,945
MediaBrix, Inc. (2)	Internet and Media	Term Loan (12.37% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	4,000	3,977	3,977
Rocket Lawyer Incorporated (2)	Internet and Media	Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,933	3,933
		Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,933	3,933
		Term Loan (10.77% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 11/1/21)	2,000	1,963	1,963
Zinio Holdings, LLC (2)	Internet and Media	Term Loan (12.62% cash (Libor + 11.25%; Floor	4,000	3,978	3,978

		11.75%), 6.00% ETP, Due 2/1/20)			
The NanoSteel Company, Inc. (2)	Materials	Term Loan (10.87% cash (Libor + 9.50%; Floor	4,653	4,578	4,578
		10.00%), 7.20% ETP, Due 1/1/20)			
		Term Loan (10.87% cash (Libor + 9.50%; Floor	2,327	2,289	2,289
		10.00%), 6.45% ETP, Due 1/1/20)			
		Term Loan (10.87% cash (Libor + 9.50%; Floor	2,500	2,457	2,457
		10.00%), 5.85% ETP, Due 3/1/20)			
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (12.07% cash (Libor + 10.70%; Floor	1,250	1,234	1,234
		11.20%), 3.00% ETP, Due 3/1/19)			
Luxtera, Inc.	Semiconductors	Term Loan (11.25% cash (Prime + 6.75%),	2,000	1,902	1,902
		Due 3/28/20)			
		Term Loan (11.25% cash (Prime + 6.75%),	1,500	1,443	1,443
		Due 3/28/20)			
Bridge2 Solutions, LLC. (2)	Software	Term Loan (10.62% cash (Libor + 9.25%; Floor	5,000	4,777	4,777
		10.50%), 2.00% ETP, Due 11/1/21)			
		Term Loan (10.62% cash (Libor + 9.25%; Floor	5,000	4,777	4,777
		10.50%), 2.00% ETP, Due 11/1/21)			
Digital Signal Corporation (11)(12)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor	1,290	1,256	1,210
		10.43%), 5.00% ETP, Due 7/1/19)			
		Term Loan (11.62% cash (Libor + 10.25%; Floor	1,290	1,256	1,210
		10.43%), 5.00% ETP, Due 7/1/19)			
		Term Loan (10.00% cash, Due 12/31/17)	501	501	483
Education Elements, Inc. (2)	Software	Term Loan (11.37% cash (Libor + 10.00%; Floor	800	789	789
		10.50%), 4.00% ETP, Due 1/1/19)			
		Term Loan (11.37% cash (Libor + 10.00%; Floor	950	937	937
		10.50%), 4.00% ETP, Due 8/1/19)			
Metricly, Inc.	Software	Term Loan (13.62% cash (Libor + 12.25%; Floor	184	184	184
		12.50%), 3.33% ETP, Due 9/1/18)			
ShopKeep.com, Inc. (2)	Software	Term Loan (11.32% cash (Libor + 9.95%; Floor	6,000	5,897	5,897
		10.45%), 4.08% ETP, Due 10/1/20)			
		Term Loan (11.32% cash (Libor + 9.95%; Floor	4,000	3,924	3,924
		10.45%), 3.55% ETP, Due 2/1/21)			
SIGNiX, Inc.	Software	Term Loan (12.37% cash (Libor + 11.00%; Floor	2,180	2,073	1,930
		11.50%), 5.33% ETP, Due 2/1/20)			

SilkRoad Technology, Inc. (2)	Software	Term Loan (11.72% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 5.00% ETP, Due 6/1/20)	7,000	6,904	6,904
Weblinc Corporation (2)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor 11.25%), 3.00% ETP, Due 3/1/21)	3,000	2,913	2,913
xAd, Inc. (2)	Software	Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,895	4,895

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(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (14)
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,895	4,895
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,937	2,937
		Term Loan (10.07% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,958	1,958
Total Non-Affiliate Debt Investments — Technology				134,142	133,889
Non-Affiliate Debt Investments — Healthcare information and services — 6.3% (8)					
HealthEdge Software, Inc. (2)	Software	Term Loan (9.62% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,819	4,819
		Term Loan (9.68% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,693	3,693
Total Non-Affiliate Debt Investments — Healthcare information and services				8,512	8,512
Total Non- Affiliate Debt Investments				200,692	200,419
Non-Affiliate Warrant Investments — 6.7% (8)					
Non-Affiliate Warrants — Life Science — 1.6% (8)					
ACT Biotech Corporation	Biotechnology	604,038 Preferred Stock Warrants		60	—
Alpine Immune Sciences, Inc. (5)	Biotechnology	4,634 Common Stock Warrants		122	—
Argos Therapeutics, Inc. (2)(5)	Biotechnology	73,112 Common Stock Warrants		33	—

Celsion Corporation (5)	Biotechnology	408 Common Stock Warrants	15	—
Rocket Pharmaceuticals Corporation (5)	Biotechnology	7,051 Common Stock Warrants	17	—
Palatin Technologies, Inc. (2)(5)	Biotechnology	608,058 Common Stock Warrants	51	82
Revance Therapeutics, Inc. (5)	Biotechnology	34,113 Common Stock Warrants	68	729
Sample6, Inc. (2)	Biotechnology	661,956 Preferred Stock Warrants	53	25
Strongbridge U.S. Inc. (5)	Biotechnology	160,714 Common Stock Warrants	72	794
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)	Biotechnology	95,293 Common Stock Warrants	44	82
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	280,612 Common Stock Warrants	88	30
AccuVein Inc. (2)	Medical Device	75,769 Preferred Stock Warrants	24	27
Aerin Medical, Inc. (2)	Medical Device	1,818,182 Preferred Stock Warrants	66	66
Conventus Orthopaedics, Inc. (2)	Medical Device	720,000 Preferred Stock Warrants	95	95
IntegenX, Inc. (2)	Medical Device	170,646 Preferred Stock Warrants	35	32
Lantos Technologies, Inc. (2)	Medical Device	471,979 Common Stock Warrants	39	145
Mederi Therapeutics, Inc. (2)	Medical Device	248,736 Preferred Stock Warrants	26	—
Mitralign, Inc. (2)	Medical Device	64,190 Common Stock Warrants	52	1
NinePoint Medical, Inc. (2)	Medical Device	29,102 Preferred Stock Warrants	33	2
OraMetrix, Inc. (2)	Medical Device	812,348 Preferred Stock Warrants	78	—
ReShape Lifesciences Inc. (5)	Medical Device	134 Common Stock Warrants	347	—
Tryton Medical, Inc. (2)	Medical Device	122,362 Preferred Stock Warrants	15	12
VERO Biotech LLC (2)	Medical Device	800,000 Common Stock Warrants	53	53
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			1,504	2,175
Non-Affiliate Warrants — Technology — 4.6% (8)				
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	32	22
Intelepeer Holdings, Inc.	Communications	2,256,549 Preferred Stock Warrants	149	110
PebblePost, Inc. (2)	Communications		92	92

