

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

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018**

**OR**

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

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

**COMMISSION FILE NUMBER: 814-00802**

**HORIZON TECHNOLOGY FINANCE CORPORATION**

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

**DELAWARE**

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

**27-2114934**

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

**312 Farmington Avenue**

**Farmington, CT**

*(Address of principal executive offices)*

**06032**

*(Zip Code)*

**(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  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

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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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

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

**HORIZON TECHNOLOGY FINANCE CORPORATION**

**FORM 10-Q**

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**PART I: FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****Horizon Technology Finance Corporation and Subsidiaries****Consolidated Statements of Assets and Liabilities (Unaudited)****(Dollars in thousands, except share and per share data)**

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

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June 30, 2018 and December 31, 2017, respectively

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

See Notes to Consolidated Financial Statements

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

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

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

See Notes to Consolidated Financial Statements



## Horizon Technology Finance Corporation and Subsidiaries

### Consolidated Statements of Changes in Net Assets (Unaudited)

(Dollars in thousands, except share data)

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

See Notes to Consolidated Financial Statements

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

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

End-of-term payments receivable	\$ 3,215	\$ 3,651
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See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 30, 2018****(Dollars in thousands)**

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

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

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Total Non-Affiliate Debt Investments — Life  
Science

Non-Affiliate Debt Investments — Technology —  
89.7% (8)

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

See Notes to Consolidated Financial Statements

## Horizon Technology Finance Corporation and Subsidiaries

## Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

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

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



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

See Notes to Consolidated Financial Statements

8

## Horizon Technology Finance Corporation and Subsidiaries

## Consolidated Schedule of Investments (Unaudited)

June 30, 2018

(Dollars in thousands)

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

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

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 30, 2018****(Dollars in thousands)**

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

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

Non-controlled Affiliate Investments — 5.5% (8)

Non-controlled Affiliate Debt Investments — Technology — 4.8% (8)

Decisyon, Inc.	Software	Term Loan (14.308%			
		cash (Libor + 12.308%;	\$ 1,523	\$ 1,522	\$ 1,443
		Floor			
		12.50%), 8.00% ETP,			
		Due 12/1/20)			
		Term Loan (14.308%			
		cash (Libor + 12.308%;	833	785	744
Floor					
12.50%), 8.00% ETP,					
Due 12/1/20)					
Term Loan (12.02%					
cash, Due 12/31/19)	250	250	237		
Term Loan (12.03%					
cash, Due 12/31/19)	250	250	237		
Term Loan (12.24%					
cash, Due 12/31/19)	750	750	711		
Term Loan (13.08%					
cash, Due 12/31/19)	300	300	284		

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****June 30, 2018****(Dollars in thousands)**

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



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

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

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

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

(5) Portfolio company is a public company.

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

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

(8) Value as a percent of net assets.

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

ETPs are contractual fixed-interest payments due in cash at the maturity date of the applicable debt investment, including upon any prepayment, and are a fixed percentage of the original principal balance of the debt investments unless otherwise noted. Interest will accrue during the life of the debt investment on each ETP and will be recognized as non-cash income until it is actually paid. Therefore, a portion of the incentive fee the Company may pay its Advisor will be based on income that the Company has not yet received in cash.

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

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

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

(14) On June 1, 2018, the Company entered into an agreement with Arena Sunset SPV, LLC ("Arena") to co-invest through Horizon Secured Loan Fund I ("HSLFI"), a joint venture, which is expected to make investments, either

directly or indirectly through subsidiaries, primarily in the form of secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. All HSLFI investment decisions require unanimous approval of a quorum of HSLFI's board of managers. Although the Company owns more than 25% of the voting securities of HSLFI, the Company does not believe it controls HSLFI for purposes of the 1940 Act or otherwise.

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

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

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

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	4,000	3,978	3,978

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

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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

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

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

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2017****(Dollars in thousands)**

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

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

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

See Notes to Consolidated Financial Statements

**Horizon Technology Finance Corporation and Subsidiaries****Consolidated Schedule of Investments (Unaudited)****December 31, 2017****(Dollars in thousands)**

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

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

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

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

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

- (5) Portfolio company is a public company.
- (6) For debt investments, represents principal balance less unearned income.
- (7) Warrants, Equity and Other Investments are non-income producing.
- (8) Value as a percent of net assets.

