Horizon Technology Finance Corp
Form 10-Q
May 01, 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 MARCH 31, 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 May 1, 2018 was 11,525,206.

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)

	March 31, 2018	December 31, 2017
Assets		
Non-affiliate investments at fair value (cost of $205,970 and $219,303, respectively)	$ 204,936	$ 218,600
Affiliate investments at fair value (cost of $7,371 and $3,774, respectively) (Note 5)	6,969	3,499
Total investments at fair value (cost of $213,341 and $223,077, respectively) (Note 4)	211,905	222,099
Cash	16,127	6,594
Interest receivable	4,224	3,986
Other assets	1,510	1,467
Total assets	$ 233,766	$ 234,146
Liabilities		
Borrowings (Note 7)	$ 94,144	$ 94,075
Distributions payable	3,457	3,456
Base management fee payable (Note 3)	384	379
Incentive fee payable (Note 3)	545	541
Other accrued expenses	975	620
Total liabilities	99,505	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 March 31, 2018 and December 31, 2017	—	—
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 11,691,416 and 11,687,871 shares issued and 11,523,951 and 11,520,406 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	12	12
Paid-in capital in excess of par	179,681	179,641

Distributions in excess of net investment income	(2,145)	(1,898)
Net unrealized depreciation on investments	(1,436)	(978)
Net realized loss on investments	(41,851)	(41,702)
Total net assets	134,261	135,075
Total liabilities and net assets	$233,766	$234,146
Net asset value per common share	$11.65	$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 March 31,	
	2018	2017
Investment income		
Interest income on investments		
Interest income on non-affiliate investments	$6,622	$6,279
Interest income on affiliate investments	131	—
Total interest income on investments	6,753	6,279
Fee income		
Prepayment fee income on non-affiliate investments	285	460
Fee income on non-affiliate investments	137	223
Total investment income	7,175	6,962
Expenses		
Interest expense	1,484	1,316
Base management fee (Note 3)	1,114	974
Performance based incentive fee (Note 3)	545	430
Administrative fee (Note 3)	184	194
Professional fees	445	506
General and administrative	193	175
Total expenses	3,965	3,595
Net investment income	3,210	3,367
Net realized and unrealized (loss) gain on investments		
Net realized loss on non-affiliate investments	(149)	(10,845)
Net realized loss on investments	(149)	(10,845)
Net unrealized (depreciation) appreciation on non-affiliate investments	(332)	11,131
Net unrealized depreciation on affiliate investments	(126)	—
Net unrealized (depreciation) appreciation on investments	(458)	11,131
Net realized and unrealized (loss) gain on investments	(607)	286
Net increase in net assets resulting from operations	$2,603	$3,653
Net investment income per common share	$0.28	$0.29
Net increase in net assets per common share	$0.23	$0.32
Distributions declared per share	$0.30	$0.30
Weighted average shares outstanding	11,522,153	11,512,853

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	—	—	—	3,367	11,131	(10,845)	3,653
Issuance of common stock under dividend reinvestment plan	4,757	—	49	—	—	—	49
Distributions declared	—	—	—	(3,455)	—	—	(3,455)
Balance at March 31, 2017	11,515,181	$ 12	$ 179,600	$ (485)	$ (8,332)	$ (31,356)	$ 139,439
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	—	—	—	3,210	(458)	(149)	2,603
Issuance of common stock under dividend reinvestment plan	3,545	—	40	—	—	—	40
Distributions declared	—	—	—	(3,457)	—	—	(3,457)
Balance at March 31, 2018	11,523,951	$ 12	$ 179,681	$ (2,145)	$ (1,436)	$ (41,851)	$ 134,261

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 2,603	$ 3,653
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Amortization of debt issuance costs	150	127
Net realized loss on investments	149	10,845
Net unrealized depreciation (appreciation) on investments	458	(11,131)
Purchase of investments	(8,562)	(25,916)
Principal payments received on investments	15,540	39,511
Proceeds from sale of investments	2,715	1,226
Changes in assets and liabilities:		
Decrease in interest receivable	4	112
(Increase) decrease in end-of-term payments	(242)	927
Decrease in unearned income	(106)	(235)
(Increase) decrease in other assets	(124)	385
Increase in other accrued expenses	355	4
Increase (decrease) in base management fee payable	5	(25)
Increase in incentive fee payable	4	430
Net cash provided by operating activities	12,949	19,913
Cash flows from financing activities:		
Advances on credit facility	—	15,000
Repayment of credit facility	—	(25,000)
Distributions paid	(3,416)	(3,404)
Net cash used in financing activities	(3,416)	(13,404)
Net increase in cash	9,533	6,509
Cash:		
Beginning of period	6,594	37,135
End of period	$ 16,127	$ 43,644
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,278	$ 1,257
Supplemental non-cash investing and financing activities:		
Warrant investments received and recorded as unearned income	$ 248	$ 877

Distributions payable	$ 3,457	$ 3,455
End-of-term payments receivable	$ 3,178	$ 3,736

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (13)
Non-Affiliate Investments — 152.5% (8)					
Non-Affiliate Debt Investments — 139.1% (8)					
Non-Affiliate Debt Investments — Life Science — 39.2% (8)					
Palatin Technologies, Inc. (2)(5)	Biotechnology	Term Loan (10.17% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 1/1/19)	$1,500	$1,485	$1,485
		Term Loan (10.17% cash (Libor + 8.50%; Floor 9.00%), 5.00% ETP, Due 8/1/19)	2,667	2,643	2,643
vTv Therapeutics Inc. (2)(5)	Biotechnology	Term Loan (11.67% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 5/1/20)	6,250	6,202	6,170
		Term Loan (11.67% cash (Libor + 10.00%; Floor 10.50%), 6.00% ETP, Due 10/1/20)	3,750	3,705	3,686
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	Term Loan (10.18% cash (Libor + 8.40%; Floor 9.50%), 5.00% ETP, Due 6/1/21)	1,600	1,462	1,462
Aerin Medical, Inc. (2)	Medical Device	Term Loan (9.12% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	4,000	3,880	3,880
		Term Loan (9.12% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,957	2,957
		Term Loan (9.12% cash (Libor + 7.45%; Floor 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,957	2,957
Conventus Orthopaedics, Inc. (2)	Medical Device	Term Loan (9.67% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,934	3,934
		Term Loan (9.67% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,934	3,934
		Term Loan (9.67% cash (Libor + 8.00%; Floor 9.25%), 6.00% ETP, Due 6/1/21)	4,000	3,934	3,934
Lantos Technologies, Inc. (2)	Medical Device	Term Loan (10.21% cash (Libor + 8.43%; Floor 10.00%), 6.00% ETP, Due 9/1/21)	4,000	3,439	3,439