		598,850 Preferred Stock Warrants		
Additech, Inc. (2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	31
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	816
Le Tote, Inc. (2)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	363
Rhapsody International Inc. (2)	Consumer-related Technologies	852,273 Common Stock Warrants	164	—
SavingStar, Inc. (2)	Consumer-related Technologies	850,439 Preferred Stock Warrants	104	103
IgnitionOne, Inc. (2)	Internet and Media	262,910 Preferred Stock Warrants	672	668
Jump Ramp Games, Inc. (2)	Internet and Media	159,766 Preferred Stock Warrants	31	31
Kixeye, Inc. (2)	Internet and Media	791,251 Preferred Stock Warrants	75	74
Rocket Lawyer Incorporated (2)	Internet and Media	261,721 Preferred Stock Warrants	91	91
The NanoSteel Company, Inc. (2)	Materials	379,360 Preferred Stock Warrants	187	448
Nanocomp Technologies, Inc. (2)	Networking	1,440,489 Preferred Stock Warrants	67	—
Powerhouse Dynamics, Inc. (2)	Power Management	290,698 Preferred Stock Warrants	28	26
Avalanche Technology, Inc. (2)	Semiconductors	202,602 Preferred Stock Warrants	101	40
eASIC Corporation (2)	Semiconductors	40,445 Preferred Stock Warrants	25	28
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	44
Luxtera, Inc.(2)	Semiconductors	3,546,553 Preferred Stock Warrants	213	361

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (14)
Soraa, Inc. (2)	Semiconductors	203,616 Preferred Stock Warrants		80	438
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants		113	99
Bridge2 Solutions, Inc. (2)	Software	125,458 Common Stock Warrants		433	760
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants		14	82
Digital Signal Corporation	Software	125,116 Common Stock Warrants		32	—
Education Elements, Inc. (2)	Software	238,121 Preferred Stock Warrants		28	28
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants		22	281
Metricly, Inc.	Software	41,569 Common Stock Warrants		48	—
Riv Data Corp. (2)	Software	321,428 Preferred Stock Warrants		12	38
ShopKeep.com, Inc. (2)	Software	193,962 Preferred Stock Warrants		118	138
SIGNiX, Inc.	Software	133,560 Preferred Stock Warrants		225	109
Skyword, Inc.	Software	301,056 Preferred Stock Warrants		48	32
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants		55	132
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants		242	464
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants		19	2
Weblinc Corporation (2)	Software	195,122 Preferred Stock Warrants		42	42

xAd, Inc. (2)	Software	4,343,350 Preferred Stock Warrants	177	177
Total Non-Affiliate Warrants — Technology			3,962	6,170
Non-Affiliate Warrants — Cleantech — 0.1% (8)				
Renmatix, Inc.	Alternative Energy	53,022 Preferred Stock Warrants	68	—
Tigo Energy, Inc. (2)	Energy Efficiency	804,604 Preferred Stock Warrants	100	117
Total Non-Affiliate Warrants — Cleantech			168	117
Non-Affiliate Warrants — Healthcare information and services — 0.4% (8)				
LifePrint Group, Inc. (2)	Diagnostics	49,000 Preferred Stock Warrants	29	2
ProterixBio, Inc. (2)	Diagnostics	3,156 Common Stock Warrants	54	—
Singulex, Inc.	Other Healthcare	294,231 Preferred Stock Warrants	44	44
Verity Solutions Group, Inc.	Other Healthcare	300,360 Preferred Stock Warrants	100	62
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants	74	59
HealthEdge Software, Inc. (2)	Software	110,644 Preferred Stock Warrants	46	46
Medsphere Systems Corporation (2)	Software	7,097,792 Preferred Stock Warrants	60	208
Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants	95	207
Total Non-Affiliate Warrants — Healthcare information and services			502	628
Total Non-Affiliate Warrants			6,136	9,090
Non-Affiliate Other Investments — 5.7% (8)				
Espero Pharmaceuticals, Inc.	Biotechnology	Royalty Agreement	5,300	4,700
ZetrOZ, Inc.	Medical Device	Royalty Agreement	305	700
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019	4,226	100
Triple Double Holdings, LLC	Software	License Agreement	2,200	2,200
Total Non-Affiliate Other Investments			12,031	7,700
Non-Affiliate Equity — 1.0% (8)				
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock	238	1,035
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock	73	183
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock	83	49
SnagAJob.com, Inc.	Consumer-related Technologies	82,974 Common Stock	9	83
TruSignal, Inc.	Software	32,637 Common Stock	41	41
Total Non-Affiliate Equity			444	1,391

Total Non-Affiliate Portfolio Investment Assets				$ 219,303	$ 218,600
Affiliate Investments — 2.6% (8)					
Affiliate Debt Investments — Technology — 2.5% (8)					
Decisyon, Inc.	Software	Term Loan (13.678% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 1/1/20)	$ 1,523	$ 1,522	$ 1,449
		Term Loan (13.678% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 1/1/20)	833	771	735
		Term Loan (12.02% PIK, Due 4/15/19) (13)	250	250	238
		Term Loan (12.03% PIK, Due 4/15/19) (13)	250	250	238
		Term Loan (12.24% PIK, Due 4/15/19) (13)	750	750	714
Total Affiliate Debt Investments — Technology				3,543	3,374

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (14)
Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc.	Software	82,967 Common Stock Warrants		46	—
Total Affiliate Warrants — Technology				46	—
Affiliate Equity — Technology — 0.1% (8)					
Decisyon, Inc.	Software	45,365,936 Common Stock		185	125
Total Affiliate Equity				185	125
Total Affiliate Portfolio Investment Assets				$ 3,774	$ 3,499
Total Portfolio Investment Assets — 164.4%(8)				$ 223,077	$ 222,099

(1) All investments of the Company are in entities which are organized under the laws of the United States and have a principal place of business in the United States.

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

(3) All non-affiliate investments are investments in which the Company owns less than 5% ownership of the voting securities of the portfolio company. All affiliate investments are investments in which the Company owns 5% or more of the voting securities of the portfolio company.

(4) All interest is payable in cash due monthly in arrears, unless otherwise indicated, and applies only to the Company's debt investments. Interest rate is the annual interest rate on the debt investment and does not include ETPs and any additional fees related to the investments, such as deferred interest, commitment fees or prepayment fees. Debt investments are at fixed 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 December 31, 2017 is provided.

(5) Portfolio company is a public company.

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

(7) Warrants, Equity and Other Investments are non-income producing.

(8) Value as a percent of net assets.

(9) The Company did not have any non-qualifying assets under Section 55(a) of the 1940 Act as of December 31, 2017. Under the 1940 Act, the Company may not acquire any non-qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

(10) 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. Therefore, a portion of the incentive fee the Company may pay its Advisor will be based on income that the Company has not yet received in cash.

(11) Debt investment is on non-accrual status as of December 31, 2017.

(12) Digital Signal Corporation, a Delaware corporation ("DSC"), made an assignment for the benefit of its creditors whereby DSC assigned all of its assets to DSC (assignment for the benefit of creditors), LLC, a Delaware limited liability company, established under Delaware law to effectuate the Assignment for the Benefit of Creditors of DSC.

(13) Debt investment has a PIK feature.

(14) Except for common stock in publicly traded companies, the fair value of the investment was valued using significant unobservable inputs.

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Organization

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

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

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

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

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

Note 2. Basis of presentation and significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X ("Regulation S-X") under the Securities Act of 1933, as amended (the "Securities Act"). In the opinion of management, the consolidated financial statements reflect all adjustments and reclassifications that are necessary for the fair presentation of financial results as of and for the periods presented. All intercompany balances and transactions have been eliminated. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017.

Principles of consolidation

As required under GAAP and Regulation S-X, the Company will generally consolidate its investment in a company that is an investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. Accordingly, the Company consolidated the results of the Company's wholly-owned subsidiaries in its consolidated financial statements. The Company does not consolidate its non-controlling interest in HSLFI.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Use of estimates

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

Fair value

The Company records all of its investments at fair value in accordance with relevant GAAP, which establishes a framework used to measure fair value and requires disclosures for fair value measurements. The Company has categorized its investments carried at fair value, based on the priority of the valuation technique, into a three-level fair value hierarchy as more fully described in Note 6. Fair value is a market-based measure considered from the perspective of the market participant who holds the financial instrument rather than an entity specific measure. Therefore, when market assumptions are not readily available, the Company's own assumptions are set to reflect those that management believes market participants would use in pricing the financial instrument at the measurement date.