- 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.
- (9)

- 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.
- (10)

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

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

- (13) Debt investment has a PIK feature.

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

**See Notes to Consolidated Financial Statements**



## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 1. Organization**

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

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

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

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

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

**Note 2. Basis of presentation and significant accounting policies**

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

***Principles of consolidation***

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

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### *Use of estimates*

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

#### *Fair value*

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

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

See Note 6 for additional information regarding fair value.

## *Segments*

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

## *Investments*

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

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

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

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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

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

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

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

### ***Debt issuance costs***

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

### ***Income taxes***

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

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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

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

### ***Distributions***

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

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

***Stock Repurchase Program***

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



## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### ***Transfers of financial assets***

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

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

#### ***Recently adopted accounting pronouncement***

In April 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which amends existing revenue recognition guidance to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. As required, the Company adopted ASU 2014-09 effective January 1, 2018, and such adoption did not have an impact on the Company's consolidated financial statements and disclosures.

### **Note 3. Related party transactions**

***Investment Management Agreement***

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

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

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

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

The incentive fee has two parts, as follows:

The first part, which is subject to the Incentive Fee Cap and Deferral Mechanism, as defined below, is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies) accrued during the calendar quarter, minus expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement (as defined below), and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income the Company has not yet received in cash. The incentive fee with respect to the Pre-Incentive Fee Net Investment Income is 20.00% of the amount, if any, by which the Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter exceeds a hurdle rate of 1.75% (which is 7.00% annualized) of the Company's net assets at the end of the immediately preceding calendar quarter, subject to a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, the Advisor receives no incentive fee until the Pre-Incentive Fee Net Investment Income equals the hurdle rate of 1.75%, but then receives, as a "catch-up," 100.00% of the Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% quarterly (which is 8.75% annualized). The effect of this "catch-up" provision is that, if Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter, the Advisor will receive 20.00% of the Pre-Incentive Fee Net Investment Income as if the hurdle rate did not apply.

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

Commencing with the calendar quarter beginning July 1, 2014, the incentive fee on Pre-Incentive Fee Net Investment Income is subject to a fee cap and deferral mechanism which is determined based upon a look-back period of up to three years and is expensed when incurred. For this purpose, the look-back period for the incentive fee based on Pre-Incentive Fee Net Investment Income (the “Incentive Fee Look-back Period”) commenced on July 1, 2014 and increased by one quarter in length at the end of each calendar quarter until June 30, 2017, after which time, the Incentive Fee Look-back Period includes the relevant calendar quarter and the 11 preceding full calendar quarters. Each quarterly incentive fee payable on Pre-Incentive Fee Net Investment Income is subject to a cap (the “Incentive Fee Cap”) and a deferral mechanism through which the Advisor may recoup a portion of such deferred incentive fees (collectively, the “Incentive Fee Cap and Deferral Mechanism”). The Incentive Fee Cap is equal to (a) 20.00% of Cumulative Pre-Incentive Fee Net Return (as defined below) during the Incentive Fee Look-back Period less (b) cumulative incentive fees of any kind paid to the Advisor during the Incentive Fee Look-back Period. To the extent the Incentive Fee Cap is zero or a negative value in any calendar quarter, the Company will not pay an incentive fee on Pre-Incentive Fee Net Investment Income to the Advisor in that quarter. To the extent that the payment of incentive fees on Pre-Incentive Fee Net Investment Income is limited by the Incentive Fee Cap, the payment of such fees will be deferred and paid in subsequent calendar quarters up to three years after their date of deferment, subject to certain limitations, which are set forth in the Investment Management Agreement. The Company only pays incentive fees on Pre-Incentive Fee Net Investment Income to the extent allowed by the Incentive Fee Cap and Deferral Mechanism. “Cumulative Pre-Incentive Fee Net Return” during any Incentive Fee Look-back Period means the sum of (a) Pre-Incentive Fee Net Investment Income and the base management fee for each calendar quarter during the Incentive Fee Look-back Period and (b) the sum of cumulative realized capital gains and losses, cumulative unrealized capital appreciation and cumulative unrealized capital depreciation during the applicable Incentive Fee Look-back Period.