Mederi Therapeutics, Inc. (2)(11)	Medical Device	Term Loan (13.31% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	173
		Term Loan (13.31% cash (Libor + 11.82%; Floor 12.00%), 6.00% ETP, Due 12/1/17)	173	173	173
NinePoint Medical, Inc. (2)	Medical Device	Term Loan (10.42% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	2,667	2,650	2,650
		Term Loan (10.42% cash (Libor + 8.75%; Floor 9.25%), 4.50% ETP, Due 3/1/19)	1,333	1,322	1,322
VERO Biotech LLC (2)	Medical Device	Term Loan (9.67% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,918	3,918
		Term Loan (9.67% cash (Libor + 8.00%; Floor 9.25%), 5.00% ETP, Due 1/1/22)	4,000	3,938	3,938
Total Non-Affiliate Debt Investments — Life Science				52,706	52,655
Non-Affiliate Debt Investments — Technology — 90.8% (8)					
Intelepeer Holdings, Inc.	Communications	Term Loan (11.62% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,892	3,892
		Term Loan (11.62% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,932	3,932
		Term Loan (11.62% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,932	3,932
PebblePost, Inc. (2)	Communications	Term Loan (10.93% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,879	3,879
		Term Loan (10.93% cash (Libor + 9.26%; Floor 10.25%), 4.00% ETP, Due 7/1/21)	4,000	3,937	3,937
SavingStar, Inc. (2)	Consumer-related Technologies	Term Loan (12.07% cash (Libor + 10.40%; Floor 10.90%), 4.25% ETP, Due 6/1/20)	2,067	2,042	2,026
		Term Loan (12.07% cash (Libor + 10.40%; Floor 10.90%), 3.80% ETP, Due 11/1/20)	1,844	1,788	1,774
IgnitionOne, Inc. (2)	Internet and Media	Term Loan (11.90% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,842	2,842
		Term Loan (11.90% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,842	2,842
		Term Loan (11.90% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,842	2,842
		Term Loan (11.90% cash (Libor + 10.23%; Floor 10.23%), 2.00% ETP, Due 4/1/22)	3,000	2,842	2,842

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (13)
Jump Ramp Games, Inc. (2)	Internet and Media	Term Loan (11.40% cash (Libor + 9.73%), 3.00% ETP, Due 4/1/21)	4,000	3,946	3,946
Kixeye, Inc. (2)	Internet and Media	Term Loan (11.27% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	3,000	2,891	2,891
		Term Loan (11.27% cash (Libor + 9.60%; Floor 10.75%), 2.00% ETP, Due 5/1/21)	3,000	2,949	2,949
MediaBrix, Inc. (2)	Internet and Media	Term Loan (12.67% cash (Libor + 11.00%; Floor 11.50%), 3.00% ETP, Due 1/1/20)	3,667	3,647	3,647
Rocket Lawyer Incorporated (2)	Internet and Media	Term Loan (11.07% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,937	3,937
		Term Loan (11.07% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 7/1/21)	4,000	3,937	3,937
		Term Loan (11.07% cash (Libor + 9.40%; Floor 10.50%), 3.00% ETP, Due 11/1/21)	2,000	1,966	1,966
Zinio Holdings, LLC (2)	Internet and Media	Term Loan (12.92% cash (Libor + 11.25%; Floor 11.75%), 6.00% ETP, Due 2/1/20)	4,000	3,980	3,980
The NanoSteel Company, Inc. (2)	Materials	Term Loan (11.17% cash (Libor + 9.50%; Floor 10.00%), 7.20% ETP, Due 1/1/20)	4,445	4,379	4,379
		Term Loan (11.17% cash (Libor + 9.50%; Floor 10.00%), 6.45% ETP, Due 1/1/20)	2,223	2,190	2,190
		Term Loan (11.17% cash (Libor + 9.50%; Floor 10.00%), 5.85% ETP, Due 3/1/20)	2,431	2,393	2,393
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (12.37% cash (Libor + 10.70%; Floor 11.20%), 3.32% ETP, Due 9/1/19)	1,050	1,023	1,023
Luxtera, Inc.	Semiconductors	Term Loan (11.25% cash (Prime + 6.75%),	2,000	1,913	1,913