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

See Note 6 for additional information regarding fair value.

Segments

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

Investments

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

Interest on debt investments is accrued and included in income based on contractual rates applied to principal amounts outstanding. Interest income is determined using a method that results in a level rate of return on principal amounts outstanding. Generally, when a debt investment becomes 90 days or more past due, or if the Company otherwise does not expect to receive interest and principal repayments, the debt 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. As of June 30, 2018, there were no debt investments on non-accrual status. As of December 31, 2017, there was one investment on non-accrual status with a cost of $3.0 million and a fair value of $2.9 million. For the three and six months ended June 30, 2018 and 2017, the Company did not recognize any interest income from debt investments on non-accrual status.

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

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Certain debt investment agreements also require the borrower to make an ETP, that is accrued into interest receivable and taken into income over the life of the debt investment to the extent such amounts are expected to be collected. The Company will generally cease accruing the income if there is insufficient value to support the accrual or the Company does not expect the borrower to be able to pay the ETP when due. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the three months ended June 30, 2018 and 2017 was 6.6% and 7.5%, respectively. The proportion of the Company's total investment income that resulted from the portion of ETPs not received in cash for the six months ended June 30, 2018 and 2017 was 7.1% and 7.5%, respectively.

In connection with substantially all lending arrangements, the Company receives warrants to purchase shares of stock from the borrower. The warrants are recorded as assets at estimated fair value on the grant date using the Black-Scholes valuation model. The warrants are considered loan fees and are recorded 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 the Company's income recognition policy. Subsequent to debt investment origination, the fair value of the warrants is determined using the Black-Scholes valuation model. Any adjustment to fair value is recorded through earnings as net unrealized appreciation or depreciation 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.

Distributions from HSLFI are evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, the Company will not record distributions from HSLFI as dividend income unless there are sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the period June 1, 2018 (the commencement of HSLFI's operations) through June 30, 2018, there were no distributions from HSLFI.

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

Debt issuance costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing from its lenders and issuing debt securities. The unamortized balance of debt issuance costs as of June 30, 2018 and December 31, 2017 was $2.4 million and $2.1 million, respectively. These amounts are amortized and included in interest expense in the consolidated statements of operations over the life of the borrowings. The accumulated amortization balances as of June 30, 2018 and December 31, 2017 were $2.1 million and $1.8 million, respectively. The amortization expense for the three months ended June 30, 2018 and 2017 was $0.1 million. The amortization expense for the six months ended June 30, 2018 and 2017 was $0.3 million.

Income taxes

As a BDC, the Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC and to avoid the imposition of corporate-level income tax on the portion of its taxable income distributed to stockholders, among other things, the Company is required to meet certain source of income and asset diversification requirements and to timely distribute dividends out of assets legally available for distribution to its stockholders of an amount generally at least equal to 90% of its investment company taxable income, as defined by the Code and determined without regard to any deduction for dividends paid, for each tax year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which generally relieves the Company from corporate-level U.S. federal income taxes. Accordingly, no provision for federal income tax has been recorded in the financial statements. Differences between taxable income and net increase in net assets resulting from operations either can be temporary, meaning they will reverse in the future, or permanent. In accordance with Topic 946, *Financial Services—Investment Companies*, of the Financial Accounting Standards Board's ("FASB's"), Accounting Standards Codification, as amended ("ASC"), permanent tax differences, such as non-deductible excise taxes paid, are reclassified from distributions in excess of net investment income and net realized loss on investments to paid-in-capital at the end of each fiscal year. These permanent book-to-tax differences are reclassified on the consolidated statements of changes in net assets to reflect their tax character but have no impact on total net assets. For the year ended December 31, 2017, the Company reclassified $0.03 million to paid-in capital from distributions in excess of net investment income, which related to excise taxes payable.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and incur a 4% U.S. federal excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the three and six months ended June 30, 2018 and 2017, there was no U.S. federal excise tax recorded.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority in accordance with ASC Topic 740, *Income Taxes*, as modified by ASC Topic 946. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits in income tax expense. The Company had no material uncertain tax positions at June 30, 2018 and December 31, 2017. The Company's income tax returns for the 2016, 2015 and 2014 tax years remain subject to examination by U.S. federal and state tax authorities.

Distributions

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

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

Stock Repurchase Program

On April 27, 2018, the Board extended a previously authorized stock repurchase program which allows the Company to repurchase up to $5.0 million of its common stock at prices below the Company's net asset value per share as reported in its most recent consolidated financial statements. Under the repurchase program, the Company may, but is not obligated to, repurchase shares of its outstanding common stock in the open market or in privately negotiated transactions from time to time. Any repurchases by the Company will comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any applicable requirements of the 1940 Act. Unless extended by the Board, the repurchase program will terminate on the earlier of June 30, 2019 or the repurchase of $5.0 million of the Company's common stock. During the three and six months ended June 30, 2018 and 2017, the Company did not make any repurchases of its common stock. From the inception of the stock repurchase program through June 30, 2018, the Company repurchased 167,465 shares of its common stock at an average price of $11.22 on the open market at a total cost of $1.9 million.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Transfers of financial assets

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

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

Recently adopted accounting pronouncement

In April 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("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 interim periods beginning after December 15, 2017. As required, the Company adopted ASU 2014-09 effective January 1, 2018, and such adoption did not have an impact on the Company's consolidated financial statements and disclosures.

Note 3. Related party transactions

Investment Management Agreement

The Investment Management Agreement was reapproved by the Board on July 27, 2018. Under the terms of the Investment Management Agreement, the Advisor determines the composition of the Company's investment portfolio, the nature and timing of the changes to the investment portfolio and the manner of implementing such changes; identifies, evaluates and negotiates the structure of the investments the Company makes (including performing due diligence on the Company's prospective portfolio companies); and closes, monitors and administers the investments the Company makes, including the exercise of any voting or consent rights.

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

The base management fee under the Investment Management Agreement is calculated at an annual rate of 2.00% of (i) the Company's gross assets, less (ii) assets consisting of cash and cash equivalents, and is payable monthly in arrears. For purposes of calculating the base management fee, the term "gross assets" includes any assets acquired with the proceeds of leverage.

The base management fee payable at June 30, 2018 and December 31, 2017 was $0.4 million. The base management fee expense was $1.1 million and $0.9 million for the three months ended June 30, 2018 and 2017, respectively. The base management fee expense was $2.2 million and $1.9 million for the six months ended June 30, 2018 and 2017, respectively.

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The incentive fee has two parts, as follows:

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

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

Commencing with the calendar quarter beginning July 1, 2014, the incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income (the "Incentive Fee Look-back Period") commenced on July 1, 2014 and increased by one quarter in length at the end of each calendar quarter until June 30, 2017, after which time, 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 (the "Incentive Fee Cap") and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees (collectively, the "Incentive Fee Cap and Deferral Mechanism"). The Incentive Fee Cap is equal to (a) 20.00% 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 payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. The Company only pays incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. "Cumulative Pre-Incentive Fee Net Return" during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

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The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or, upon termination of the Investment Management Agreement, as of the termination date), and equals 20.00% of the Company's realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis through the end of such year, less all previous amounts paid in respect of the capital gain incentive fee. However, in accordance with GAAP, the Company is required to include the aggregate unrealized capital appreciation on investments in the calculation and accrue a capital gain incentive fee on a quarterly basis, as if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement.