## **Horizon Technology Finance Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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

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

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

#### ***Administration Agreement***

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

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

#### Note 4. Investments

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

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

**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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

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

***Horizon Secured Loan Fund I LLC***

On June, 1 2018, the Company and Arena formed a joint venture, HSLFI, to make investments, either directly or indirectly through subsidiaries, primarily in secured loans to development-stage companies in the technology, life science, healthcare information and services and cleantech industries. HSLFI was formed as a Delaware limited

liability company and is not consolidated by either the Company or Arena for financial reporting purposes. Investments held by HSLFI are measured at fair value using the same valuation methodology as described in Note 6. As of June 30, 2018, HSLFI had total assets of \$9.6 million. As of June 30, 2018, HSLFI had no investments on non-accrual status. As of June 30, 2018, HSLFI's portfolio consisted of debt investments in one portfolio company. HSLFI invests in portfolio companies in the same industries in which the Company may directly invest.

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

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

Horizon Funding I, LLC ("HFI") was formed as a Delaware limited liability company on May 9, 2018, with HSLFI as its sole equity member. HFI is a special purpose bankruptcy-remote entity and is a separate legal entity from HSLFI. Any assets conveyed to HFI are not available to creditors of HSLFI or any other entity other than HFI's lenders.



**Horizon Technology Finance Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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

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

<b>Portfolio Company</b> <sup>(1)</sup>	<b>Sector</b>	<b>Type of Investment</b> <sup>(2)(3)(4)</sup>	<b>Principal Cost of Amount Investments</b> <sup>(5)</sup> (In thousands)	<b>Fair Value</b> <sup>(6)</sup>
<b>Debt Investments — Technology</b>				
New Signature US, Inc. (7)	Software	Term Loan (10.59% cash (Libor + 8.50%; Floor 10.50%), 3.50% ETP, Due 7/1/21)	\$8,250 \$ 8,080	\$ 8,080
<b>Total Debt Investments — Technology</b>			<b>8,080</b>	<b>8,080</b>
<b>Warrant Investments — Technology</b>				
BSI Platform Holdings, LLC (7)	Software	412,500 Preferred Stock Warrants	57	57
<b>Total Warrant Investments — Technology</b>			<b>57</b>	<b>57</b>
<b>Total Portfolio Investment Assets</b>			<b>\$ 8,137</b>	<b>\$ 8,137</b>

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

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

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

(4) Warrants are non-income producing.

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

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

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

**Horizon Technology Finance Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

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

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

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

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

**For the period  
June 1, 2018  
through  
June 30, 2018**

(In thousands)

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

**Note 5. Transactions with affiliated companies**

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

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

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

Total Controlled Affiliates	\$—\$ 4,069	\$ —	\$ —	\$ —	\$ —	\$ —\$ 4,069	\$ —	\$ —
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The Company and Arena are the members of HSLFI, a joint venture formed as a Delaware limited liability company that is not consolidated by either member for financial reporting purposes. The members make investments in HSLFI in the form of LLC equity interests as HSLFI makes investments, and all portfolio and other (1) material decisions regarding HSLFI must be submitted to HSLFI's board of managers which is comprised of an equal number of managers appointed by each of the Company and Arena. Because management of HSLFI is shared equally between the Company and Arena, the Company does not believe it controls HSLFI for purposes of the 1940 Act or otherwise.

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

#### **Note 6. Fair value**

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

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

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.

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

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

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

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

portfolio investment.

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

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

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

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

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



## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

## Horizon Technology Finance Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

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

June 30, 2018

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

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

December 31, 2017

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

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		Discounted Expected Future Cash Flows	Hypothetical Market Yield		
	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 –	\$3.69
			Average Industry	\$22.38	20%
			Volatility	20%	
			Marketability Discount	20%	20%
	2	Expected Proceeds	Estimated Time to Exit	1 to 5 years	3 years
			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				