		Due 3/28/20)			
		Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,449	1,449
Bridge2 Solutions, LLC. (2)	Software	Term Loan (10.92% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,792	4,792
		Term Loan (10.92% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,792	4,792
Education Elements, Inc. (2)	Software	Term Loan (11.67% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 1/1/19)	600	592	592
		Term Loan (11.67% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	800	789	789
Metricly, Inc.	Software	Term Loan (13.92% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/18)	158	158	158
ShopKeep.com, Inc. (2)	Software	Term Loan (11.62% cash (Libor + 9.95%; Floor 10.45%), 4.08% ETP, Due 10/1/20)	5,700	5,607	5,607
		Term Loan (11.62% cash (Libor + 9.95%; Floor 10.45%), 3.55% ETP, Due 2/1/21)	4,000	3,930	3,930
SIGNiX, Inc.	Software	Term Loan (12.67% cash (Libor + 11.00%; Floor 11.50%), 5.33% ETP, Due 2/1/20)	2,120	2,025	1,640
SilkRoad Technology, Inc. (2)	Software	Term Loan (12.02% cash (Libor + 10.35%; Floor 10.85%; Ceiling 12.85%), 5.00% ETP, Due 6/1/20)	6,750	6,664	6,664
Weblinc Corporation (2)	Software	Term Loan (11.92% cash (Libor + 10.25%; Floor 11.25%), 3.00% ETP, Due 3/1/21)	3,000	2,954	2,954
xAd, Inc. (2)	Software	Term Loan (10.37% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,902	4,902
		Term Loan (10.37% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	5,000	4,902	4,902
		Term Loan (10.37% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	3,000	2,941	2,941
		Term Loan (10.37% cash (Libor + 8.70%; Floor 10.00%), 4.75% ETP, Due 11/1/21)	2,000	1,961	1,961
Total Non-Affiliate Debt Investments — Technology				122,379	121,964
Non-Affiliate Debt Investments — Healthcare information and services — 9.1% (8)					
HealthEdge Software, Inc. (2)	Software	Term Loan (9.92% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 7/1/22)	5,000	4,860	4,860
		Term Loan (9.92% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 1/1/23)	3,750	3,696	3,696
		Term Loan (9.99% cash (Libor + 8.25%; Floor 9.25%), 3.00% ETP, Due 4/1/23)	3,750	3,692	3,692
Total Non-Affiliate Debt Investments — Healthcare information and services				12,248	12,248
Total Non- Affiliate Debt Investments				187,333	186,867

See Notes to Consolidated Financial Statements

8

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Cost of Investments (6)	Fair Value (13)
Non-Affiliate Warrant Investments — 6.9% (8)				
Non-Affiliate Warrants — Life Science — 1.8% (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	3,656 Common Stock Warrants	33	—
Celsion Corporation (5)	Biotechnology	408 Common Stock Warrants	15	—
Rocket Pharmaceuticals Corporation (5)	Biotechnology	1,763 Common Stock Warrants	17	—
Palatin Technologies, Inc. (2)(5)	Biotechnology	608,058 Common Stock Warrants	51	197
Revance Therapeutics, Inc. (5)	Biotechnology	34,113 Common Stock Warrants	68	564
Sample6, Inc. (2)	Biotechnology	661,956 Preferred Stock Warrants	53	25
Strongbridge U.S. Inc. (5)	Biotechnology	160,714 Common Stock Warrants	72	1,056
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	2,050 Common Stock Warrants	5	—
vTv Therapeutics Inc. (2)(5)	Biotechnology	95,293 Common Stock Warrants	44	12
Titan Pharmaceuticals, Inc. (2)(5)	Drug Delivery	320,612 Common Stock Warrants	95	19
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	68
Conventus Orthopaedics, Inc. (2)	Medical Device	720,000 Preferred Stock Warrants	95	98

Lantos Technologies, Inc. (2)	Medical Device	1,715,926 Common Stock Warrants	253	285
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	13
VERO Biotech LLC (2)	Medical Device	800,000 Common Stock Warrants	53	54
ViOptix, Inc.	Medical Device	375,763 Preferred Stock Warrants	13	—
Total Non-Affiliate Warrants — Life Science			1,690	2,422
Non-Affiliate Warrants — Technology — 4.5% (8)				
Ekahau, Inc. (2)	Communications	978,261 Preferred Stock Warrants	33	24
Intelepeer Holdings, Inc.	Communications	2,256,549 Preferred Stock Warrants	149	113
PebblePost, Inc. (2)	Communications	598,850 Preferred Stock Warrants	92	95
Additech, Inc. (2)	Consumer-related Technologies	150,000 Preferred Stock Warrants	33	32
Gwynnie Bee, Inc. (2)	Consumer-related Technologies	268,591 Preferred Stock Warrants	68	819
Le Tote, Inc. (2)	Consumer-related Technologies	202,974 Preferred Stock Warrants	63	368
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	3
IgnitionOne, Inc. (2)	Internet and Media	262,910 Preferred Stock Warrants	671	664
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	77
Rocket Lawyer Incorporated (2)	Internet and Media	261,721 Preferred Stock Warrants	92	95
The NanoSteel Company, Inc. (2)	Materials	379,360 Preferred Stock Warrants	187	456
Powerhouse Dynamics, Inc. (2)	Power Management	348,838 Preferred Stock Warrants	33	32
Avalanche Technology, Inc. (2)	Semiconductors	202,602 Preferred Stock Warrants	101	37
eASIC Corporation (2)	Semiconductors		25	29

		40,445 Preferred Stock Warrants		
Kaminario, Inc.	Semiconductors	1,087,203 Preferred Stock Warrants	59	46
Luxtera, Inc.(2)	Semiconductors	3,546,553 Preferred Stock Warrants	213	363
Soraa, Inc. (2)	Semiconductors	203,616 Preferred Stock Warrants	80	446
Bolt Solutions Inc. (2)	Software	202,892 Preferred Stock Warrants	113	102
Bridge2 Solutions, Inc. (2)	Software	125,458 Common Stock Warrants	432	763
Clarabridge, Inc.	Software	53,486 Preferred Stock Warrants	14	105
Education Elements, Inc. (2)	Software	238,121 Preferred Stock Warrants	28	29
Lotame Solutions, Inc. (2)	Software	288,115 Preferred Stock Warrants	22	284
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	113
SIGNiX, Inc.	Software	133,560 Preferred Stock Warrants	225	35
Skyword, Inc.	Software	301,056 Preferred Stock Warrants	48	3

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2018

(Dollars in thousands)