On March 6, 2018, the 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 and six months ended June 30, 2018, the Advisor waived performance based incentive fees of $0.2 million which the Advisor would have otherwise earned.

The performance based incentive fee expense was $0.8 million and $0.4 million for the three months ended June 30, 2018 and 2017, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the three months ended June 30, 2017, which resulted in $0.2 million of reduced expense and additional net investment income. The performance based incentive fee expense was $1.4 million and $0.8 million for the six months ended June 30, 2018 and 2017, respectively. The incentive fee on Pre-Incentive Fee Net Investment Income was subject to the Incentive Fee Cap and Deferral Mechanism for the six months ended June 30, 2018 and 2017, which resulted in $0.2 million and $0.6 million of reduced expense and additional net investment income, respectively. The performance based incentive fee payable as of June 30, 2018 and December 31, 2017 was $0.8 million and $0.5 million, respectively. The entire incentive fee payable as of June 30, 2018 and December 31, 2017 represented part one of the incentive fee.

Administration Agreement

The Company entered into an administration agreement (the "Administration Agreement") with the Advisor to provide administrative services to the Company. For providing these services, facilities and personnel, the Company

reimburses the Advisor for the Company's allocable portion of overhead and other expenses incurred by the Advisor in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and the Company's allocable portion of the costs of compensation and related expenses of the Company's Chief Financial Officer and Chief Compliance Officer and their respective staffs. The administrative fee expense was $0.2 million for the three months ended June 30, 2018 and 2017. The administrative fee expense was $0.4 million for the six months ended June 30, 2018 and 2017.

Note 4. Investments

The following table shows the Company's investments as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Investments				
Debt	$204,062	$203,459	$204,235	$203,793
Warrants	6,439	9,070	6,182	9,090
Other	11,895	7,700	12,031	7,700
Equity	1,645	2,169	629	1,516
Equity interest in HSLFI	4,069	4,069	—	—
Total investments	$228,110	$226,467	$223,077	$222,099

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The following table shows the Company's investments by industry sector as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Life Science				
Biotechnology	$31,798	$32,448	$21,249	$22,694
Drug Delivery	1,568	1,495	6,918	6,860
Medical Device	34,141	34,237	37,374	37,306
Technology				
Communications	23,890	23,852	19,823	19,773
Consumer-Related	4,063	4,929	11,359	12,314
Data Storage	4,190	100	4,226	100
Internet and Media	39,359	39,341	39,768	39,763
Materials	8,728	9,064	9,511	9,772
Networking	—	—	66	—
Power Management	885	875	1,262	1,260
Semiconductors	3,857	4,356	3,823	4,256
Software	53,663	53,727	58,516	58,744
Cleantech				
Alternative Energy	68	—	68	—
Energy Efficiency	100	112	100	117
Healthcare Information and Services				
Diagnostics	83	2	83	2
Other	218	172	218	165
Software	17,430	17,688	8,713	8,973
Investment funds				
HSLFI	4,069	4,069	—	—
Total investments	$228,110	$226,467	$223,077	$222,099

Horizon Secured Loan Fund I LLC

On June, 1 2018, the Company and Arena formed a joint venture, HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in 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 the Company or Arena for financial reporting purposes. Investments held by HSLFI are measured at fair value using the same valuation methodology as described in Note 6. As of June 30, 2018, HSLFI had total assets of $9.6 million. As of June 30, 2018, HSLFI had no investments on non-accrual status. As of June 30, 2018, HSLFI's portfolio consisted of debt investments in one portfolio company. HSLFI invests in portfolio companies in the same industries in which the Company may directly invest.

The Company provides 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, the Company and Arena each owned 50.0% of the equity interests of HSLFI. The Company's investment in HSLFI consisted of an equity contribution of $4.0 million as of June 30, 2018. As of June 30, 2018, the Company had commitments to fund equity interests in HSLFI of $25.0 million, of which $21.0 million was unfunded.

The Company 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 ("HFI") was formed as a Delaware limited liability company on May 9, 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 the Company, 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 ("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 HSLFI's individual investments as of June 30, 2018:

Portfolio Company [1]	Sector	**Type of Investment** [2][3][4]	Principal Amount (In thousands)	Cost of **Investments**[5]	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.

(2) 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 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.

(3) 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.

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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 Statement of Operations Information	
Interest income on investments	$ 5
Total expenses	$ 22
Net decrease in net assets resulting from operations	$ (17)

Note 5. Transactions with affiliated companies

A non-controlled affiliated company is generally a portfolio company in which the Company owns 5% or more of such portfolio company's voting securities. Transactions related to investments in non-controlled affiliated companies for the six months ended June 30, 2018 were as follows:

	Six months ended June 30, 2018								
Portfolio Company	**Fair value at December 31, 2017**	Purchases	Transfers in/(out) of Sales at fair value	**Discount accretion**	**Net unrealized gain/(loss)**	Fair value at June 30, 2018	Net realized gain/(loss)	Interest income
	(In thousands)							
Decisyon, Inc.	$3,499	$ 300	$ —	$ —	$ 13	$ (80)	$ 3,732	$ —	$ 324
StereoVision, Inc.	—	3,589	—	—	—	(25)	3,564	—	12
Total Non-controlled Affiliates	$3,499	$ 3,889	$ —	$ —	$ 13	$ (105)	$ 7,296	$ —	$ 336

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Transactions related to investments in affiliated companies for the year ended December 31, 2017 were as follows:

	Year ended December 31, 2017							
Portfolio Company	Fair value at December 31, 2016	Purchases	Sales	Transfers in at fair value	**Discount accretion**	**Net unrealized loss**	Fair value at December 31, 2017	Net realized gain (loss)	Interest income
	(In thousands)								
Decisyon, Inc. [1]	$—	$ 750	$ —	$ 2,754	$ 16	$ (21)	$ 3,499	$ —	$ 225
Total Non-controlled Affiliates	$—	$ 750	$ —	$ 2,754	$ 16	$ (21)	$ 3,499	$ —	$ 225

(1) During the year ended December 31, 2017, the Company's ownership in the portfolio company increased to five percent of the portfolio company's voting securities.

A controlled affiliated company is generally a portfolio company in which the Company owns more than 25% of such portfolio company’s voting securities or has the power to exercise control over management or polices of such portfolio company (including through a management agreement). Transactions related to investments in controlled affiliated companies for the six months ended June 30, 2018 were as follows:

	Six months ended June 30, 2018								
Portfolio Company	Fair value at December 31, 2017	Purchases	Sales	Transfers in/(out) at fair value	**Discount accretion**	**Net unrealized gain/(loss)**	Fair value at June 30, 2018	Net realized gain/(loss)	Interest income
	(In thousands)								
HSLFI[1]	$—	$ 4,069	$ —	$ —	$ —	$ —	$ 4,069	$ —	$ —

Total Controlled Affiliates	$—	$ 4,069	$ —	$ —	$ —	$ —	$ —	$ 4,069	$ —	$ —	$ —	

(1) The Company and Arena are the members of HSLFI, a joint venture formed as a Delaware limited liability company that is not consolidated by either member for financial reporting purposes. The members make investments in HSLFI in the form of LLC equity interests as HSLFI makes investments, and all portfolio and other material decisions regarding HSLFI must be submitted to HSLFI's board of managers which is comprised of an equal number of managers appointed by each of the Company and Arena. Because management of HSLFI is shared equally between the Company and Arena, the Company does not believe it controls HSLFI for purposes of the 1940 Act or otherwise.

There were no transactions related to investments in controlled affiliated companies for the year ended December 31, 2017.

Note 6. Fair value

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

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

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The Company's fair value measurements are classified into a fair value hierarchy in accordance with ASC Topic 820, *Fair Value Measurement*, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

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

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

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

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

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

portfolio investment.

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

Debt investments: The fair value of debt investments is estimated by discounting the expected future cash flows using the period end rates at which similar debt investments would be made to borrowers with similar credit ratings and for the same remaining maturities. At June 30, 2018 and December 31, 2017, the hypothetical market yields used ranged from 10% to 25%. Significant increases (decreases) in this unobservable input would result in a significantly lower (higher) fair value measurement. These assets are recorded at fair value on a recurring basis and are categorized as Level 3 within the fair value hierarchy described above.

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

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

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

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

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

- Other adjustments, including a marketability discount on private company warrants, are estimated based on management's judgment about the general industry environment.

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

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

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

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

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

The following tables provide a summary of quantitative information about the Company's Level 3 fair value measurements of its investments as of June 30, 2018 and December 31, 2017. In addition to the techniques and inputs noted in the table below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining its fair value measurements.

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The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of June 30, 2018:

June 30, 2018

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	$203,459	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13%
Warrant investments	7,729	Black-Scholes Valuation Model	Price Per Share	$0.00 – $500.00	$7.19
			Average Industry Volatility	20%	20%
			Marketability Discount	20%	20%
			Estimated Time to Exit	1 to 5 years	3 years
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	19%
			Probability Weighting	0% – 100%	36%
Equity investments	1,215	Last Equity Financing	Price Per Share	$0.00 – $2.24	$0.79
Total Level 3 investments	$220,103				

The following table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements as of December 31, 2017:

December 31, 2017

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average
(Dollars in thousands, except per share data)					
Debt investments	$200,893			10% – 25%	13%

		Discounted Expected Future Cash Flows	Hypothetical Market Yield		
	2,900	Liquidation Scenario	Discount Rate Marketability Discount Uncertainty Discount	18% 20% 20%	18% 20% 20%
Warrant investments	7,371	Black-Scholes Valuation Model	Price Per Share Average Industry Volatility Marketability Discount	$0.00 – $22.38 20% 20%	$3.69 20% 20%
	2	Expected Proceeds	Estimated Time to Exit Price Per Share	1 to 5 years $0.001	3 years $0.001
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate Probability Weighting	18% – 25% 0% – 100%	19% 36%
Equity investments	249	Last Equity Financing	Price Per Share	$0.00 – $1.26	$0.54
Total Level 3 investments	$219,115				

Borrowings: The carrying amount of borrowings under the Company's revolving credit facility (the "Key Facility") with KeyBank National Association ("Key") approximates fair value due to the variable interest rate of the Key Facility and is categorized as Level 2 within the fair value hierarchy described above. Additionally, the Company considers its creditworthiness in determining the fair value of such borrowings. The fair value of the fixed-rate 2022 Notes (as defined in Note 7) is based on the closing public share price on the date of measurement. On June 30, 2018, the closing price of the 2022 Notes on the New York Stock Exchange was $25.45 per note, or $38.0 million. Therefore, the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	$—	$—	$203,459	$203,459
Warrant investments	—	1,341	7,729	9,070
Other investments	—	—	7,700	7,700
Equity investments	954	—	1,215	2,169
Equity interest in HSLFI[(1)]	—	—	—	4,069
Total investments	$954	$1,341	$220,103	$226,467

(1) The fair value of Company's equity interest in HSLFI is determined using the net asset value of the Company's ownership interest in member's capital.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt investments	$—	$—	$203,793	$203,793
Warrant investments	—	1,717	7,373	9,090
Other investments	—	—	7,700	7,700
Equity investments	1,267	—	249	1,516
Total investments	$1,267	$1,717	$219,115	$222,099

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2018:

	Three Months Ended June 30, 2018				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$192,970	$ 7,458	$ 990	$ 7,700	$209,118
Purchase of investments	29,484	—	—	—	29,484
Warrants and equity received and classified as Level 3	—	172	225	—	397
Principal payments received on investments	(18,714)	—	—	(48)	(18,762)
Proceeds from sale of investments	(346)	(5)	—	—	(351)
Net realized loss on investments	—	(153)	—	—	(153)
Unrealized appreciation included in earnings	110	257	—	48	415
Other	(45)	—	—	—	(45)
Level 3 assets, end of period	$203,459	$ 7,729	$ 1,215	$ 7,700	$220,103

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended June 30 2018, there were no transfers between levels.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2017:

	Three Months Ended June 30, 2017				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$166,066	$ 6,250	$ 268	$ 5,900	$178,484
Purchase of investments	22,074	—	—	—	22,074
Warrants and equity received and classified as Level 3	—	211	—	—	211
Principal payments received on investments	(20,693)	—	—	(56)	(20,749)
Proceeds from sale of investments	—	(323)	—	—	(323)
Net realized (loss) gain on investments	(140)	277	—	—	137
Unrealized (depreciation) appreciation included in earnings	(2,229)	(308)	(60)	56	(2,541)
Other	(183)	—	—	—	(183)
Level 3 assets, end of period	$164,895	$ 6,107	$ 208	$ 5,900	$177,110

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended June 30, 2017, there were no transfers between levels.

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2018:

	Six Months Ended June 30, 2018				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$203,793	$ 7,373	$ 249	$ 7,700	$219,115

Purchase of investments	38,046	—	—	—	38,046
Warrants and equity received and classified as Level 3	—	412	1,016	—	1,428
Principal payments received on investments	(34,166)	—	—	(136)	(34,302)
Proceeds from sale of investments	(3,061)	(5)	—	—	(3,066)
Net realized loss on investments	(15)	(287)	—	—	(302)
Unrealized (depreciation) appreciation included in earnings	(160)	236	(50)	136	162
Other	(978)	—	—	—	(978)
Level 3 assets, end of period	$203,459	$ 7,729	$ 1,215	$ 7,700	$220,103

The Company’s transfers between levels are recognized at the end of each reporting period. During the six months ended June 30 2018, there were no transfers between levels.

The change in unrealized depreciation included in the consolidated statement of operations attributable to Level 3 investments still held at June 30, 2018 includes $0.2 million in unrealized depreciation on debt and other investments, $0.02 million in unrealized depreciation on warrant investments and $0.05 million in unrealized depreciation on equity investments.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017				
	Debt Investments	**Warrant Investments**	**Equity Investments**	**Other Investments**	Total
	(In thousands)				
Level 3 assets, beginning of period	$186,186	$ 5,857	$ 268	$ 600	$192,911
Purchase of investments	47,990	—	—	—	47,990
Warrants and equity received and classified as Level 3	—	1,067	—	—	1,067
Principal payments received on investments	(60,183)	—	—	(77)	(60,260)
Proceeds from sale of investments	—	(1,538)	—	—	(1,538)
Net realized (loss) gain on investments	(11,159)	1,057	—	—	(10,102)
Unrealized appreciation (depreciation) included in earnings	8,185	(336)	(60)	77	7,866
Transfer from debt investments to other investments	(5,300)	—	—	5,300	—
Other	(824)	—	—	—	(824)
Level 3 assets, end of period	$164,895	$ 6,107	$ 208	$ 5,900	$177,110

The Company's transfers between levels are recognized at the end of each reporting period. During the six months ended June 30, 2017, there were no transfers between levels.