Portfolio Company (1)(3)	Sector	Type of Investment (4)(7)(9)(10)	Principal Amount	Cost of Investments (6)	Fair Value (13)
SpringCM, Inc. (2)	Software	2,385,686 Preferred Stock Warrants		55	136
Sys-Tech Solutions, Inc.	Software	375,000 Preferred Stock Warrants		242	428
Visage Mobile, Inc.	Software	1,692,047 Preferred Stock Warrants		19	2
Weblinc Corporation (2)	Software	195,122 Preferred Stock Warrants		42	43
xAd, Inc. (2)	Software	4,343,350 Preferred Stock Warrants		177	289
Total Non-Affiliate Warrants — Technology				3,869	6,10
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	119
Total Non-Affiliate Warrants — Cleantech				168	119
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	63
Watermark Medical, Inc. (2)	Other Healthcare	27,373 Preferred Stock Warrants		74	61
HealthEdge Software, Inc. (2)	Software	158,063 Preferred Stock Warrants		67	67
Medsphere Systems Corporation (2)	Software	7,097,792 Preferred Stock Warrants		60	212
Recondo Technology, Inc. (2)	Software	556,796 Preferred Stock Warrants		95	211
Total Non-Affiliate Warrants — Healthcare information and services				523	661
Total Non-Affiliate Warrants				6,250	9,30
Non-Affiliate Other Investments — 5.7% (8)					
Espero Pharmaceuticals, Inc.	Biotechnology	Royalty Agreement		5,300	4,70

ZetrOZ, Inc.	Medical Device	Royalty Agreement		243	700
Vette Technology, LLC	Data Storage	Royalty Agreement Due 4/18/2019		4,200	100
Triple Double Holdings, LLC	Software	License Agreement		2,200	2,20
Total Non-Affiliate Other Investments				11,943	7,70
Non-Affiliate Equity — 0.8% (8)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock		238	748
Revance Therapeutics, Inc.(5)	Biotechnology	5,125 Common Stock		73	158
Sunesis Pharmaceuticals, Inc. (5)	Biotechnology	13,082 Common Stock		83	35
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	1,06
Total Non-Affiliate Portfolio Investment Assets				$205,970	$204,
Affiliate Investments — 5.3% (8)					
Affiliate Debt Investments — Technology — 4.6% (8)					
Decisyon, Inc.	Software	Term Loan (13.978% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 4/1/20)	$1,523	$1,522	$1,46
		Term Loan (13.978% cash (Libor + 12.308%; Floor 12.50%), 8.00% ETP, Due 4/1/20)	833	779	748
		Term Loan (12.02% cash , Due 4/15/19)	250	250	240
		Term Loan (12.03% cash , Due 4/15/19)	250	250	240
		Term Loan (12.24% cash , Due 4/15/19)	750	750	721
StereoVision Imaging, Inc.	Software	Term Loan (8.61% PIK (Libor + 7.03%; Floor 8.50%), 8.50% ETP, Due 9/1/21) (12)	3,200	2,798	2,69
Total Affiliate Debt Investments — Technology				6,349	6,10
Affiliate Warrants — Technology — 0.0% (8)					
Decisyon, Inc.	Software	82,967 Common Stock Warrants		46	—
Total Affiliate Warrants — Technology				46	—
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 Affiliate Equity				976	866
Total Affiliate Portfolio Investment Assets				$7,371	$6,96
Total Portfolio Investment Assets — 157.8%(8)				$213,341	$211,

See Notes to Consolidated Financial Statements

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Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

March 31, 2018

(Dollars in thousands)

(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 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 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 March 31, 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) The Company did not have any non-qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), as of March 31, 2018. 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 March 31, 2018.

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

(13) 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

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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 8.75%), 4.00% ETP, Due 1/1/22)	3,000	2,954	2,954
		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
	Medical Device	Term Loan (11.87% PIK (Libor + 10.50%; Floor	2,479	2,466	2,466

Lantos Technologies, Inc. (2)		11.50%), 8.91% ETP, Due 5/1/19) (13)			
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	Term Loan (11.39% cash (Libor + 9.95%; Floor 11.25%), 2.50% ETP, Due 7/1/21)	4,000	3,888	3,888
		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

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)
		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 11.75%), 6.00% ETP, Due 2/1/20)	4,000	3,978	3,978
The NanoSteel Company, Inc. (2)	Materials	Term Loan (10.87% cash (Libor + 9.50%; Floor 10.00%), 7.20% ETP, Due 1/1/20)	4,653	4,578	4,578
		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 10.00%), 5.85% ETP, Due 3/1/20)	2,500	2,457	2,457
Powerhouse Dynamics, Inc. (2)	Power Management	Term Loan (12.07% cash (Libor + 10.70%; Floor 11.20%), 3.00% ETP, Due 3/1/19)	1,250	1,234	1,234
Luxtera, Inc.	Semiconductors	Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	2,000	1,902	1,902
		Term Loan (11.25% cash (Prime + 6.75%), Due 3/28/20)	1,500	1,443	1,443
Bridge2 Solutions, LLC. (2)	Software	Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
		Term Loan (10.62% cash (Libor + 9.25%; Floor 10.50%), 2.00% ETP, Due 11/1/21)	5,000	4,777	4,777
Digital Signal Corporation (11)(12)	Software	Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		Term Loan (11.62% cash (Libor + 10.25%; Floor 10.43%), 5.00% ETP, Due 7/1/19)	1,290	1,256	1,210
		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 10.50%), 4.00% ETP, Due 1/1/19)	800	789	789
		Term Loan (11.37% cash (Libor + 10.00%; Floor 10.50%), 4.00% ETP, Due 8/1/19)	950	937	937
Metricly, Inc.	Software	Term Loan (13.62% cash (Libor + 12.25%; Floor 12.50%), 3.33% ETP, Due 9/1/18)	184	184	184
ShopKeep.com, Inc. (2)	Software	Term Loan (11.32% cash (Libor + 9.95%; Floor 10.45%), 4.08% ETP, Due 10/1/20)	6,000	5,897	5,897
		Term Loan (11.32% cash (Libor + 9.95%; Floor 10.45%), 3.55% ETP, Due 2/1/21)	4,000	3,924	3,924
SIGNiX, Inc.	Software	Term Loan (12.37% cash (Libor + 11.00%; Floor 11.50%), 5.33% ETP, Due 2/1/20)	2,180	2,073	1,930
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
		Term Loan (10.07% cash (Libor + 8.70%; Floor	5,000	4,895	4,895

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)
		10.00%), 4.75% ETP, Due 11/1/21)			
		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%;	5,000	4,819	4,819
		Floor 9.25%), 3.00% ETP, Due 7/1/22)			
		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	598,850 Preferred Stock Warrants	92	92
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	6,17
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
	Other Healthcare	300,360 Preferred Stock Warrants		100	62