The change in unrealized appreciation included in the consolidated statement of operations attributable to Level 3 investments still held at June 30, 2017 includes $2.6 million in unrealized depreciation on debt and other investments, $0.4 million in unrealized depreciation on warrant investments and $0.01 million in unrealized appreciation on equity investments.

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

do not represent the underlying value of the Company.

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

As of June 30, 2018 and December 31, 2017, the recorded balances equaled fair values of all the Company's financial instruments, except for the Company's 2022 Notes, as previously described.

Off-balance-sheet instruments

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new debt investments and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Borrowings

The following table shows the Company's borrowings as of June 30, 2018 and December 31, 2017:

	June 30, 2018			December 31, 2017		
	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
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	137,375	105,375	32,000	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,161)	—	—	(1,300)	—
Total borrowings outstanding, net	$137,375	$ 104,214	$32,000	$132,375	$ 94,075	$ 37,000

Currently, with certain limited exceptions, as a BDC, the Company is only allowed to borrow amounts such that the Company's asset coverage, as defined in the 1940 Act, is at least 200% after such borrowings. As of June 30, 2018, the Company's asset coverage for borrowed amounts was 227%.

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 the Company, such reduced asset coverage requirement must be approved by either (a) a "required majority" (as defined in Section 57(o) of the 1940 Act) of the Board, 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 the stockholders of the Company 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" of the Board approved the reduced asset coverage requirements and separately recommended that the Company's stockholders approve the reduced asset coverage requirements at a special meeting of the Company's stockholders. As a result, subject to certain disclosure requirements, the 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 the Company on the day immediately following such stockholder approval.

The Company entered into the Key Facility with Key effective November 4, 2013. The Key Facility has an accordion feature which allows for an increase in the total loan commitment to $150 million from the $100 million commitment. The Key Facility is collateralized by all debt investments and warrants held by Credit II and permits an advance rate of up to 50% of eligible debt investments held by Credit II. The Key Facility contains covenants that, among other things, require the Company to maintain a minimum net worth and to restrict the debt investments securing the Key Facility to certain criteria for qualified debt investments and includes portfolio company concentration limits as defined in the related loan agreement. The Key Facility has a revolving period that extends to April 6, 2021, followed by a two-year amortization period and is scheduled to mature on April 6, 2023. The interest rate 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% and 1.56% on June 30, 2018 and December 31, 2017, respectively. The average interest rate for the three months ended June 30, 2018 and 2017 was 5.18% and 4.26%, respectively. The average interest rate for the six months ended June 30, 2018 and 2017 was 5.01% and 4.14%, 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. As of June 30, 2018 and December 31, 2017, the Company had borrowing capacity under the Key Facility of $32.0 million and $37.0 million, respectively. At June 30, 2018 and December 31, 2017, $20.6 million and $23.6 million, respectively, was available, subject to existing terms and advance rates.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

On March 23, 2012, the Company issued and sold an aggregate principal amount of $30.0 million of 7.375% senior unsecured notes due in 2019 and on April 18, 2012, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional $3.0 million of such notes (collectively, the "2019 Notes"). The 2019 Notes had a stated maturity of March 15, 2019 and were redeemable in whole or in part at the Company's 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 the Company's direct unsecured obligations and (i) ranked equally in right of payment with the Company's future unsecured indebtedness; (ii) were senior in right of payment to any of the Company's future indebtedness that expressly provided it was subordinated to the 2019 Notes; (iii) were effectively subordinated to all of the Company's existing and future secured indebtedness (including indebtedness that was initially unsecured to which the Company subsequently granted security), to the extent of the value of the assets securing such indebtedness, and (iv) were structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. On October 30, 2017 (the "Redemption Date"), the Company 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 Company accelerated $0.2 million of unamortized debt issuance costs related to the 2019 Notes. The 2019 Notes were delisted effective on the Redemption Date.

On September 29, 2017, the Company issued and sold an aggregate principal amount of $32.5 million of 6.25% notes due in 2022 and on October 11, 2017, pursuant to the underwriters' 30 day option to purchase additional notes, the Company sold an additional $4.9 million of such notes (collectively, the "2022 Notes"). The 2022 Notes have a stated maturity of September 15, 2022 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after 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 the Company's direct unsecured obligations and (i) rank equally in right of payment with the Company's current and future unsecured indebtedness; (ii) are senior in right of payment to any of the Company's future indebtedness that expressly provides it is subordinated to the 2022 Notes; (iii) are effectively subordinated to all of the Company's existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, and (iv) are structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries. As of June 30, 2018, the Company was 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".

Note 8. Financial instruments with off-balance-sheet risk

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

The balance of unfunded commitments to extend credit was $20.2 million and $33.3 million as of June 30, 2018 and December 31, 2017, respectively. Commitments to extend credit consist principally of the unused portions of commitments that obligate the Company to extend credit, such as revolving credit arrangements or similar transactions. These commitments are often subject to financial or non-financial milestones and other conditions to borrow that must be achieved before the commitment can be drawn. In addition, the commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	June 30, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Aerin Medical, Inc.	$5,000	$ 63
Catasys, Inc.	2,500	25
Decisyon, Inc.	200	—
HealthEdge Software, Inc.	7,500	75
Intelepeer Holdings, Inc.	3,000	40
New Signature US, Inc.	1,000	10
StereoVision Imaging, Inc.	1,000	—
Total	$20,200	$ 213

The table above also provides the fair value of the Company's unfunded commitment liability as of June 30, 2018, which totaled $0.2 million. The fair value at inception of the delay draw credit agreements is equal to the fees and/or warrants received to enter into these agreements, taking into account the remaining terms of the agreements and the counterparties' credit profile. The unfunded commitment liability reflects the fair value of these future funding commitments and is included in the Company's consolidated statement of assets and liabilities.

Note 9. Concentrations of credit risk

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

The Company’s largest debt investments may vary from period to period as new debt investments are recorded and existing debt investments are repaid. The Company’s five largest debt investments, at cost, represented 30% and 29% of total debt investments outstanding as of June 30, 2018 and December 31, 2017, respectively. No single debt investment represented more than 10% of the total debt investments as of June 30, 2018 and December 31, 2017. Investment income, consisting of interest and fees, can fluctuate significantly upon repayment of large debt investments. Interest income from the five largest debt investments accounted for 32% and 28% of total interest and fee income on investments for the three months ended June 30, 2018 and 2017, respectively. Interest income from the five largest debt investments accounted for 31% and 21% of total interest and fee income on investments for the six months ended June 30, 2018 and 2017, respectively.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Distributions

The Company's distributions are recorded on the declaration date. The following table summarizes the Company's distribution activity for the six months ended June 30, 2018 and for the years ended December 31, 2017 and 2016:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Share Value
			(In thousands, except share and per share data)			
Six Months Ended June 30, 2018						
4/27/18	8/17/18	9/14/18	$ 0.10	$ —	—	$ —
4/27/18	7/19/18	8/15/18	0.10	—	—	—
4/27/18	6/19/18	7/17/18	0.10	1,140	1,221	13
3/1/18	5/17/18	6/15/18	0.10	1,140	1,271	13
3/1/18	4/19/18	5/15/18	0.10	1,140	1,287	13
3/1/18	3/19/18	4/17/18	0.10	1,139	1,255	13
			$ 0.60	$ 4,559	5,034	$ 52
Year Ended December 31, 2017						
10/27/17	2/21/18	3/15/18	$ 0.10	$ 1,138	1,241	$ 14
10/27/17	1/22/18	2/15/18	0.10	1,139	1,185	13
10/27/17	12/20/17	1/17/18	0.10	1,139	1,119	13
7/28/17	11/20/17	12/15/17	0.10	1,139	1,227	13
7/28/17	10/19/17	11/15/17	0.10	1,139	1,195	13
7/28/17	9/20/17	10/16/17	0.10	1,138	1,205	14
4/27/17	8/18/17	9/15/17	0.10	1,140	1,199	13
4/27/17	7/20/17	8/15/17	0.10	1,140	1,159	12
4/27/17	6/20/17	7/14/17	0.10	1,138	1,164	13
3/3/17	5/19/17	6/15/17	0.10	1,137	1,202	14
3/3/17	4/21/17	5/16/17	0.10	1,137	1,287	15
3/3/17	3/20/17	4/18/17	0.10	1,134	1,510	18
			$ 1.20	$ 13,658	14,693	$ 165
Year Ended December 31, 2016						