Verity Solutions Group, Inc.					
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	9,09
Non-Affiliate Other Investments — 5.7% (8)					
Espero Pharmaceuticals, Inc.	Biotechnology	Royalty Agreement		5,300	4,70
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	2,20
Total Non-Affiliate Other Investments				12,031	7,70
Non-Affiliate Equity — 1.0% (8)					
Insmed Incorporated (5)	Biotechnology	33,208 Common Stock		238	1,03
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	1,39
Total Non-Affiliate Portfolio Investment Assets				$219,303	$218,
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	$1,44
		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	3,37
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	$3,49
Total Portfolio Investment Assets — 164.4%(8)			$223,077	$222,

See Notes to Consolidated Financial Statements

Horizon Technology Finance Corporation and Subsidiaries

Consolidated Schedule of Investments (Unaudited)

December 31, 2017

(Dollars in thousands)

(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 ("DSC ABC"), 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.

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 March 31, 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 months ended March 31, 2018 and 2017, the Company did not recognize any interest income from debt investments on non-accrual status.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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.

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 March 31, 2018 and 2017 was 7.5%.

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.

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 March 31, 2018 and December 31, 2017 was $2.0 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 March 31, 2018 and December 31, 2017 were $2.0 million and $1.8 million, respectively. The amortization expense for the three months ended March 31, 2018 and 2017 was $0.2 million and $0.1 million, respectively.

Income taxes

As a BDC, the Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC 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 months ended March 31, 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 March 31, 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 months ended March 31, 2018 and 2017, the Company did not make any repurchases of its common stock. From the inception of the stock repurchase program through March 31, 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.

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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 28, 2017. 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 March 31, 2018 and December 31, 2017 was $0.4 million. The base management fee expense was $1.1 million and $1.0 million for the three months ended March 31, 2018 and 2017, respectively.

The incentive fee has two parts, as follows:

The first part, which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus 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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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.

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.

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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.

The performance based incentive fee expense was $0.5 million and $0.4 million for the three months ended March 31, 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 March 31, 2018 and 2017, which resulted in $0.2 million and $0.3 million of reduced expense and additional net investment income, respectively. The performance based incentive fee payable as of March 31, 2018 and December 31, 2017 was $0.5 million. The entire incentive fee payable as of March 31, 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 March 31, 2018 and 2017.

Note 4. Investments

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

	March 31, 2018	December 31, 2017	
	Cost	Cost	Fair Value

		Fair Value (In thousands)		
Investments				
Debt	$193,682	$192,970	$204,235	$203,793
Warrants	6,296	9,304	6,182	9,090
Other	11,943	7,700	12,031	7,700
Equity	1,420	1,931	629	1,516
Total investments	$213,341	$211,905	$223,077	$222,099

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

	March 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
		(In thousands)		
Life Science				
Biotechnology	$20,269	$21,479	$21,249	$22,694
Drug Delivery	1,557	1,481	6,918	6,860
Medical Device	38,507	38,458	37,374	37,306
Technology				
Communications	19,846	19,804	19,823	19,773
Consumer-Related	4,271	5,105	11,359	12,314
Data Storage	4,200	100	4,226	100
Internet and Media	39,491	39,490	39,768	39,763
Materials	9,149	9,418	9,511	9,772
Networking	—	—	66	—
Power Management	1,056	1,055	1,262	1,260
Semiconductors	3,840	4,283	3,823	4,256
Software	58,216	58,204	58,516	58,744
Cleantech				
Alternative Energy	68	—	68	—
Energy Efficiency	100	119	100	117
Healthcare Information and Services				
Diagnostics	83	2	83	2
Other	218	169	218	165
Software	12,470	12,738	8,713	8,973
Total investments	$213,341	$211,905	$223,077	$222,099

Note 5. Transactions with affiliated companies

An 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 affiliated companies for the three months ended

March 31, 2018 were as follows:

Three months ended March 31, 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 March 31, 2018	Net realized gain/(loss)	Interest income
	(In thousands)								
Decisyon, Inc.	$3,499	$ —	$—	$ —	$7	$ (20)	$ 3,486	$ —	$ 131
StereoVision, Inc.	—	3,589	—	—	—	(106)	3,483	—	—
Total Affiliates	$3,499	$ 3,589	$—	$ —	$7	$ (126)	$ 6,969	$ —	$ 131

There were no transactions related to investments in affiliated companies for the three months ended March 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.

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

The Company's fair value measurements are classified into a fair value hierarchy 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 March 31, 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.

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

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

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

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The following tables provide a summary of quantitative information about the Company's Level 3 fair value measurements of its investments as of March 31, 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.

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 March 31, 2018:

March 31, 2018

Investment Type	Fair Value	Valuation Techniques/ Methodologies	Unobservable Input	Range	Weighted Average	
(Dollars in thousands, except per share data)						
Debt investments	$192,624	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13	%
	346	Liquidation Scenario	Probability Weighting	100%	100	%
Warrant investments	7,456	Black-Scholes Valuation Model	Price Per Share	$0.00 – $22.38	$ 3.63	
			Average Industry Volatility	20%	20	%
			Marketability Discount	20%	20	%
			Estimated Time to Exit	1 to 5 years	3 years	
	2	Expected Settlement	Price Per Share	$0.001	$ 0.001	
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	19	%
			Probability Weighting	0% – 100%	36	%
Equity investments	990	Last Equity Financing	Price Per Share		$ 0.46	

				$0.00 – $1.26	
Total Level 3 investments	$209,118				

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	Discounted Expected Future Cash Flows	Hypothetical Market Yield	10% – 25%	13 %
	2,900	Liquidation Scenario	Discount Rate	18%	18 %
			Marketability Discount	20%	20 %
			Uncertainty Discount	20%	20 %
Warrant investments	7,371	Black-Scholes Valuation Model	Price Per Share	$0.00 – $22.38	$ 3.69
			Average Industry Volatility	20%	20 %
			Marketability Discount	20%	20 %
			Estimated Time to Exit	1 to 5 years	3 years
	2	Expected Proceeds	Price Per Share	$0.001	$ 0.001
Other investments	7,700	Multiple Probability Weighted Cash Flow Model	Discount Rate	18% – 25%	19 %
			Probability Weighting	0% – 100%	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 March 31, 2018, the closing price of the 2022 Notes on the New York Stock Exchange was $25.75 per note, or $38.5 million. Therefore,

the Company has categorized this borrowing as Level 1 within the fair value hierarchy described above.