10/28/16	2/22/17	3/15/17	$ 0.10	$ 1,134	1,665	$ 16
10/28/16	1/19/17	2/15/17	0.10	1,133	1,542	17
10/28/16	12/20/16	1/13/17	0.10	1,137	1,550	16
7/29/16	11/18/16	12/15/16	0.115	1,308	1,712	19
7/29/16	10/20/16	11/15/16	0.115	1,308	1,896	21
7/29/16	9/20/16	10/17/16	0.115	1,305	1,716	22
4/28/16	8/19/16	9/15/16	0.115	1,307	1,535	21
4/28/16	7/20/16	8/15/16	0.115	1,302	1,842	25
4/28/16	6/20/16	7/15/16	0.115	1,305	1,734	23
3/3/16	5/19/16	6/15/16	0.115	1,305	1,898	23
3/3/16	4/20/16	5/16/16	0.115	1,283	3,821	44
3/3/16	3/18/16	4/15/16	0.115	1,306	1,840	21
			$ 1.335	$ 15,133	22,751	$ 268

On July 27, 2018, the Board declared monthly distributions per share, payable as set forth in the following table:

Ex-Dividend Date	Record Date	Payment Date	Distributions Declared
November 16, 2018	November 19, 2018	December 14, 2018	$ 0.10
October 17, 2018	October 18, 2018	November 15, 2018	$ 0.10
September 17, 2018	September 18, 2018	October 16, 2018	$ 0.10

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

After paying distributions of $0.30 per share and earning $0.29 per share for the quarter, the Company's undistributed spillover income as of June 30, 2018 was $0.05 per share. Spillover income includes any ordinary income and net capital gains from the preceding tax years that were not distributed during such tax years.

Note 11. Financial highlights

The following table shows financial highlights for the Company:

	Six Months Ended June 30,			
	2018		2017	
	(In thousands, except share and per share data)			
Per share data:				
Net asset value at beginning of period	$ 11.72		$ 12.09	
Net investment income	0.56		0.53	
Realized loss on investments	(0.03	)	(0.93	)
Unrealized (depreciation) appreciation on investments	(0.05	)	0.78	
Net increase in net assets resulting from operations	0.48		0.38	
Distributions declared[1]	(0.60	)	(0.60	)
From net investment income	(0.60	)	(0.60	)
From net realized gain on investments	—		—	
Return of capital	—		—	
Net asset value at end of period	$ 11.60		$ 11.87	
Per share market value, beginning of period	$ 11.22		$ 10.53	
Per share market value, end of period	$ 10.08		$ 11.33	
Total return based on a market value[2]	(4.8	)%	10.4	%
Shares outstanding at end of period	11,527,764		11,519,180	
Ratios, net of waiver, to average net assets:				
Expenses without incentive fees	9.9	%[3]	8.5	%[3]
Incentive fees	2.0	%[3]	1.2	%[3]
Net expenses	11.9	%[3]	9.7	%[3]
Net investment income with incentive fees	9.7	%[3]	8.8	%[3]
Ratios, without waiver, to average net assets:				
Expenses without incentive fees[4]	9.9	%[3]	8.5	%[3]

Incentive fees[4]	2.3	%[3]	1.2	%[3]
Net expenses[4]	12.2	%[3]	9.7	%[3]
Net investment income with incentive fees[4]	9.4	%[3]	8.8	%[3]
Net assets at the end of the period	$ 133,771		$ 136,762	
Average net asset value	$ 134,369		$ 138,464	
Average debt per share	$ 7.98		$ 6.20	
Portfolio turnover ratio	19.4	%	28.2	%

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

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

(3) Annualized.

(4) During the six months ended June 30, 2018, the Advisor waived $0.2 million of performance based incentive fee.

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

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

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 debt investments, warrants 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 investment advisor, Horizon Technology Finance Management LLC, or the 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 regulated investment company, or RIC, and as a business development company, or BDC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly if we use leverage as part of our investment strategy;
- the ability of our portfolio companies to achieve their objective;
- the impact of legislative and regulatory actions and reforms and regulatory supervisory or enforcement actions of government agencies relating to us or our Advisor;
- the impact of the Small Business Credit Availability Act on our operations and the BDC industry;
- 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 Horizon Secured Loan Fund I, or HSLFI, to the extent approved by each member of HSLFI.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-looki statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in “Risk Factors” and elsewhere in our annual report on Form 10-K for the year ended December 31, 2017, and elsewhere in this quarterly report on Form 10-Q.

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

Overview

We are a specialty finance company that lends to and invests in development-stage companies in the technology, life science, healthcare information and services and cleantech industries, which we refer to as our "Target Industries." Our investment objective is to 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 collectively 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. 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 Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. As a BDC, we are required to comply with regulatory requirements, including limitations on our use of debt. We are permitted to, and expect to, finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, 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 requirements in Section 61(a)(2) of the 1940 Act 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 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, or Compass Horizon, our predecessor company, commenced operations in March 2008. We were formed in March 2010 for the purpose of acquiring Compass Horizon and continuing its business as a public entity.

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

for our allocable portion of overhead and other expenses incurred by our Advisor in performing its obligations under the Administration Agreement.

Portfolio composition and investment activity

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

	June 30, 2018			December 31, 2017		
	Number of Investments	**Fair Value**	**Percentage of Total Portfolio**	**Number of Investments**	**Fair Value**	**Percentage of Total Portfolio**
			(Dollars in thousands)			
Debt investments	33	$203,459	89.8 %	33	$203,793	91.8 %
Warrants	69	9,070	4.0	72	9,090	4.0
Other investments	4	7,700	3.4	4	7,700	3.5
Equity	8	2,169	1.0	6	1,516	0.7
Equity interest in HSLFI	1	4,069	1.8		—	—
Total		$226,467	100.0 %		$222,099	100.0 %

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
		(In thousands)		
Beginning portfolio	$ 211,905	$ 180,114	$ 222,099	$ 194,003
New debt investments	29,484	22,074	40,525	47,990
Less refinanced debt investments	—	—	(2,479)	—
Net new debt investments	29,484	22,074	38,046	47,990
Investment in controlled affiliate investments	4,069	—	4,069	—
Principal payments received on investments	(5,178)	(8,441)	(13,977)	(20,332)
Early pay-offs	(13,584)	(12,308)	(20,325)	(39,517)
Accretion of debt investment fees	571	433	1,081	938
New debt investment fees	(314)	(420)	(1,509)	(690)
New equity	225	—	1,016	—
Proceeds from sale of investments	(351)	(346)	(3,066)	(1,572)
Net realized (loss) gain on investments	(153)	175	(302)	(10,670)
Net unrealized (depreciation) appreciation on investments	(207)	(2,197)	(665)	8,934
Ending portfolio	$ 226,467	$ 179,084	$ 226,467	$ 179,084

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:

	June 30, 2018		December 31, 2017	
	Debt Investments at Fair Value	**Percentage of Total Portfolio**	Debt Investments at Fair Value	**Percentage of Total Portfolio**
	(Dollars in thousands)			
Life Science				
Biotechnology	$25,448	12.5 %	$ 15,015	7.4 %
Drug Delivery	1,473	0.7	6,830	3.4
Medical Device	32,985	16.2	36,173	17.7
Technology				
Communications	23,583	11.6	19,549	9.6
Consumer-Related	3,622	1.8	10,918	5.3
Internet and Media	38,144	18.8	38,899	19.1
Materials	8,541	4.2	9,324	4.6
Power Management	853	0.4	1,234	0.6
Semiconductors	3,379	1.7	3,345	1.6
Software	48,223	23.7	53,994	26.5
Healthcare Information and Services				
Software	17,208	8.4	8,512	4.2
Total	$203,459	100.0 %	$ 203,793	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% and 29% of total debt investments outstanding as of June 30, 2018 and December 31, 2017, respectively. No single debt investment represented more than 10% of our total debt investments as of June 30, 2018 and December 31, 2017.

Debt investment asset quality

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 and December 31, 2017, 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:

	June 30, 2018			December 31, 2017		
	Number of Investments	**Debt Investments at Fair Value**	**Percentage of Debt Investments**	**Number of Investments**	**Debt Investments at Fair Value**	**Percentage of Debt Investments**
	(Dollars in thousands)					
Credit Rating						
4	4	$ 19,685	9.7 %	4	$ 18,701	9.2 %
3	25	166,317	81.7	25	176,560	86.6
2	4	17,457	8.6	3	5,632	2.8
1	—	—	—	1	2,900	1.4
Total	33	$ 203,459	100.0 %	33	$ 203,793	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.

Horizon Secured Loan Fund I LLC

On June, 1 2018, we and Arena Sunset SPV, LLC ("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 ("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 several entities owned or affiliated with New York Life Insurance Company ("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	

(1) 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 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 (In thousands)	Cost of **Investments**[5]	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.

(2) 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 investments are at variable rates for the term of the debt investment, unless otherwise indicated. All debt investments based on the London InterBank Offered Rate, or LIBOR, are based on one-month LIBOR. For each debt investment, the current interest rate in effect as of June 30, 2018 is provided.

(3) 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

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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

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

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

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 end-of-term payments, or 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.

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 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 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 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.

Liquidity and capital resources

As of June 30, 2018 and December 31, 2017, we had cash of $10.8 million and $6.6 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 our 6.25% notes due 2022, or 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 Securities Exchange Act of 1934, as amended, or 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 and 2017, we did not make any repurchases of our common stock. 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, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association was $68.0 million and $58.0 million, respectively. As of June 30, 2018 and December 31, 2017, we had borrowing capacity under the Key Facility of $32.0 million and $37.0 million, respectively. At June 30, 2018 and December 31, 2017, $20.6 million and $23.6 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 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 “required majority” (as defined in Section 57(o) of the 1940 Act) of our Board, 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” 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, subject to certain disclosure requirements, 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.

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:

	June 30, 2018			December 31, 2017		
	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
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	137,375	105,375	32,000	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,161)	—	—	(1,300)	—
Total borrowings outstanding, net	$137,375	$ 104,214	$32,000	$132,375	$ 94,075	$ 37,000

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% and 1.56% as of June 30, 2018 and December 31, 2017, respectively. The interest rates in effect were 5.23% and 4.61% as of June 30, 2018 and December 31, 2017, 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.

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, other assets were $2.0 million and $1.5 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 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 its 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” dividend reinvestment plan, or DRIP, for our common stockholders. As a result, if we declare a distribution, then stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock unless a stockholder specifically “opts out” of our DRIP. If a stockholder opts out, that stockholder will receive cash distributions. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes, stockholders participating in our DRIP will not receive any corresponding cash distributions with which to pay any such applicable taxes. If our common stock is trading 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 three months ended June 30, 2018 and 2017, we paid the Advisor $1.9 million and $1.3 million, respectively, pursuant to the Investment Management Agreement. During the six months ended June 30, 2018 and 2017, we paid the Advisor $3.6 million and $2.7 million, respectively, pursuant to the Investment Management Agreement.

Our Advisor is 60% owned by HTF Holdings LLC, which is 100% owned by Horizon Technology Finance, LLC. By virtue of their ownership interest in Horizon Technology Finance, LLC, 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 three months

ended June 30, 2018 and 2017, we paid the Advisor $0.2 million pursuant to the Administration Agreement. During the six months ended June 30, 2018 and 2017, we paid the Advisor $0.4 million 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.

Critical accounting policies

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. 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 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 three and six months ended June 30, 2018 and 2017, we did not recognize any interest income from debt investments 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 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.

Distributions from HSLFI are evaluated at the time of distribution to determine if the distribution should be recorded as dividend income or a return of capital. Generally, we will not record distributions from HSLFI as dividend income unless there are sufficient accumulated tax-basis earnings and profit in HSLFI prior to distribution. Distributions that are classified as a return of capital are recorded as a reduction in the cost basis of the investment. For the period June 1, 2018 (the commencement of HSLFI's operations) through June 30, 2018, there were no distributions from HSLFI.

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.

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 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.

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

We are subject to financial market risks, including changes in interest rates. During the periods covered by our financial statements, the interest rates on the 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 and December 31, 2017, 99% 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) and the base index rates at June 30, 2018, 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	Interest Expense	**Change in Net Assets[(1)]**
	(In thousands)		
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.

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

(a) Evaluation of disclosure controls and procedures

As of June 30, 2018, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in internal controls over financial reporting.

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

PART II

Item 1: Legal Proceedings.

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

Item 1A: Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors set forth below and in "Item 1A Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results. Other than the item set forth below, there have been no material changes during the six months ended June 30, 2018 to the risk factors set forth in "Item 1A. Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2017.

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 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. In that case, the modified asset coverage requirements would be effective with respect to us on the day immediately following such stockholder approval.

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.

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.

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 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 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. 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.

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)(l) 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)(l) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock unless our asset coverage, as defined in the 1940 Act, 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

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

In addition, the indenture does not require us to offer to purchase 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.

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

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Mine Safety Disclosures.

Not applicable

Item 5: Other Information.

None.

Item 6: Exhibits.

EXHIBIT INDEX

Exhibit No.	**Description**

10.1	Amendment No. 2 to Amended and Restated Loan Agreement, dated as of April 6, 2018, by and among Horizon Credit II LLC, as borrower, State Bank and Trust Company, as lender, MUFG Union Bank N.A., as lender and KeyBank National Association, as lender and as arranger and agent (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, File No. 18795826, filed on May 1, 2018)
10.2	Horizon Secured Loan Fund I LLC Limited Liability Company Agreement dated June 1, 2018, by and between the Company and Arena Sunset SPV, LLC (Incorporated by reference to Exhibit (k)(9) of the Company's Registration Statement on Form N-2, File No. 333-225698, filed on June 18, 2018
31.1*	Certifications by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended

*Filed herewith

SIGNATURES

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

Horizon Technology Finance Corporation

Date: July 31, 2018 By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer and Chairman of the Board

Date: July 31, 2018 By: /s/ Daniel R. Trolio
Name: Daniel R. Trolio
Title: Chief Financial Officer