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

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

	March 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt investments	$192,970	$ —	$—	$192,970
Warrant investments	$9,304	$ —	$1,846	$7,458
Other investments	$7,700	$ —	$—	$7,700
Equity investments	$1,931	$ 941	$—	$990

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

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 March 31, 2018:

	Three Months Ended March 31, 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	8,562	—	—	—	8,562
Warrants and equity received and classified as Level 3	—	240	791	—	1,031
Principal payments received on investments	(15,452)	—	—	(88)	(15,540)
Proceeds from sale of investments	(2,715)	—	—	—	(2,715)
Net realized loss on investments	(15)	(134)	—	—	(149)
Unrealized (depreciation) appreciation included in earnings	(270)	(21)	(50)	88	(253)
Other	(933)	—	—	—	(933)
Level 3 assets, end of period	$192,970	$ 7,458	$ 990	$ 7,700	$209,118

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended March 31 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 March 31, 2018 includes $0.3 million in unrealized depreciation on debt and other investments, $0.1 million in unrealized depreciation on warrant investments and $0.05 million in unrealized depreciation on equity investments.

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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 March 31, 2017:

	Three Months Ended March 31, 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	25,916	—	—	—	25,916
Warrants and equity received and classified as Level 3	—	856	—	—	856
Principal payments received on investments	(39,490)	—	—	(21)	(39,511)
Proceeds from sale of investments	—	(1,215)	—	—	(1,215)
Net realized (loss) gain on investments	(11,019)	780	—	—	(10,239)
Unrealized appreciation (depreciation) included in earnings	10,414	(28)	—	21	10,407
Transfer from debt to other investments	(5,300)	—	—	5,300	—
Other	(641)	—	—	—	(641)
Level 3 assets, end of period	$166,066	$ 6,250	$ 268	$ 5,900	$178,484

The Company’s transfers between levels are recognized at the end of each reporting period. During the three months ended March 31, 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 March 31, 2017 includes $0.5 million in unrealized depreciation on debt and other investments, $0.1 million in unrealized depreciation on warrant investments and $0.1 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 March 31, 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.

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Note 7. Borrowings

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

	March 31, 2018			December 31, 2017		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$95,000	$ 58,000	$37,000	$95,000	$ 58,000	$ 37,000
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	132,375	95,375	37,000	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,231)	—	—	(1,300)	—
Total borrowings outstanding, net	$132,375	$ 94,144	$37,000	$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 March 31, 2018, the Company's asset coverage for borrowed amounts was 241%.

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 majority of the Company's directors who have no financial interest in such approval and a majority of the Company's directors who are not interested persons, as defined by the 1940 Act, of the Company 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.

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 $95 million commitment as of March 31, 2018. 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. As of March 31, 2018, the Key Facility had a revolving period that extended to August 12, 2018, followed by a two-year amortization period and was scheduled to mature on August 12, 2020. The interest rate is based upon the one-month London Interbank Offered Rate (“LIBOR”), plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 1.88% and 1.56% on March 31, 2018 and December 31, 2017, respectively. The average interest rate for the three months ended March 31, 2018 and 2017 was 4.85% and 4.03%, 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 March 31, 2018 and December 31, 2017, the Company had borrowing capacity under the Key Facility of $37.0 million. At March 31, 2018 and December 31, 2017, $24.0 million and $23.6 million, respectively, was available, subject to existing terms and advance rates.

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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 March 31, 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 $22.5 million and $33.3 million as of March 31, 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 March 31, 2018:

	March 31, 2018	
	Principal Balance	Fair Value of Unfunded Commitment Liability
	(In thousands)	
Aerin Medical, Inc.	$5,000	$ 63
VERO Biotech LLC	2,000	20
HealthEdge Software, Inc.	7,500	75
Intelepeer Holdings, Inc.	3,000	40
PebblePost, Inc.	4,000	59
StereoVision Imaging, Inc.	1,000	—
Total	$22,500	$ 257

The table above also provides the fair value of the Company's unfunded commitment liability as of March 31, 2018, which totaled $0.3 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 32% and 29% of total debt investments outstanding as of March 31, 2018 and December 31, 2017, respectively. No single debt investment represented more than 10% of the total debt investments as of March 31, 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 29% and 14% of total interest and fee income on investments for the three months ended March 31, 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 three months ended March 31, 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)			
Three Months Ended March 31, 2018						
3/1/18	5/17/18	6/15/18	$ 0.10	$ —	—	$ —
3/1/18	4/19/18	5/15/18	0.10	—	—	—
3/1/18	3/19/18	4/17/18	0.10	1,139	1,255	13
			$ 0.30	$ 1,139	1,255	$ 13
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 April 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
August 16, 2018	August 17, 2018	September 14, 2018	$ 0.10
July 18, 2018	July 19, 2018	August 15, 2018	$ 0.10
June 18, 2018	June 19, 2018	July 17, 2018	$ 0.10

After paying distributions of $0.30 per share and earning $0.28 per share for the quarter, the Company’s undistributed spillover income as of March 31, 2018 was $0.07 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.

Horizon Technology Finance Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Financial highlights

The following table shows financial highlights for the Company:

	Three Months Ended March 31,			
	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	0.28		0.29	
Realized loss on investments	(0.01	)	(0.94	)
Unrealized (depreciation) appreciation on investments	(0.04	)	0.97	
Net increase in net assets resulting from operations	0.23		0.32	
Distributions declared[1]	(0.30	)	(0.30	)
From net investment income	(0.30	)	(0.30	)
From net realized gain on investments	—		—	
Return of capital	—		—	
Net asset value at end of period	$ 11.65		$ 12.11	
Per share market value, beginning of period	$ 11.22		$ 10.53	
Per share market value, end of period	$ 10.39		$ 11.13	
Total return based on a market value[2]	(4.7	)%	8.5	%
Shares outstanding at end of period	11,523,951		11,515,181	
Ratios to average net assets:				
Expenses without incentive fees	10.2	%[3]	9.1	%[3]
Incentive fees	1.6	%[3]	1.2	%[3]
Net expenses	11.8	%[3]	10.3	%[3]
Net investment income with incentive fees	9.5	%[3]	9.7	%[3]
Net assets at the end of the period	$ 134,261		$ 139,439	
Average net asset value	$ 134,668		$ 139,316	
Average debt per share	$ 8.28		$ 7.47	
Portfolio turnover ratio	4.3	%	14.4	%

(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.

Note 12. Subsequent event

On April 6, 2018, the Company amended the Key Facility to increase the aggregate commitments to $100.0 million and extend the revolving period to April 6, 2021 and the maturity date to April 6, 2023.

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

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks” and similar expressions to identify forward-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 March 31, 2018, 100.0%, or $193.0 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% (or 150% if certain approval and disclosure requirements are met) after such borrowing. The amount of leverage that we employ depends on our assessment of market conditions and other factors at the time of any proposed borrowing. As a RIC, we generally 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 March 31, 2018 and December 31, 2017:

	March 31, 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)						
Term loans	32	$192,970	91.1	%	33	$203,793	91.8	%
Warrants	69	9,304	4.4		72	9,090	4.0	
Other investments	4	7,700	3.6		4	7,700	3.5	
Equity	7	1,931	0.9		6	1,516	0.7	
Total		$211,905	100.0	%		$222,099	100.0	%

The following table shows total portfolio investment activity as of and for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Beginning portfolio	$ 222,099	$ 194,003
New debt investments	11,041	25,916
Less refinanced debt investments	(2,479)	—
Net new debt investments	8,562	25,916
Principal payments received on investments	(8,799)	(11,891)
Early pay-offs	(6,741)	(27,209)
Accretion of debt investment fees	510	505
New debt investment fees	(1,195)	(270)
New equity	791	—
Proceeds from sale of investments	(2,715)	(1,226)
Net realized loss on investments	(149)	(10,845)
Net unrealized (depreciation) appreciation on investments	(458)	11,131
Ending portfolio	$ 211,905	$ 180,114

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 March 31, 2018 and December 31, 2017:

	March 31, 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	$13,984	7.3 %	$ 15,015	7.4 %
Drug Delivery	1,462	0.8	6,830	3.4
Medical Device	37,209	19.3	36,173	17.7
Technology				
Communications	19,572	10.1	19,549	9.6

Consumer-Related	3,800	2.0		10,918	5.3	
Internet and Media	38,621	20.0		38,899	19.1	
Materials	8,962	4.6		9,324	4.6	
Power Management	1,023	0.5		1,234	0.6	
Semiconductors	3,362	1.7		3,345	1.6	
Software	52,727	27.3		53,994	26.5	
Healthcare Information and Services						
Software	12,248	6.4		8,512	4.2	
Total	$192,970	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 32% and 29% of total debt investments outstanding as of March 31, 2018 and December 31, 2017, respectively. No single debt investment represented more than 10% of our total debt investments as of March 31, 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 March 31, 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 March 31, 2018 and December 31, 2017:

	March 31, 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	$ 21,119	10.9 %	4	$ 18,701	9.2 %
3	23	150,452	78.0	25	176,560	86.6
2	5	21,399	11.1	3	5,632	2.8
1	—	—	—	1	2,900	1.4
Total	32	$ 192,970	100.0 %	33	$ 203,793	100.0 %

As of March 31, 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.

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 March 31, 2018 and 2017

The following table shows consolidated results of operations for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Total investment income	$ 7,175	$ 6,962
Total expenses	3,965	3,595
Net investment income	3,210	3,367
Net realized loss on investments	(149)	(10,845)
Net unrealized (depreciation) appreciation on investments	(458)	11,131
Net increase in net assets resulting from operations	$ 2,603	$ 3,653
Average debt investments, at fair value	$ 199,728	$ 179,530
Average borrowings outstanding	$ 95,375	$ 86,056

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 $0.2 million, or 3.1%, to $7.2 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. For the three months ended March 31, 2018, total investment income consisted primarily of $6.8 million in interest income from investments, which included $1.3 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 $0.5 million, or 7.5%, for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. Interest income on investments increased primarily due to an increase of $20.2 million, or 11.3%, in the average size of our investment portfolio for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, which was partially offset by a decrease in accelerated ETPs related to prepayments. Fee income, which includes success fee and prepayment fee income on debt investments, decreased by $0.3 million, or 38.2%, to $0.4 million primarily due to a decrease in fees earned on lower principal prepayments received during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

For the three months ended March 31, 2018 and 2017, our dollar-weighted annualized yield on average debt investments (excluding any yield from warrants, equity and other investments) was 14.4% and 15.5%, respectively. We calculate the yield on dollar-weighted average debt investments for any period as (1) total investment income during the period divided by (2) the average of the fair value of debt investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted 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 March 31, 2018 and 2017, our investment portfolio (including any yield from warrants, equity and other investments) had an overall total return of 13.1% and 14.8%, respectively. We calculate the yield on dollar-weighted average investments for any period as (1) total investment income during the period divided by (2) the average of the fair value of investments outstanding on (a) the last day of the calendar month immediately preceding the first day of the period and (b) the last day of each calendar month during the period. The dollar-weighted 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 29% and 14% of investment income for the three months ended March 31, 2018 and 2017, respectively.

Expenses

Total expenses increased by $0.4 million, or 10.3%, to $4.0 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 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 $0.2 million, or 12.8%, to $1.5 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. Interest expense, which includes the amortization of debt issuance costs, increased primarily due to an increase in average borrowings of $9.3 million, or 10.8%, for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017.

Base management fee expense increased by $0.1 million, or 14.4%, to $1.1 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. Base management fee increased primarily due to an increase of $20.2 million, or 11.3%, in the average size of our investment portfolio for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017.

Performance based incentive fee expense increased by $0.1 million, or 26.7%, to $0.5 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 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 and $0.3 million, respectively, of reduced expense and additional net investment income for the three months ended March 31, 2018 and 2017. The incentive fee on pre-incentive fee net investment income was subject to the Incentive Fee Cap for the three months ended March 31, 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 three months ended March 31, 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 three months ended March 31, 2018 compared to the three months ended March 31, 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 March 31, 2018, we realized net losses totaling $0.1 million primarily due to the write off of warrants in three portfolio companies. During the three months ended March 31, 2017, we realized net losses totaling $10.8 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 three months ended March 31, 2018, net unrealized depreciation on investments totaled $0.5 million which was primarily due to the unrealized depreciation on one debt investment and the unrealized depreciation on one public equity investment. During the three months ended March 31, 2017, net unrealized appreciation on investments totaled $11.1 million which was primarily due to reversal of previously recorded unrealized depreciation on two debt investments that were settled during the period.

Liquidity and capital resources

As of March 31, 2018 and December 31, 2017, we had cash of $16.1 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 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 months ended March 31, 2018 and 2017, we did not make any repurchases of our common stock. From the inception of the stock repurchase program through March 31, 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 March 31, 2018 and December 31, 2017, the outstanding principal balance under our revolving credit facility, or the Key Facility, with KeyBank National Association was $58.0 million. As of March 31, 2018 and December 31, 2017, we had borrowing capacity under the Key Facility of $37.0 million. At March 31, 2018 and December 31, 2017, $24.0 million and $23.6 million, respectively, was available, subject to existing terms and advance rates.

Our operating activities provided cash of $12.9 million for the three months ended March 31, 2018, and our financing activities used cash of $3.4 million for the same period. Our operating activities provided cash primarily from principal payments received on our debt investments, partially offset by investments made in portfolio companies. Our financing activities used cash primarily to pay distributions to our stockholders.

Our operating activities provided cash of $19.9 million for the three months ended March 31, 2017, and our financing activities used cash of $13.4 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 majority of our directors who have no financial interest in such approval and a majority of our directors who are not interested persons, as defined by the 1940 Act, of us in which case such reduced asset coverage requirement would take effect on the first anniversary of the date of such Board approval, or (b) a majority of votes cast by our stockholders at a special or annual meeting at which a quorum is present, in which case such reduced asset coverage requirement shall take effect on the day after such approval.

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 March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Total Commitment	Balance Outstanding	Unused Commitment	Total Commitment	Balance Outstanding	Unused Commitment
	(In thousands)					
Key Facility	$95,000	$ 58,000	$37,000	$95,000	$ 58,000	$ 37,000
2022 Notes	37,375	37,375	—	37,375	37,375	—
Total before debt issuance costs	132,375	95,375	37,000	132,375	95,375	37,000
Unamortized debt issuance costs attributable to term borrowings	—	(1,231)	—	—	(1,300)	—
Total borrowings outstanding, net	$132,375	$ 94,144	$37,000	$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 London Interbank Offered Rate, or LIBOR, plus a spread of 3.25%, with a LIBOR floor of 0.75%. The LIBOR rate was 1.88% and 1.56% as of March 31, 2018 and December 31, 2017, respectively. The interest rates in effect are 4.91% and 4.61% as of March 31, 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. As of March 31, 2018, the period during which we may request advances under the Key Facility, or the Revolving Period, extended through August 12, 2018. 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. As of March 31, 2018, the maturity of the Key Facility, the date on which all outstanding advances under the Key Facility are due and payable, was on August 12, 2020.

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 March 31, 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 March 31, 2018 and December 31, 2017, other assets were $1.5 million 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 March 31, 2018:

	Payments due by period				
	Total	Less than 1 year	1 – 3 Years	3 – 5 Years	After 5 years
	(In thousands)				
Borrowings	$95,375	$—	$45,910	$49,465	$—
Unfunded commitments	22,500	16,500	6,000	—	—
Total	$117,875	$16,500	$51,910	$49,465	$—

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 March 31, 2018, we had unfunded commitments of $22.5 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 March 31, 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 March 31, 2018 and 2017, we paid the Advisor $1.7 million and $1.4 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 March 31, 2018 and 2017, we paid the Advisor $0.2 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 months ended March 31, 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.

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 March 31, 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.

Recent development

On April 6, 2018, we amended the Key Facility to increase the aggregate commitments to $100.0 million and extend the revolving period to April 6, 2021 and the maturity date to April 6, 2023.

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 March 31, 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 March 31, 2018 consolidated statement of assets and liabilities (without adjustment for potential changes in the credit market, credit quality, size and composition of assets on the consolidated statement of assets and liabilities or other business developments that could affect net income), the following table shows the annual impact on the change in net assets resulting from operations of changes in interest rates, which assumes no changes in our investments and borrowings:

	Interest Income	Interest Expense	**Change in Net Assets[(1)]**
Change in basis points	(In thousands)		
Up 300 basis points	$5,784	$ 1,764	$ 4,020
Up 200 basis points	$3,877	$ 1,176	$ 2,701
Up 100 basis points	$1,969	$ 588	$ 1,381
Down 300 basis points	$(1,555)	$ (538)	$ (1,017)
Down 200 basis points	$(1,555)	$ (538)	$ (1,017)
Down 100 basis points	$(1,299)	$ (538)	$ (761)

(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 March 31, 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 three months ended March 31, 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.

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, 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.

As a result, if we receive the relevant approval and we comply with certain disclosure requirements, we would be able to incur additional indebtedness, which 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.

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
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: May 1, 2018 By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer and Chairman of the Board

Date: May 1, 2018 By: /s/ Daniel R. Trolio
Name: Daniel R. Trolio
Title: Chief Financial Officer